



## Digital Banking in Rural India – A Study

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India being a developing economy the technological innovations in banking sector effects the rural population in large because the majority of the population is from rural which means rural is majority community and it playing an important role Indian economy. Today technology has emerged as a strategic resource for achieving higher efficiency, control of operations, productivity and profitability for banks as well as it is the realisation of their 'anywhere, anytime, anyway' banking dream for customers. But instead of all these benefits, the customer perception for digital banking services by rural customers is still found negative. India is one of the largest and the fastest growing markets for digital consumers. This substantial growth of digital economy was largely led by consumers in the urban region. Urban population is very well versed with technology but rural areas customers are untouched with various technological services provided by their banks. Hence, in order to increase the rural customer base for greater use of technology related services, it is imperative to understand the opportunities have digital banking in rural India. This study clearly indicates that the available of sufficient bank branches and number of ATMs are available in rural India. These rural people required to conduct a customer interaction session to clear their obstacles regarding digital banking registration, usage, benefits associated like accuracy, recording of every transaction, security, and privacy.

**Key Words:** Rural Banking, Digital Banking and Digital Payment.

### Introduction

Digital banking refers to the use of technology which allows customers to access banking services electronically whether it is to pay bills, view account or to obtain information and technology

and advances. It provides electronic payments and settlement services to customers. It implies the most pragmatic use of information technology as medium of universal communication. This has brought unprecedented changes in banking industry. The realization of accepting and use of wide range of digital banking services in rural India is a key factor which apprehends the success of a digital economy.

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The digital banking in India has initiated by implementing Auto Teller Machines (ATMs) and issuing various payment cards to bank customers in 1990's. Now-a-days, most of the banks are showing keen interest in providing innovate and efficient services to their customers through technology. The digital banking having excessive potential to change the landscape of financial inclusion and it can accelerate the integration of unbanked economy to mainstream with the features of low cost. The rural banking sector has a long way to go and in order to achieve the inclusive growth in the country require strong support and co-operation from, the Government, Bankers and the current/potential customers themselves. India is one of the largest and the fastest growing markets for digital consumers. This substantial growth of digital economy was largely led by consumers in the urban region.

Rural India is an important part of the country's economy and contributes about 46% of the national income. It is estimated that about 66% of India's population is rural and despite the rapid rise of urbanization, rural India will continue to account for a significant portion of India's population in the next decade. The Indian government has launched the "Digital India" programme One of the

major objectives of the programme is to improve digital infrastructure in the country and particularly in Rural India.

### **Need of the Study**

Providing financial services to poor people is costly, because they have small amount of money. After the liberalisation, technology in banking sector is spreading their wings continuously in urban and rural areas. During last two decades, it is observed that technology is reaching and capturing various day to day activities of life like use of mobiles, laptop, tables, plastic cards etc. Urban population is very well versed with technology but rural areas customers are untouched with various technological services provided by their banks. Hence, in order to increase the rural customer base for greater use of technology related services, it is imperative to understand the opportunities have digital banking in rural India.

### **Objectives of the study:**

The main objective of this paper is to identify the opportunities for digital banking in rural India and it includes;

1. To study the growth of digital payments in India
2. To analyse the Market Share of Payment Methods in India
3. To evaluate the Urban and Rural Bank Branches of Scheduled Commercial Banks (SCBs) in India
4. To analyse the number of ATMs in rural India

### **Research Methodology**

For this study, the secondary data is used which is collected from the annual reports of Reserve Bank of India (RBI). The collected data presented in tabulation and interpreted. The market share of payment methods, urban and rural bank branches and number of ATMs in rural India are used to identify the opportunities for digital banking in rural India.

## Growth of Digital Payments in India

The digital banking is processed over the internet and mobile banking channels. The Digital banking methods are easy to make payment, convenient avail banking services and providing flexibility to customers to make banking activities from anywhere, and at anytime. The Digital payments are playing significant role in digital banking and it is a good alternative to traditional methods of payment and these payments are speeding up transactional process. The Indian people slowly started to use digital payments and various merchants are allowing the payments through the digital mode. The many digital payments now operate 24 hours a day, seven days a week. In this connection, there is need to study the growth of digital payments in India from the last ten years i.e., financial year 2010-11 to 2019-20. Table – 1 presents growth of digital payments in India.

