

# ROLE OF BANKING SECTOR IN THE DEVELOPMENT OF RURAL AREA

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**Abstract :** Most of the population in India lives in rural area. They are away from the banking services. Therefore, India has adopted a multi-pronged approach towards financial inclusion as it has been the case in several other countries. Though the term financial inclusion is of recent origin, the efforts to bring the poorer and weaker segments of the society within the fold of the formal banking system were initiated both by the Reserve Bank and the Government. Importance of rural banking has been recognized by the country's planners and policy makers since independence. All India Rural Credit Survey and All India Rural Credit Review paved the way for commercial banks entering into rural banking in a big way. We have discussed institutional rural banking, we have concentrated on the new emphasis given to rural banking in the last few years introducing the concept of inclusive banking. Some of the issues emerging from several studies have also been presented. As it appears, demand for credit has increased in the rural areas for production and also for consumption purposes. Rural banking is graduating to be an attractive proposition for commercial banks. Commercial banks face high transaction cost in their rural branches. The problematic issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers leading to some amount of uncertainty in the minds of the bankers and lack of security for carrying cash in remote areas by mobile banking.

**Index Terms - Rural Banking, Financial Inclusion, Rural Development, Regional Rural Banks**

## I. INTRODUCTION

More than 70% population is living in rural India. Obviously, in any development planning rural development has to get a priority. Finance being the most important part of any development process, providing banking facilities has drawn the attention of the policy makers since independence. Cooperative banking structure made its appearance long before that in the British era in 1904, and the Reserve Bank in 1935. But the real effort in rural banking started in the 50s with the All India Rural Credit Survey (1954). Subsequently, the All India Rural Credit Review in 1969 introduced social banking for commercial banks, followed by bank nationalization. In this chapter, some of the issues in rural banking are discussed.

On the other hand, in spite of advances in information and communication technology and considerable improvement in the institutions of decentralized governance, bureaucratic dealings persist in the form of complex land mortgage procedures. Considerable amount of paper work, requirement of multiple visits to the banks and bribes are other existing problems. As a result, farmers incur considerable transaction costs in obtaining bank loans. This state of affairs appears to be partly because of lack of effective enforcement of directives to the scheduled commercial banks and RRBs in simplifying procedures. In the context where banks are expected to play the role of providing credit counseling to the farming community, simplifying procedures and transparency in providing credit need special attention.

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of inclusive banking. Some of the issues emerging from several studies have also been presented. As it appears, demand for credit has increased in the rural areas for production and also for consumption purposes. Rural banking is graduating to be an attractive proposition for commercial banks.

## II. CONCEPTUAL BACKGROUND :

Rural areas are served mainly by commercial banks, cooperative banks and regional rural banks. These banks have large number of branches in the rural areas. Together, they had remarkable achievement in agricultural credit in 2008-09. Against the target of Rs.2,80,000 crore of credit flow to agriculture for 2008-09, the banking system disbursed Rs.2,87,149 crore achieving 102 per cent of the target. Commercial banks, cooperative banks and RRB achieved 115, 67 and 89 per cent of the targets, in that order. The commercial banks favorable response to the implementation of policies and programs related to rural development yielded positive results; however, there are a few areas, which need priority attention of banks and Governments.

The rural aversion of the banking industry is a historical legacy. Traditionally rural branches were loss making, poorly run, and poorly staffed in short an economic liability. That no longer seems to be the case. As economic opportunities mushroom across rural India, the non-banking financial companies are responding to the demand from rural households for goods like refrigerators, television sets, air conditioners, two wheelers and cars.

Commercial banks face high transaction cost in their rural branches. The problematic issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers leading to some amount of uncertainty in the minds of the bankers and lack of security for carrying cash in remote areas by mobile banking.

## III. OBJECTIVE OF THE RESEARCH STUDY :

The present research carried out with following objectives :

- To study the present trends of Banking in Rural Areas.
- To study the future recommendations of Financial Inclusion in Rural India.
- To study the various issues in Rural Banking.

## IV. HYPOTHESIS :

The hypotheses of present research paper are as follows:

- Importance of rural banking has been recognized by the country's planners and policy makers in today's globalized world.
- In present times, the performance of some of the public sector banks in rural and agricultural lending is not adequate.

## V. RESEARCH METHODOLOGY :

With the above objectives keep in mind the instructed Interview Method and Desk Research Method was basically adopted. For collecting the primary data of nationalized and private banks from Muzaffarpur district. The researcher visited to 20 branches. The researcher talked with the 20 branch managers and used their views & results are drawn. The Secondary Data is collected from various reference books related to Rural Banking, Emerging Trends, Financial Inclusion, E-Banking, Commerce & Management, and Banking etc. For said research study, secondary data is also collected from the National and International Research Journals, which are related to Commerce, Management, and Banking etc.

