

Semi Urban and Rural Areas – An Opportunity for Banking Industry with Special Reference to Madhya Pradesh



Vyanktresh Dhar Dwivedi
Research Scholar,
Deptt.of Business Administration,
A.P.S. University,
Rewa, M.P.



Atul Pandey
Professor and Head,
Deptt.of Business Administration,
A.P.S. University,
Rewa, M.P.

Abstract

Banking has been undergoing lot of changes across the globe. Many opportunities are unfolding with each passing day. Banks are now technology driven, they are working on customer retention. Each bank is investing on technological up gradation to survive the competition. The thrust from central government and reserve bank of India to spread banking in unbanked area is growing with each passing day. Banks have been dictated to open branches in semi urban and rural areas of country. In this environment banks are working on business solution model to develop cost effective banking solution, which find wide acceptance in semi urban and rural areas, thus meeting their formal need for small savings and micro credit. Against this backdrop, this study is done to find future scope of banking in semi urban and rural areas and understanding the challenges in spreading banking in semi urban rural areas. The paper suggests ways to find the underlying opportunity in challenges faced by banks.

Keywords: Banking, Semi Urban and Rural Areas, PMJDY, Inclusive Growth, Financial Inclusion.

Introduction

Banking can be understood as acceptance of deposits of money from the public for the purpose of lending or investment. The deposits may be repayable on demand or for a period of time agreed by the banker and the customer. "Raju and The Money Tree, A Basic Banking Financial Education Series- 2007",¹ by Reserve Bank of India; elaborates the clear picture of banking habits/practices of common man in India till very late 1980s and shows us how it is safe to bank with traditional banks.

Today banks are having different types of asset, liability and third party products under retail banking segment. The banks are offering different types of product through various channels like branch banking, electronic channels like Mobile, Internet, ATM's and Telephone Banking etc. The average ticket size of any product (liability/deposit or asset) is not very large. The banks are targeting retail customers get an opportunity to have low cost deposit CASA in form of savings, current accounts and further lend inform of Home Loan, Car Loan, Mortgage Loan, Consumer Durables Loans etc.; at attractive rates to earn good interest margin/income. Hence the risk of any bank is well diversified and distributed amongst various segments of society.

Government of India and Reserve Bank of India are working on model for inclusive growth and are keeping high hopes on banking industry to touch the distant corners of country. There is large portion of population living in states of Madhya Pradesh, Uttar Pradesh and Bihar without any bank account. This research paper highlights the current trend of banking in Madhya Pradesh and discusses the underlying opportunities and challenges in ways of spread of banking in semi urban and rural areas.

Review of Literature

The review of literature of previous work done in areas of subject has enriched the understanding about topic.

Mr Rakesh Mohan and Mr Partha Ray (2017), in the IMF Working Paper titled "Indian Financial Sector: Structures, Trends and Turns" have studied the journey of banking sector for the period 1950 – 2015. They concluded that Indian Financial sector has evolved as new modern sector covering all functional areas with a aim for all around growth of country. The Indian Public sector financial institutions have become agile with good support of government bodies and are giving good competition to private sector.

In the brochure of joint project (2014) of Janalakshmi(A Bangalore based Urban MFI), CGAP (the Consulting Group to Assist the Poor) housed with World Bank and Innovation Labs (A Bangalore Based Design Innovative Consultancy) to discover new ways to understand the customer requirement and bring in change in operational structure of MFI to improve of delivery mechanism. The major finding of the project have been –

1. Due to less financial knowledge and pressure for meeting daily routine expenses, the customers are able to create savings/wealth in long run out cash generated from daily routine income generating activities.
2. The family tries to save for its children by investing in precious metals like Gold/silver or local saving schemes like small chit funds etc.
3. The household is involved in income generating activities even during extended/stretched working hours. They are left with little time for even social activities. Thus they are very much concern about the time lost from business to visit any financial institutions. The opportunity cost of time lost is very high for them.
4. The finance of family is highly dependent on fate/god. Any unexpected event in family may haywire their financial balance.
5. The families with balanced life tend to have financial balance in life. It may control or go overboard in spending for materialistic things.

Based on above finding, team developed a tool “Kaleido” to understand and map the financial requirement of household. The above tool helped the team to collect the information and generate a correct picture about the household; this in turn helped them to develop new products best suited for needs.

The mission document of PMJDY (Pradhan Mantri Jandhan Yojana) (2014) launched by government of India in August 2014; highlighted the importance of Financial Inclusion for overall growth of economy and India as a whole. It advocated for having one account per household across India. It has advocated for use of technology driven platform for expanding inclusion at economically viable level.

The RBI Guidelines for Licensing of Payment Banks in the Private Sector (2014) dated 27 November 2014; highlighted the need of spreading the financial inclusion drive by providing license to setup payment banks providing small saving services along with fast payment and remittance facility to low income groups and households, migrant workers, farmers, small business men. These banks are expected to revolutionize the remittance facilities in India.

The RBI Guidelines for Licensing of Small Finance Banks in the Private Sector (2014) dated 27 November 2014; highlighted the need for setting up of small banks driven by modern/high class technology to cover up the financial excluded sections of society like small business units, farmers, common man and landless laborers etc. by providing them access to cheap credit facility and a place to save small money.

This model is expected to keep the cost of operation at viable levels.

Saraswathy, M., and Lele, Abhijit (2014) in their article titled “Universal Financial Access Faces Multiple Challenges”, an article published in leading business daily Business Standards on 29 August 2014; have highlighted the various challenges in providing universal access. In the article, they have identified three major areas which needs urgent attention of banking industry, first one is to increase the scale of operation, i.e. Banks need to gear up their internal resources to tackle up the herculean task of adding millions bank accounts, second one is to work on increasing Financial literacy amongst masses through direct and continuous interactions. Third and last one is to strengthen and effectively manage the network of Business correspondents. The article highlighted and suggested banks to improve on above three fronts to provide universal access.

