



RURAL BANKING SCHEMES

DEVELOPING BANKING HABITS IN INDIA

Dr. Virender Singh Atwal

**Associate Professor of Commerce,
Govt. College for Women, RATIA**

ABSTRACT

The ongoing expansion of a nation is only conceivable for every rising country, extending all financial services to those who are unable to access the financial system. Financial inclusion aims to provide a basic no-frills account, adequate credit access, knowledge of safe savings and financial goods, send-off, pensions, and insurance, among other things. Because the rural population is not yet incorporated into integration growth, the concept of financial inclusion is becoming a challenge for the Indian economy. Since 2005, the Reserve Bank of India and the Indian government have embarked on a series of concerted efforts to promote financial inclusion, although the results have been mixed. This study examines how government plans affect the rate of adoption of banking facilities and services in rural areas, as well as the main hurdles and drivers.



INTRODUCTION

With the advancement of the Indian economy, particularly in terms of sustainable development, it is necessary to make an effort to include as many people as possible in all aspects of society (Paramasivan and Ganeshkumar, 2013). However, the rural population lacks information and financial literacy, which impedes economic advancement because the bulk of the people does not have access to formal loans (Chakrabarty, 2013). This is a serious issue for the country's economic development. In order to overcome such barriers, the banking industry has developed various technology developments such as automated cellular machines (ATMs), credit and debit cards, internet banking, and so on (Shah and Dubhashi, 2015). Despite the fact that contemporary financial technology have transformed urban society, the majority of rural people are still unaware of these changes and are therefore excluded from formal banking.

Even growth is only possible with the right mechanism in place, one that can channel all resources from top to bottom. Because India is thought to have the world's largest rural population, financial inclusion is an innovative concept that uses a variety of techniques to promote rural banking practises (Singh et al. 2014). Financial inclusion strives to give everyone with access to banking and financial services at a reasonable cost in a fair, transparent, and equitable manner. Low-income households frequently lack access to bank accounts and must invest time and money to take advantage of the banking sector's services for several trips, whether it's to open a savings account or to take out a loan (Sood and Baruah, 2018). The goal of this research is to provide an overview of India's financial inclusion and the growth of rural banking institutions.



Figure 1: An overview of Financial Inclusion Services

Source: [Singh and Tandon, 2012]

LITERATURE REVIEW

Financial inclusion is a new concept that contributes to the country's long-term progress by providing financial services to the unbanked through financial institutions. Financial inclusion is defined as everyone in the economy having simple access to and use of formal financial services and systems (Singh and Arora, 2011). The Indian Government's Financial Inclusion Committee defines financial inclusion as ensuring that vulnerable people, such as women and low-income groups, have timely access to financial services and appropriate credit at a reasonable cost (Paramasivan and Ganeshkumar, 2013). The financial integration procedure include opening bank accounts for each family and enrolling them in the banking system. Access to financial services promotes social inclusion, as well as trust and empowerment.

Various socio-cultural and economic issues stymie the process of financial inclusion. On the demand side, for example, there is a lack of awareness and analphabetism (Singh et al. 2014). On the supply side, financial exclusion appears to be caused by a lack of investment opportunities, such as insufficient banking penetration, banks' reluctance to engage in financial inclusion, or the



high cost of financial inclusion (Shah and Dubhashi, 2015). The latter two explanations, according to the RBI's deputy governor, are misconceptions, namely that banks cannot pay the costs of financial inclusion and that banks are unwilling to do so. In 2005, Dr. K. C. Chakraborty, the chairman of Indian Bank, launched a trial initiative in Pondicherry UT to promote financial inclusion in India (Joshi et al. 2014). Mangalam Hamlet was the first community in India to provide every families with a bank account. In addition, the KYC (Know Your Customer) requirements for people with annual deposits of less than Rs50,000 have been lowered. GCCs (General Credit Cards) for those in need were designed to make it easier for people to get credit (Srivastava and Gopalkrishnan, 2015). The Reserve Bank of India allowed commercial banks to use non-governmental organisations (NGO/SHGs), microfinance institutions, and other CSOs as financial and banking intermediaries in January 2006.

In India's rural areas, financial services penetration is still low. The causes of this state can be traced back to supply and demand, with supply being the most likely factor in the low penetration of financial services (Sethi and Bhatia, 2012). Poor income, a lack of financial awareness, other family accounts, and other factors could all contribute to low demand for financial services (Singh and Arora, 2011). The supply side factors, on the other hand, include the lack of a nearby banking office, a lack of suitable items that meet needs, onerous processes, and language barriers.