Table – 1: Growth of Digital Payments in India

Finical Year	Value (Rs. Lakh Cores)	Volume (Crore)
2010-11	96	498
2011-12	125	561
2012-13	169	711
2013-14	245	785
2014-15	352	823
2015-16	595	920
2016-17	978	1122
2017-18	1472	1371
2018-19	230	1638
2019-20	3435	1623

**Source:** RBI Annual Repots – 2019-20.

Above Table – 1 data reveals that the 498 crore transactions with a value of 96 lakh crore recorded during the financial year 2010- 11 and it has increased to 1623 crore transactions with a value of 3435 lakh crore in the financial year 2019-20. The highest value 1472 core transactions with a value of 1371 crore are recorded in the financial year 2017-18. This clearly represents a CAGR of 12.54 per cent and 43.01 per cent in terms of volume and value, respectively. It is clearly indicating that the significant digital payments growth over the last ten years.

## Market Share of Payment Methods in India

The Reserve Bank of India (RBI) has institutionalized Payment and Settlement Systems is well –established for clearing and settlement system for Government Securities. There are four kinds of payments methods like paper, retail electronic, card payments and Prepaid Payment Instruments (PPIs) are occupied the overall payments in India. Hence, there is need to study the market share of payment methods in India in the financial year 2010-11 and 2019-20.

Table – 2: Market Share of Payment Methods in India

Payment Methods	2010 – 11	2019-20	2010 – 11	2019-20
	Volume (%)		Value (%)	
<b>Paper</b>	60	03	89	20
<b>Retail Electronic</b>	18	61	10	75
<b>Card Payments</b>	22	21	01	04
<b>PPIs</b>	0	15	00	01

*Source: RBI Annual Reports – 2019-20.*

The above data in Table – 2 indicates that the 60 per cent of total retail payments in the financial year 2010-11 which is decreased to 3 per cent in the financial year 2019-20. This decrease happens because of electronic payments like RTGS, NEFT and ECS are used for fund transfer. The beginning of innovation electronic payment systems that leverage on technology which can be used through internet and mobile, has led to electronic payment systems dominating the retail payment space with around 61% of market share in terms of volume and 75 per cent share in terms of value during the financial years 2019-20. It is clear indicates that the internet and mobile penetration in the country has resulted in shift from traditional to digital banking. Therefore, it is concluded that the digital banking is significantly increasing in India.

## Bank Branches of Scheduled Commercial Banks (SCBs) in India

The infrastructure plays a significant role in facilitating both cash dispensation and electronic payments. In the last five years, the number of scheduled commercial banks branches are seen a growth of 3.5% across the country. The scheduled commercial banks branches are categorized into

metropolitan, urban, semi-urban and rural areas. Table -3 presents growth of scheduled commercial banks in India from the last five years i.e., from 2015-16 to 2019 - 20.

Table – 3: Branches of Scheduled Commercial Banks (SCBs) in India

<b>Branches</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Metropolitan	20879	22088	26697	26641	27189
Urban	23098	24395	25050	25351	25958
Semi-Urban	34526	36455	39073	39652	40772
Rural	48140	50561	49844	50824	51507

**Source:** Reserve Bank of India (RBI) Data – 2020.

Above data in Table – 3 indicates that the 20,879 scheduled commercial banks are working in metropolitan area in the financial year 2015-16 and it has increased to 27,189 branches in the financial year 2019-20. There are 23,098 scheduled commercial banks are working in urban area in the financial year 2015-16 and it has increased to 25,958 branches in the financial year 2019-20. Around 34,526 scheduled commercial banks are working in semi-urban area in the financial year 2015-16 and it has increased to 40,772 branches in the financial year 2019-20. There are 48,140 scheduled commercial banks are working in rural area in the financial year 2015-16 and it has increased to 51,507 branches in the financial year 2019-20. It is clearly indicating that the 35 per cent of bank branches are covering rural area this is because of number scheduled commercial bank branches are established in rural India to cover more and more people to have bank accounts.

