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# RURAL BANKING: COOPERATIVENESS WITH MODERNIZED OUTLOOK

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**Abstract :**This paper appraises options for research relating to Rural Banking in India and sets out a general well-being regime framework showing necessity of this analysis and sketch the role of Rural Banking plays within it. It also gives a brief historical discussion of the evolution of Rural Banking in India. This paper develops the analysis further by considering present and possible challenges of this very driver of change. Finally it discusses methodological options for policy relevant empirical research. It also suggests that Rural Banking is an important arena for exploring empirically the tension inherent in the idea of development management.

**Keywords**: Driver of change, Empirical research, Development management.

## INTRODUCTION

Rural Banks were established under the provisions of an ordinance promulgated on 26th September, 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. Rural Banks in those days mainly focused upon the Agro Sector. In order to provide access to low cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which ***"combine the local feel and the familiarity with Rural problems which the cooperativeness posses and the degree of business organisation, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have"***.

Analysis of Rural Banking is widely formed as a purely micro issue, centered on the motivation and behaviour of specific users and providers. However, such analysis is almost invariably located (whether explicitly or implicitly) in a wider view of how the state, markets and society institute poverty. In India as elsewhere, private microfinance organisations is viewed positively as a force for the poor and at the same time viewed negatively as a smokescreen behind which the state retreat from a 'social banking' strategy of mobilizing much larger resources to challenge pervasive and chronic indebtedness. This paper regards such seemingly polarised views as jointly contributing also to an intermediate "Pluralist Liberal Orthodoxy" strongly to identify the least worst combination of state, market and civic mechanisms for addressing poverty and operation in countries where their potential to do so is deeply compromised by capacity constraints and vested interests. Evaluating Rural Banking instead in relation to a universal view of development can be viewed either as a naive and idle distraction, or as irresponsible and self-serving.

## 2.OBJECTIVES OF THE STUDY

I . To understand the present position of rural banking
ii. To study the challenges of rural banking
iii. Suggestions for revitalizing rural banking
iv Innovative ways for development of rural banking

## 3 HYPOTHESIS

Rural Banks penetrate every corner of the country and extend a helping hand in the growth process of the country.

## 4RESEARCH METHODOLOGY

Data and information for the research study were collected and analyzed from secondary published source.

Limitation of study: The study is based on Secondary data. However, despite the limitation, it is felt that the finding of the study would provide the foundation from which inferences could be drawn and general conclusion pertaining to the study at hand could be arrived at.

## 5 ANALYSIS OF PRESENT SCENARIO

| **Households availing banking services** | | | | | | |
|---|---|---|---|---|---|---|
| | **As per Census 2001** | | | **As per Census 2011** | | |
| Households | Total number of households | Number of households availing banking services | % | Total number of households | Number of households availing banking services | % |
| Rural | 13,82,71,559 | 4,16,39,949 | 30.1 | 16,78,26,730 | 9,13,69,805 | 54.4 |
| Urban | 5,36,92,376 | 2,65,90,693 | 49.5 | 7,88,65,937 | 5,34,44,983 | 67.8 |
| Total | 19,19,63,935 | 6,82,30,642 | 35.5 | 24,66,92,667 | 14,48,14,788 | 58.7 |
| Source: Dalal Street Journal | | | | | | |

The 2011 Census shows that even after 65 years of independence, only 58.7 percent of the population has access to bank accounts. It is estimated that 54.4 percent in rural areas and only five percent among the low income group have access to banking services. Out of a total 2.46 crores of households in India, 68 percent are from rural areas. Only 37 percent of the total bank branches operate in the rural areas cater to these households. If we remove the count of Regional Rural Banks (RRBs), this figure drops to 30 percent. As at the end of FY13, the average population that every bank branch serves in India is an abysmally high 12100 against that of less than 2500 in most developed nations. Out of the total ATMs in the country at the end of FY13, only 10 percent are accounted for by the rural areas.