Sl. No.	Banking Outlets	Amount
1	Rural Branches	24,701
2	BC outlets	1,20,355
3	Other modes	2,478
4	Total	1,47,534
5	Total number of 'No frill accounts'	103.21 million
6	Operations in NFA (2011-12)	(Increase of 39.6%)
7	Outstanding balance	Rs. 932.89 billion
8	Overdrafts	Rs.3.39 billion
9	Transactions through ICT based BC outlets (2011-12)	119.77 million
10	KCC credit	Rs. 2.15 million
11	GCC credit	Rs. 0.22 million

Figure 2: progress of Financial Inclusion Plan

Source: [Paramasivan and Ganeshkumar, 2013]



FINANCIAL INCLUSION: A ROADMAP

India has long recognised the economic and social benefits of widespread financial inclusion, and has aided economic development by developing new ways to empower the poor (Shah and Dubhashi, 2015). The RBI is always attempting to improve access by providing a variety of financial services to the urban and rural unbanked groups, such as priority lending, regional rural banks, microcredit, lead bank initiatives, and so on. The Reserve Bank of India (RBI) took the first move toward financial inclusion in India in 2005. (Joshi et al. 2014). The scheme was introduced by KC Chakraborty, President of the Indian Bank. Since then, RBI has worked tirelessly to realise its goal of long-term financial inclusion through a variety of policies, products, policy assistance, and regulatory changes (Singh and Tandon, 2012). In January 2006, the Reserve Bank of India (RBI) made it possible for commercial banks to support various outsourcers and non-governmental organisations (NGOs) and act as middlemen in the provision of various financial inclusion services (Singh and Arora, 2011). Commercial banks were also instructed by the RBI to undertake a campaign that would reach the majority of the country's regions. The following table shows the different coverage of banking services:

S. No.	Region	Current Account	Saving Account	Total Population	Total No. of Account	Total No. of Account (%)
1	North	4215701	52416125	32676462	56631826	17.65
2	North East	476603	6891081	38495089	7367684	2.3
3	East	1814219	47876140	227613073	49690359	15.48
4	Central	2202217	64254189	255713495	66456406	20.71
5	West	3178102	49525101	149071747	52703203	16.42
6	South	4666014	83386898	223445381	88052912	27.44
	All India	16552856	304349534	1027015247	320902390	100

Figure 3: Coverage of Banking Services in India

Source: [Paramasivan and Ganeshkumar, 2013]



Table 1 shows the total number of current and savings bank accounts in India, which totals 32902390. 27.44 percent of all accounts in South India, 20.71 percent of all accounts in Central India, 17.65 percent of all accounts in North India, 16.45 percent of all accounts in Western India, 15.48 percent of all accounts in West India, and 2.3 percent of all accounts in North East India (Singh and Tandon, 2012). It has been calculated that the largest number in South India is 27.44 percent.

The Reserve Bank of India (RBI) and the Indian government (GOI) are working to increase banking penetration in the country. Some of these measures are:

- Growth of Cooperative Bank's
- Setting up of State Bank of India
- Nationalization of banks
- Lead Bank Scheme
- RRBs
- Service Area Approach
- Self Help Groups

Based on recommendations from the Interim Report of the Financial Inclusion Committee, chaired by Dr. C. Rangarajan, the Indian government has taken the following steps:

- The Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF) were established by the Indian government to help with the costs of financial inclusion development and promotion programmes. Each fund consists of a total of Rs.500 crore supplied by the GOI, RBI, and NABARD in the ratio of 40:40:20 over a period of 5 years, depending on how the funds are used. The Fund for Financial Inclusion was created to cover the costs of development and promotion (Singh and Tandon, 2012).
- Aadhar card - The government's plan to give everyone an Aadhar card with a unique identification number will help financial institutions meet KYC requirements and expedite business processes (Okoye et al. 2017).



• Swabhiman is a ground-breaking project launched by India's government and state banks to bridge the economic divide between rural and urban areas. It claims to provide basic banking services to all unbanked villages with populations over 2000 people (Sethi and Bhatia, 2012).