### **Sector-wise Number and Share of Bank Branches in India**

According to the Reports of Reserve Bank of India as of 2020, 12 public sector banks, 22 private sector banks and 44 foreign sector banks, 56 regional rural, 1,485 urban cooperative and 96,000 rural cooperative bank in addition to cooperative credit institutions are running in India. The Indian banking sector is categorized in public, private and foreign sector banks. The foreign sector banks are not started their branches in the rural India. The overall bank branches spread in rural and urban areas. The Table – 4 presents the number and share of bank branches distribution in India.

Table – 4: Sector-wise Number and Share of Bank Branches in India

S. No.	Type	Urban Branches	Rural Branches	Total
1	Public Sector Banks	58,711 (77%)	28,815 (33%)	<b>87,526 (73%)</b>
2	Private Sector Banks	25,237 (79%)	6,846 (21%)	<b>32,083 (27%)</b>
<b>Total</b>		<b>83,948 (70%)</b>	<b>35,661 (30%)</b>	<b>1, 19,609 (100%)</b>

**Source:** Ministry of Finance India Reports 2019

The above data in Table – 4 reveals that the three two major sector banks are playing an important role in coverage of urban and rural population. There are 28,815 public sector bank branches are working in rural are and 58,711 are working in urban areas. With regard to private sector bank branches, 6,846 are in rural and 25,237 are in urban are working in India. There are 35,661 public and private sector bank branches are running in rural area that the share is 30% only and urban 83,948 bank branches are functioning its share is 70%. Therefore, it is observed that the only 305 of bank branches are covering the rural India and these branches are unable to cover all the rural people because majority of the population in India are still living in rural areas. Therefore, it can be concluded that the rural population is not covered fully. The Make India programme will be successful when the urban and rural people avail the services of digital banking.

#### **Number of ATMs in Rural India:**

Automated Teller Machine (ATM) is an electronic telecommunication device which helps to customers to withdraw cash or deposit or fund transfers or inquiries about account at any time at any place without banker support. This is the primary level of digitalization of banking services and it is accessing the rural and urban people in India. Hence, there is need to study the number of ATMs in rural India. Table – 5: presents sector-wise number of ATMs, in Urban and Rural India.

Table – 5: Sector-wise Number ATMs in Rural India

S. No.	Type	Urban Branches	Urban Rural	Total
1	Public Sector Banks	1, 07,463 (80%)	27,098 (20%)	<b>1, 34,561 (73%)</b>
2	Private Sector Banks	63,260 (92%)	5,759 (08%)	<b>69,019 (27%)</b>
<b>Total</b>		<b>1, 70,723 (70%)</b>	<b>32,857 (30%)</b>	<b>2, 03,580 (100%)</b>

**Source:** Ministry of Finance India Reports 2019

The above data in Table – 2 reveals that the 27,098 public sector banks ATMs are available in rural area and 1, 07,463 ATMs are in urban area. There are 5,759 private sector bank ATMs are available in rural areas and 63,260 ATMs are in urban area. The foreign sector banks ATMs not available in rural areas. Around 20% of share of public sector bank ATMs and only 8% private sector bank ATMs using by rural area. Therefore, it is observed that the around 30% of the rural population are using the ATMs in India. It is also clearly indicating that the total populations of rural area are still not using the ATMs because of unable to understand machinery and the benefits which associated with the machinery. Further, it is understood that the rural people are required to create awareness on use of technology for banking services.

### **Summary:**

Digital banking has emerged as a strategic resource for achieving higher efficiency, control of operations, productivity and profitability for banks as well as it is the realization of their 'anywhere, anytime, anyway' banking dream for customers. But instead of all these benefits, the adoption rate of digital banking services among the rural customers is still found very low. The adaption of digitalization of banking sector in India faces some remarkable changes and it could not be possible to avoid the growth of banking sector in rural India. The digital inclusion is the unique dimension for India and various schemes or projects, the presence of an innovative and creative environment, use of technology are the building blocks of digital empowerment. The villages can be well served if their standards, infrastructure, regulations, and strategy will be in the right manner.

To encourage customers to use mobile banking develop a mobile banking learning website and Applications (App's) which helps rural customers to adopt digital banking easily. Rural banking branches should conduct a customer interaction session to clear their myths regarding digital banking registration, security, and privacy. The mobile baking in rural India has obstacles of power

cut, poor network of a mobile network speed and other obstacles of ATM breakdown and theft are also the obstacles towards the adaption of digital banking.

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