## 6CHALLENGES:

### PROBLEMS FACED BY RRB:

a.A large and scattered rural population remains one of the basic reasons why banks are not able to provide them with the most basic services.
b.HR front of Bank faces big challenge when they put out people in remote areas, the challenges is to take care of their families and motivate them to go to places where there is no infrastructure.
c.Lower financial literacy and the technology lag makes the job of providing basic financial services even more difficult.
d.Low saving balances, small transaction sizes and the large number of customers makes it financillay unviable for banks to be physically present and serve them
e.Haste and lack of coordination in branch expansion, difficulties in deposit mobilization, slow progress in lending activity, urban orientation of staff and procedural rigidities.
f.No coordination between working of Rural banks and Agrarian reforms.
g.Inability of banks to customize their products to serve the people living in villages as most of the banking products have been designed to serve urban and metro customers.

h.Lack of public-private partnership in rural banking.

**7REVITALIZING RURAL BANKS**
**suggestion for reorganisation and improvement in the working of RRBs:**

a.Problem of chronic rural indebtedness cannot be solved merely by changing banking policies. Agrarian reforms are required which require government intervention.
b.No-frills accounts should be promoted through various marketing strategies. It will create demand for these accounts among rural poor and result in greater financial inclusion. RBI must instruct banks including foreign banks operating in India to promote no-frills account as a part of their social responsibility.
c.Norms related to priority sector lending must be enforced meticulously so that people belonging to poor strata of the society can get rid of money lenders and other informal sources of credit which are highly exploitative in nature.
d.Since RRBs have low cost of administration, they should be revitalized as they have the potential to serve the credit needs of rural people in the best way. - Rural credit market should be restructured and renovated to suit the specific requirements of the people. Micro credit approach is an effective tool for resolving issues related to rural credit such as non recovery of loans and for bringing more number of rural poor into the institutional credit net. Though micro financial institutions play important role in rural banking, still the role played by the commercial banks, cooperative banks and RRBs cannot be undermined.
e.The RRB may initiate certain new insurable policies like deposit-linked cattle and other animals insurance policy, crop insurance policy or the life insurance policy for the rural depositors.
f.Banks should customize their products to serve the people living in villages as most of the banking products have been designed to serve urban and metro customers.
g.Local staff may be appointed as far as possible.
h.Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
i.A uniform pattern of interest rate structure should be devised for the rural financial agencies.
j.The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
k.The credit policy of the RRB should be based on the group approach of financing rural activities.
l.Co-ordination between district level development planning and district level credit planning is also required in order to chart out the specific role of the RRB as a development agency of the rural areas.
m.Frugal innovation is a whole new management philosophy, which integrates specific needs of the bottom of the pyramid, as a starting point, and works backwards to develop appropriate solutions which may be different from existing solutions designed to address needs of other customer segments.One very pertinent example of frugal innovation for rural banking is our homegrown self help group (SHG)-bank linkage programme. SHG is a voluntary, often non-registered association of up to 20 persons which bridges the ‘last mile’ gap between a rural branch and poor households living in its vicinity. Due to the efforts of RBI, NABARD, SCBs, state governments and numerous civil society organisations, about 9.7 crore households now have access to banking through SHGs. Interestingly, this model has a strong pro-rural, pro-poor and pro-women bias. The business correspondent (BC) model advocated by RBI is another pertinent example of potential frugal innovation in the financial inclusion space. The use of BCs enables banks to extend banking services to the hinterland.
n.Banks use various types of hand-held devices (aptly nicknamed micro ATMs) to authenticate micro-transactions at the BC location and to synchronise the same with a central server. A working group constituted by RBI for developing common open standards for such devices has opened up the possibility of nationwide networking of such micro-transaction devices based on the common authentication system that will be provided by the unique identification authority of India (UIDAI). When put in practice, this will become the world’s biggest ATM network developed at nominal costs.
o.Innovations should not be restricted only to technology. Commensurate innovations on the risk management front are also necessary. Banks need to retrospect why despite a proven track record of more than 15 years, the per person credit outstanding in SHG-bank linkage model is merely Rs 4,128, whereas the microfinance institutions, which organise joint liability groups, are able to take an initial exposure of almost double this amount. Banks also need to study how several gold loan NBFCs are able to provide gold-based secured lending at a rate much higher than what banks charge for a similar product.

## 8.CONCLUSION

The risk management framework of Rural Regional banks needs to adapt itself to the changing macro-economic scenario and new opportunities emerging as a consequence thereof. In sum, from processes, procedures, technologies and even human intervention, frugal innovations should be extended to every aspect of banking to deliver a holistic range of financial services to the rural areas in a cost-effective and efficient manner.

## 9.REFERENCES:

1. Dalal Street Investment Journal, 18, 12-28.