The Indian economy is in desperate need of financial inclusion. Even after more than 65 years of independence, a large portion of India's population remains unbanked. Financial insecurity and inequalities have resulted from the country's position, with the non-prioritized sector unable to obtain financial products and services (Bagli and Dutta, 2012). As a result, the government has begun to implement a number of critical financial inclusion policies. Financial integration focuses on the semi-urban and rural portions of the countries (Aggarwal and Klapper, 2013). The RBI is always working to make banking goods and services more widely available to the general public, as well as to encourage the practise of saving and investing. The government concentrates its efforts in the following areas:

Creating a platform for developing a habit to save money-The Indian people are currently facing tremendous economic constraints due to their financial illiteracy and lack of a saving habit. They are oblivious to the fact that banks in both urban and rural communities provide financial products and services. The government works hard to guarantee that banks open branches in rural areas and assist disadvantaged Indians in opening bank accounts and starting a savings habit. The government is leading the charge in terms of financial inclusion funding. The practise of banking or saving money will contribute to the country's capitalization, and people will be aware of investment opportunities in financial instruments, notwithstanding traditional sources such as real estate and assets (Boro, 2015).

Providing a simple method of credit creation-In the lack of bank accounts and banking practises, lower-income groups rely on unorganised credit markets. They have lost their land and other assets as a result of the unaffordable financial load imposed by unlicensed money lenders. Through suitable channels, a transparent credit system will grow its business custom and enhance living standards, so increasing the country's economy (Boro, 2015).



Fill the gap between and subsidies and beneficiaries-The Indian government is continuing to invest in key areas. The fundamental goal of the government is to enhance the living conditions of the underprivileged and poor (Muraleedharan, 2014). In order to accomplish so, the government introduces several programmes and financial support every year. Regardless of cash payments, the government would force the money to be transferred to the recipients' bank accounts in order to pay the true beneficiaries. In the lack of bank accounts, the subsidy money cannot reach the intended recipient. As a result, financial inclusion is a pressing issue (Boro, 2015).

PRADHAN MANTRI JAH-DHAN YOJANA (PMJDY) – AN EDGE OVER FINANCIAL INCLUSION

Pradhan Mantri has a larger number of beneficiaries than Pradhan Mantri. On August 28, 2014, the Indian government launched the Jan-Dhan Yojana. PMJDY is the National Financial Inclusion Mission, which aims to make financial services, such as banking, savings and deposit accounts, transfer, credit, insurance, and pensions, more affordable (Bagli and Dutta, 2012). The following issues are examined in this plan:

- Focus on households; coverage of the Sub Service Area by country (SSA).
- Coverage in both rural and urban areas.
- Fixed Point Bank Mitr (business correspondent) will visit other communities on SSA on fixed days in each of the SSFs with 1000-1500 houses (average 3 to 4 villages).
- The bank's online CBS accounts are the only ones that can be accessed.
- Account opening for DBT, credit, insurers, and pensions should all be included.
- Interoperability with RuPay Debit Cards, AEPS, and other systems.
- For use with mobile wallets and USSD banking.
- KYC/e-KYC is provided in accordance with RBI guidelines.
- A specific Financial Literacy Cell in rural banking branches.
- Grievance resolution at the SLBC level in each country.

Despite the RBI's attempts to promote sustainable development through financial inclusion, a large number of recipients continue to lack account transparency and financial assistance (Bihari, 2011). The opening of a zero-scale account, a RuPay Debit Card, a Rs. 5,000 overdraft facility, Rs. 1000 accidental insurances, and a Rs. 30,000 life cover is a crucial consideration for PMJDY to tap into more untapped financial inclusion sectors. 4 The RBI requested that the pilot programme start a 100% Financial Inclusion campaign for commercial banks across the country. As a result, plans for financial inclusion are being advanced. The following table predicts the progress of the FI Plan :

Particulars	Year ended March 2010	Year ended March 2013	Year ended March 2014	Progress April 2013-March 2014
Banking Outlets in Villages – Branches	33,378	40,837	46,126	5,289
Banking Outlets in Villages – Branchless Mode	34,316	2,27,617	3,37,678	1,10,061
Banking Outlets in Villages –Total	67,694	2,68,454	3,83,804	1,15,350
Urban Locations covered through BCs	447	27,143	60,730	33,587
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	100.8	126.0	25.2
Basic Savings Bank Deposit A/c through branches (Amt. in billion)	44.3	164.7	273.3	108.6
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	81.3	116.9	35.7
Basic Savings Bank Deposit A/c through BCs (Amt. in billion)	10.7	18.2	39.0	20.7
BSBDAs Total (No. in million)	73.5	182.1	243.0	60.9
BSBDAs Total (Amt. in billion)	55.0	182.9	312.3	129.3
OD facility availed in BSBDAs (No. in million)	0.2	4.0	5.9	2.0
OD facility availed in BSBDAs (Amt. in billion)	0.1	1.6	16.0	14.5
KCCs – (No. in million)	24.3	33.8	39.9	6.2
KCCs – (Amt. in billion)	1240	1262.3	3684.5	1061.5
GCC- (No. in million)	1.4	3.6	7.4	3.8
GCC - (Amt. in billion)	35.1	76.3	1096.9	1020.6
ICT A/Cs-BC- Transaction – (No. in million) (During the year)	26.5	250.5	328.6	328.6
ICT A/Cs-BC- Transactions– (Amt. in billion) (During the year)	6.9	233.9	524.4	524.4