## VI. PRESENT FOCUS OF BANKING IN RURAL AREAS :

Recent policies regarding rural banking are based on the report of the committee on Financial Inclusion in India. The report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by groups such as weaker sections and low income groups at an affordable cost. Financial inclusion, therefore, according to the committee should include access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities.

The overall strategy for building an inclusive financial sector should be based on effecting improvements within the existing formal credit delivery mechanism, suggesting measures for improving credit absorption capacity especially amongst marginal and sub marginal farmers and poor non cultivator households, evolving new models for effective outreach and leveraging on technology based solutions, Provision of customized savings, credit and insurance products; incentivizing human resources for providing inclusive financial services and simplification of procedures for agricultural loans. The major recommendations relating to RRBs are extending their services to unbanked areas and increasing their credit deposit ratios; in the case of cooperative banks the major recommendations were early implementation of use PACS and other primary cooperatives, other important recommendations of the encouraging SHGs in excluded regions.

## VII. ISSUES OF RURAL BANKING :

Credit system in rural areas finds it difficult to cope with the rising demands of commercialized agriculture and in any case, there are few credible risk mitigation measures for the borrowers resulting in greater distress to the farmers in areas with significant presence of commercial crops. The performance of some of the public sector banks in rural and agriculture lending is also inadequate, but that of most of the private and foreign banks is even lower, despite considerable expansion of the scope of priority sector lending.

The all in costs of credit from banks, after factoring in timeliness transaction costs and access appear high for agriculture relative to private corporate sector even after accounting for the risks as reflected by the level of actual non-performing assets. In spite of vast expansion of rural credit by banks, non-institutional credit still continues in the rural areas. Although there has been significant growth in rural credit in the recent years, its medium term sustainability is contingent upon growth in agriculture and improvements in the institutional settings. The credit deposit ratio shows that despite the intermediation of banks, the ratio continues to be low in the rural area. The cooperative credit system is in most parts, demand and it is commented that the three tier structure helps finance the bureaucracy rather than benefiting the farmers.

## VIII. FUTURE RECOMMENDATIONS OF FINANCIAL INCLUSIVE BANKING :

### *Reduction in Transaction Cost:*

The key to enhanced financial inclusion is reduction in transaction costs. The operating cost of providing small accounts at times is a hindrance to the expansion of banking services to low income groups. The experience of some institutions in the country and in other countries, however suggests that an appropriate use of technology could significantly reduce the operating cost of financial inclusion and make it a viable and sustainable activity. The availability of new information technology, expansion of credit information services, innovations in micro finance and the non-conventional modes of delivery of financial products offer further opportunities for reducing transaction costs in dealing with small savers and borrowers.

***Institutional Development:***

From the perspectives of institutional development, the role of RRBs and cooperative banks, which were established to expand the delivery of financial services in the unbanked sectors, suffered a setback due to their poor financial health. With the recent initiatives to strengthen them, it is expected that they would play a greater role in promoting financial inclusion.

Considering the significance of money lenders, especially in the rural credit delivery system, there is also a need for expeditious implementation of the model money lending legislation by the state government.

***Demand for Banking Services in Rural Areas:***

Agricultural activity is also getting increasingly commercialized which would generate new business opportunities for banks. Banks therefore would also need to carefully examine the benefits of increasing penetration in rural areas. These developments suggest that the demand for financial services, both for savings and production purposes, would be greater than that has been in the past. To meet the growing credit demand, banks would need to mobilize resources on a larger scale.

**IX. CONCLUSION**

India has adopted a multi-pronged approach towards financial inclusion as it has been the case in several other countries. Though the term financial inclusion is of recent origin, the efforts to bring the poorer and weaker segments of the society within the fold of the formal banking system were initiated both by the Reserve Bank and the Government. Importance of rural banking has been recognized by the country's planners and policy makers since independence. All India Rural Credit Survey and All India Rural Credit Review paved the way for commercial banks entering into rural banking in a big way. We have discussed institutional rural banking, we have concentrated on the new emphasis given to rural banking in the last few years introducing the concept of inclusive banking. Some of the issues emerging from several studies have also been presented. As it appears, demand for credit has increased in the rural areas for production and also for consumption purposes. Rural banking is graduating to be an attractive proposition for commercial banks.

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