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STRATEGIC APPROACH TO BANKING IN RURAL AREAS

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Abstract

Banking in India is full of diversities, in their sizes, organizational patterns, geographical presence and functional specializations banks are different. Till recently, there was classification on the basis of capital base, in the form of scheduled and non-scheduled banks. We see that, Banking in India has overgrown, diversified and over-stretched, like many of the sprawling, unplanned big cities in India.

Issues in rural banks: Banks are not permitted to relocate their loss incurring branches One Waiver announced has immediate and long-term cascading effect on the rural economy

Recommendations: Involvement and interest from the bankers, Training and sensitizing bankers Local people are included; People who are proficient in rural economy should be employed

Banking in India is full of diversities, in their sizes, organizational patterns, geographical presence and functional specializations banks are different. Till recently, there was classification on the basis of capital base, in the form of scheduled and non-scheduled banks. We see that, Banking in India has overgrown, diversified and over-stretched, like many of the sprawling, unplanned big cities in India. It has tried to accommodate all types of banking activities, especially after the state intervention in 1969, when a major slice of the banking business was acquired by the state, in its attempts to cover the commanding heights of the economy. Private initiative, which has given rise to many joint stock banking companies since the beginning of the last century, started losing its sway over banking activities. After 45 years of all-pervading public sector banking, the winds of change have started blowing in the wake of the Financial Sector Reforms. Foreign banks have appeared in quite a few major Indian cities, with ATMs and computer-savvy banking services. Negligible share of the branch network are able to corner 8 percent of the profits. On the other hand regional rural banks, despite their widespread branch network constituting 22 percent of the total branches, account only for 6 percent of the total profits. The ICICI BANK, which is already having an accelerated growth and is IT and computer-savvy, has found its way into the rural Tamil Nadu by taking over the 53-yr old bank of Madura Ltd. It has to be seen how effectively this bank would be able to assimilate the rural infrastructure and the manpower into its sophisticated banking apparatus. It has made substantial provision for the loan assets of the older bank, based on its more stringent classification of assets. If other new banks also follow the same route, they may get entrenched in rural banking, through the rural branches acquired in the bargain. The quantitative expansion of the rural banking segment, especially after the entry of the Regional Rural Banks, is quite impressive. Banking, which was an urban-oriented service since the inception of banking companies, has turned out to be an omnipresent business, with the appearance of 30,524 rural centers on the banking map of the country during the last 3 decades. In 1969 on the eve of bank nationalization, there were only 1833 branches, whereas at present there are 32,673 of them functioning in villages whose population is less than 10,000. This massive branch expansion was the result of the rural bias explicitly built into the branch licensing policy adopted by the regulator.

Regional Rural Banks: The Government of India created a new breed of rural banks called the Regional Rural Banks, established under the Regional Rural Banks Act, 1976. The rural economy was traditionally the home ground of the cooperative sector; they did not readily welcome the superimposition of the new rural credit agency. But the Central Government in collaboration with the state governments and the public sector banks went ahead in establishing them in good number. Out of the 196 regional rural banks, which came into being since then, public sector banks sponsor 192. Three regional rural banks were sponsored by two private sector banks (The Bank of Rajasthan Ltd. & The Jammu and Kashmir Bank Ltd.). Strangely, an Apex Cooperative Bank (Uttar Pradesh State Cooperative Bank) has also sponsored a Regional Rural Bank in Uttar Pradesh, where the largest number of Regional Rural Banks, 40, are located (4 of them are now in the new state of Uttaranchal). The peculiarities in the parentage of these banks have invariably influenced their performance. During the last 25 years of their existence, most of them have undergone phases of stagnation. The Reserve Bank of India has a mandate to be closely involved in matters relating to rural credit and banking by virtue of the provisions of Section 54 of the RBI Act. The major initiative in pursuance of this mandate was taken with sponsoring of All-India Rural Credit Survey in 1951-52. This is the origin of the policy of extending formal credit through institutions while viewing local, traditional and informal agencies as usurious. In the first stage, efforts were concentrated on developing and strengthening cooperative credit structures. The Reserve Bank of India has also been making financial contributions to the cooperative institutions through evolving institutional arrangements, especially for refinancing of credit to agriculture. While enacting the State Bank of India Act in 1955, the objective was stated to be the extension of banking facilities on a large scale, more particularly, in rural and semi-urban areas. SBI, therefore, became an important instrument of extending rural credit to supplement the efforts of cooperative institutions. In 1969, 14 major commercial banks were nationalised and the objective, *inter alia*, was "to control the heights of economy". The nationalised banks thus became important instruments for advancement of rural banking in addition to cooperatives and State Bank of India. The next step to supplement the efforts of cooperatives and commercial banks was the establishment of Regional Rural Banks in 1975 in different states with equity participation from commercial banks, Central and State Governments.