Figure 4: progress of Financial Inclusion Plan

Source: [Joshi et al. 2014]



According to the table above, the expansion of banking facilities in rural areas is about 43%. The increase in business correspondence at 33587 locations from 2013 to 2014 is a remarkable achievement. Savings bank accounts have increased by roughly 25%, while savings bank deposits have increased by about 108 percent. Kisan got a significant increase in the number of credit cards and general credit cards, indicating that banks' credit was used by the recipients. This improvement has accelerated dramatically since the introduction of PMJDY. According to PMJDY data, the goal of opening 75.16 million bank accounts for the unbanked was achieved in just three months after the financial inclusion drive in PMJDY. PMJDY's adoption is a great accomplishment.

RESEARCH METHODOLOGY

This study used a secondary or desk research strategy, which entails the use of already collected data. It's a research technique. To improve overall research efficiency, existing data is summarised and collected. Research papers and related materials published in research reports are examples of secondary research. These documents can be made available through public libraries, internet, and survey data, among other places. Some governmental and non-governmental organisations also keep data that can be used and extracted for research. Secondary research is considerably more cost-effective than primary research because, unlike primary research, data received by organisations or enterprises is collected first-hand or it is collected on their behalf by third parties (Johnston, 2017). In this research, the steps followed for research for secondary data-based analysis is given below:

- Identifying the topic of research
- Identifying research sources
- Collecting existing data
- Combining and comparing
- Analysing the data



RESULTS AND DISCUSSION

Financial inclusion helps to strengthen and sustain the country's economic and social development. Their mission is to empower the poor, underprivileged, and women of society to make more independent and well-informed financial decisions. Financial integration takes into account the participation of weaker groups, such as weaker groups in society and low-income groups, depending on the level of their access to financial services such as a savings and payment account, lending insurance, pensions, and so on. Furthermore, the goal of the financial inclusion initiative is to make it as simple as possible for rural individuals and businesses to invest in business opportunities, education, retirement savings, risk insurance, and so on.

The importance of financial inclusion may be illustrated in the following ways:

- It is a necessary condition for fair growth to continue.
- It protects the poor from the clutches of usurious moneylenders.
- It will allow governments to transmit payments to recipients via bank accounts via electronic transfer in compliance with social security programmes such as the National Rural Employment Guarantee Program (NREGA). This lowers transaction costs, as well as leakage.
- It provides a mechanism for converting and channelling the poor's savings into formal financial intermediation system investment.
- Banks can reduce their reliance on bulk deposits by diversifying their low-cost deposit portfolios, improving liquidity risk management and property liability mismatches.

The need for banks to take a more comprehensive approach to promoting financial product awareness, education, and counselling on cash management, debt counselling, saving, and credit affordability is becoming more apparent. To widen the scope of their services, banks should undertake specific initiatives in support of financial inclusion. One way to do this is to build economic linkages with microfinance institutions, non-governmental organisations, and local



communities. Banks should make the no-frills services widely known. Technology may be an useful tool for providing access to financial products in remote places. ATM cash dispensers can be made more user-friendly for those who are illiterate, uneducated, or unfamiliar with English.

As a result, banks must alter their business strategies to include specific planning to support low-income populations' financial integration, both as a corporate and social responsibility opportunity. It may appear at first that bringing banking to the "bottom" of the pyramid is impossible, yet even very low volume margins can be profitable. Financial inclusion may become a sustainable business. Banks should be the only ones ready to think beyond the box.

CONCLUSION

Financial inclusion is critical for the country's long-term success. India, as a developing country, recognises the value of financial inclusion in its growth of the financial system. Many promotional activities in India have evolved and expanded through microfinance, business facilitators, and business correspondents, such as financial awareness and low-interest rate banking. Opening a bank account not only facilitates financial inclusion, but it also provides financial stability through insurance, pensions, and other measures. Pradhan Mantri Pradhan Mantri Pradhan Mantri Prad The Jan-Dhan Yojana is a primary engine of the country's economic development. The main goal of this financial inclusion plan is to promote sustainable development and create employment opportunities for the vast majority of people, particularly in rural areas. This is an aim that many commercial banks achieve.

The number of branches in a state determines the likelihood of financial inclusion in India. Literacy is a requirement for boosting investment awareness, and hence appears to be a critical financial integration approach intuitively. However, the above arguments imply that a high level of financial integration within a state cannot be achieved solely through literacy. The sector's density has a significant impact on financial inclusion. Financial inclusion in India can only be realised by growing investing awareness without significantly expanding investment possibilities.



Banking technology has progressed swiftly enough to recognise that the poor can be banked. Various immediate initiatives to be implemented or implemented by the Indian government should be implemented more successfully. The microfinance agency, corporate facilitators, and company representatives should all be strengthened. The future long-term objectives of banking agencies, particularly in rural India, will become an ideal route through our extremely ancient postal centres. To create synergies between technology vendors and bank channels in order to broaden their reach. To integrate core banking and microfinancial applications, application developers are needed. Have interest rate ceilings for NGOs/MFIs since they like to charge higher interest rates in a sugar-coated manner. When an NGO/MFI has a bank relationship, this legality can be proven.

REFERENCES

- Aggarwal, S. and Klapper, L., 2013. Designing government policies to expand financial inclusion: Evidence from around the world. *The Journal of Finance*, 56(3), pp.1029-51.
- Bagli, S. and Dutta, P., 2012. A study of Financial Inclusion in India. *Radix international journal of economics & business management*, 1(8), pp.1-18.
- Bihari, S.C., 2011. Growth through financial inclusion in India. *Journal of International Business Ethics*, 4(1), p.28.
- Boro, K., 2015. Prospects and challenges of technological innovation in the banking industry of North East India. *Journal of Internet Banking and Commerce*, 20(3), p.1.
- Chakrabarty, K.2., 2013. Financial Inclusion in India: Journey so far and way forward. Keynote address at Finance Inclusion Conclave Organised by CNBC TV, 18.
- Johnston, M.P., 2017. Secondary data analysis: A method of which the time has come. *Qualitative and quantitative methods in libraries*, 3(3), pp.619-626.



Joshi, V.K., Singh, M.R. and Jain, S., 2014. Financial inclusion for sustainable development through Pradhan mantri Jan-Dhan Yojana. Professional Panorama: An International Journal of Applied Management & Technology.

Muraleedharan, D., 2014. Modern banking: theory and practice. PHI Learning Pvt. Ltd..

Okoye, L.U., Adetiloye, K.A., Erin, O. and Modebe, N.J., 2017. Financial inclusion as a strategy for enhanced economic growth and development. Journal of Internet Banking and Commerce, 22(S8).

Paramasivan, C. and Ganeshkumar, V., 2013. Overview of financial inclusion in India. International Journal of Management and development studies, 2(3), pp.45-49.

Sethi, J. and Bhatia, N., 2012. Elements of Banking and Insurance. PHI Learning Pvt. Ltd..

Shah, P. and Dubhashi, M., 2015. Review paper on financial inclusion-the means of inclusive growth. Chanakya International Journal of Business Research, 1(1), pp.37-48.

Singh, A.B. and Tandon, P., 2012. Financial inclusion in India: an analysis. International Journal of Marketing, Financial Services and Management Research, 1(6), pp.41-54.

Singh, C., Mittal, A., Garg, R., Goenka, A., Goud, R., Ram, K., Suresh, R., Chandrakar, R. and Kumar, U., 2014. Financial inclusion in India: Select issues. IIM Bangalore research paper, (474).

Singh, S. and Arora, R., 2011. A comparative study of banking services and customer satisfaction in public, private and foreign banks. Journal of Economics, 2(1), pp.45-56.

Sood, A. and Baruah, A., 2018. The new moral economy. Note-bandi: Demonetisation and India's elusive chase for black money.

Srivastava, U. and Gopalkrishnan, S., 2015. Impact of big data analytics on banking sector: Learning for Indian banks. Procedia Computer Science, 50, pp.643-652.