Increase in Rural Banking Habits: According to the census of 2011 the urban rural population is 37.7 crore and 83.3 crore. During 2012-13 (as per latest publications by RBI), 947 branches were opened by RRBs taking the cumulative number of branches to 17,856 spread across 635 districts in 26 states and one UT. Reaching out to the rural households, these branches have been instrumental in mobilizing rural savings, especially through savings bank deposits. As institutionalization of rural credit by dislodging the rapacious village moneylenders was the prime objective of rural banking, the branches have been directed to adopt various lending programmes for extending credit facilities to the credit-starved rural households. The decennial All-India Rural Debt and Investment Surveys conducted by the Reserve Bank of India reveal that there has been perceptible improvement in the substitution of institutional credit for non-institutional credit in the borrowing pattern of rural households. With their enlarged presence in the rural areas, banks have increased their lending activities through the rural branches. This has been further accelerated by policy intervention of the regulator, directing them to extend credit facilities to the priority sectors to formulate Service Area Credit Plans to minimize the credit gaps in the villages. As a result, the credit disbursed in the rural Branches have increased. Rural credit constitutes 10.6 per cent of the total credit lent by the banking sector. The non-availability of the other more qualitative data - relating to the differences in the operational efficiencies of rural and urban business and the spatial variations in the shares of non-performing assets - makes a comparative assessment difficult. There are reports indicating the growing menace of overdues, of agricultural advances in the rural areas. Non-Performing Assets (NPAs) in rural advances are emerging as a result. This has an adverse impact on the earnings of the rural branches. However, the incidence of non-performing assets is more alarming in the urban and metropolitan branches, where all the sick industries exist. The factors depressing the profitability of the rural branches are the low volume of business handled and the lower interest rates charged, than the non-performing assets. But the fact remains that the rural business of both the public and private sector banks is not very significant, compared to their non-rural business.

Issues in rural banks: It is no longer true in today's lending system that the money lender and informal financing synonymous, in view of the dynamics of rural economy already described involving suppliers' credit, buyers' credit and credit for the services sector. Informal markets are less significant now than before, and have to face competition or at least accept benchmarking of formal credit. The concept of monopoly of moneylender in rural areas is not true in many areas now. Banks are not permitted to relocate their loss incurring branches, fearing political pressures insisting on their continuation. Instead, the banks are advised to swap their rural branches with the other banks operating in the region. And there are no takers for this proposal, for obvious reasons. A little more flexibility in the branch licensing policy would have reduced the losses of rural banking, much earlier. In recent years, they have been permitted to shift the loss incurring rural branches to better locations. The results obtained are very encouraging. Many of the regional rural banks reveal in their annual reports, the success achieved by them in this process. They also indicate the number of branches earning profits as a result of the relocation. The ad hoc patch up work being doled out in the form of loan waivers does not in any way help anyone. It only does the job of throwing the total rural credit system out of gear. The cycle of credit-economic activity- occupation- improved productivity- development- recovery of loans is disrupted abruptly. With no recoveries the banks are faced with a bleak reality of lending without expectations of recovery. A point to be noted here is that banks are responsible to facilitate and oversee the flow of money in its area of operation, they do not mint money. Thus when one very important aspect of loans, via recovery, is hampered the flow is affected adversely, due to which again future possible beneficiaries are also affected. Therefore, one waiver announced has immediate and long-term cascading effect on the rural economy.

Recommendations: There is urgent need for more involvement and interest from the bankers who deal in rural lending. Though meetings are conducted the contribution of bankers is arbitrary. At times even with the ideas and schemes in their kitty they are not able to implement them due to paucity of time. Emphasis should be given to training and sensitising bankers on their role in rural credit system. Bank employees in rural areas should be imparted knowledge of the area-specific needs. They must have some working knowledge of the rural areas that they are working in and be able to devise a scheme for the villages. It is seen that they have a limited view and information of rural requirements, due to which some are less committed towards upliftment of beneficiaries. Having said this one must also take care that more local people are included in the process of banking and loan disbursement. Employing local people in the banks may help the banks in going a long way in improving their performance. India is a vast country with a huge variance in geo-physical, cultural, natural, social, economic, political behaviour. Keeping this in mind, the knowledge that a local has cannot be ignored. Local also have better skills of interaction with their peers which in a customer-centric and service oriented unit cannot be overstated or substituted. The ITC model of e-choupal is a very good case in point here.

Further, frequent transfers hamper the involvement of banker. Just as bankers start to get well acquainted with the needs, develop relations with rural people, improve on their public relations- they are transferred. Transfers and perpetual upheavals in the lives of the bankers disturb their life-work balance. Due to this after a point the human resources become mechanical in their inputs and do not try to innovate and appreciate in value, which is harmful in the long run, as banking is a human-resource-intensive industry. Banks can begin by employing people who are proficient in rural economy management, agriculturists, marketers, food processing experts, horticulturists, dairy experts, forestry specialists and such other professionals. This will enhance the quality of organising, implementation, monitoring capacities of rural banks. With the existing vast banking network, systematic planning, policy framework, democratic setup, unified direction that India has success is an undisputed reality. Handling a large number of small deposit accounts in the rural branches is a labour intensive process. Small borrowing accounts are less revenue generating. This shows that just by merely having many branches in the rural areas one cannot ensure performance, leading to non-performing assets.

Conclusion: The banks have to plan as an answer to questions – whether to dilute their sophisticated banking practices to manage the far-flung rural branches, where the business composition and loan requirement is entirely different or not. The Indian banking sector needs a larger presence of a lesser number of players in the rural sector.

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