Prof Amy Jensen Mowl (2013) in the research titled “The role of transaction costs in access to savings and credit” in year 2013 for NSE (National stock Exchange) and IFMR (IFMR- Institute of Financial Management and Research, Chennai) joint Financial Inclusion Research initiative, have found that the opportunity cost of time lost during travel to financial institutions and further waiting time at any financial institution is very high. This is one of the important factor discouraging people from availing formal banking services. The amount of efforts put in by the applicant in completing the documentation formality of any bank may further discourage people to attempt/visit banks and thus always remain away from formal financial setup. People living in semi urban and rural areas are very much sensitive to this aspect. This increases their overall cost of availing financial services and is one of the important cause for low level of banking in these areas. It has suggested to various players (Government bank and other agencies) involved in improving/increasing banking reach to areas to invest on product designing capabilities, leading to innovation of cost effective techniques/models for banking, so that bank could be brought to door step to ultimate beneficiary. Various departments have to look for building/formulating polices/ guidelines; which we lessen the burden of documentation and thus encourage people to join formal banking channels.

Dr. K. C. Chakrabarty, (2013) (Deputy Governor, Reserve Bank of India) on September 6, in a speech delivered in conclave has identified banks as very important part of society. Banks playing the active role of mobilizing the savings from people and subsequently lending across various sections of community; can play a very important role of change agent. They can contribute to growth of various section of community by proper identification of talent, new commercial work and supporting them in form of loans. They provide a platform for distribution of wealth across society by way various remittance and payment related solutions.

Mr. S. Ananth and Mr. T. Sabri, (2013) research scholars of Centre for Advanced Financial

E: ISSN NO.: 2455-0817

Research and Learning, RBI, in their two researches “Challenges to Financial Inclusion in India: The Case of Andhra Pradesh” & “A Critical Look at the Expansion of Banking Services through the Business Correspondent Model: Observations from Andhra Pradesh”; have highlighted that role of formal banking sector i.e. Banks especially public sector banks; through Business Correspondent model (RBI allowed in 2005) in spreading the credit/banking facility in rural and semi urban area. The findings of two researches are that the public sector banks can play an important role through the Business Correspondents Model (BC) in spreading banking i.e. making unbanked area to banked one.

Mr. A. Amrender Reddy, (2010) In his article titled “Rural Banking Strategies for Inclusive Growth” published in journal named The Indian Economic Review, on “Inclusive India: Does Market Offers Solutions for Growth?”; discussed about role of RRB (Regional Rural Banks) in spreading banking facilities for inclusive growth of area. He advocated for banks to concentrate on other alternate channels /modes to spread banking in rural areas. This is expected to reduce cost and other overheads of banks and they will be able to find economies in it. He also advocated for less number of branches with high level of computerization and modern technology driven banking facilities.

Objective of Research Paper

1. To identify the current level of banking in state of Madhya Pradesh.
2. To study the steps taken by Government of Madhya Pradesh and Government of India for inclusive growth.
3. To identify the challenges coming ways of growth of banking in semi urban and rural areas.
4. To identify the growth drivers and existing opportunities available in semi urban and rural areas.

Research Design

This research paper has emphasized on the study of existing work done in area of banking - products and its services. It covers important factors like emerging trend in rural India, existing challenges and scope and opportunities available for growth of banking business.

Remarking An Analisation

Data Collection Method

The secondary data is collected through the reference made to work done in area of research till date. The secondary data obtained from different sources like published reports on retail banking and trends and reports on banking industry and statistical data released by Reserve bank of India (RBI), Indian Bank’s Association (IBA), World Bank, International Monetary Fund (IMF) and Government of India has been used to make research meaningful. Various articles, books, research papers, research thesis have also been referred to supplement the understanding and to get a better insight on the research topic. Relevant secondary data have been used for the purpose of the extensive study and for point of references as per the requirement.

Current Scenario of Banking Industry in Madhya Pradesh

The state of Madhya Pradesh (MP) is located in central India. It is second largest state in India after Rajasthan in terms of area. There are 10 divisions and total 51 districts in MP.² As per 2011 census, the population of MP is over 7 crore.³ More than 75% population of MP still lives in semi urban and rural areas. Nearly 20-25% population of MP state belongs to SC and ST community. The literacy rate of population in MP is at 70%. The economy of MP is mainly agriculture based. The major industrial centers are mostly clustered around district like Indore, Bhopal, Jabalpur and Gwalior.

There is good network of branches of banks, financial institutions and intermediaries in MP to cater the financial needs of large population comprising of 49 commercial banks (PSB and Private Sector), 03 RRBs (Regional Rural Banks), 38 DCCBs (District Central Co-operative Banks) and 4522 PACSs (Primary Agriculture Credit Societies) in the state. Till 2008-09, the pace of growth of banking industry was not encouraging, however with the various efforts of central and state governments to spread awareness about financial products, incentive to open branches in hinder lands, remote locations; the branch network and ATMs position has significantly improved. There are 7031 branches and 10230 ATM as on 30/06/2016 in Madhya Pradesh state (Table No 1.1 and Figure No 1.1).

Table: 1.1 - Branch Network in MP⁴

S. No.	Type of Bank	Rural	Semi Urban	Urban	Total	ATMs
1.	PSBs (Public Sector Banks)	1360	1288	1511	4159	9079
2.	Private Sector Banks	130	208	395	733	1151
3.	RRBs(Regional Rural Banks)	864	297	125	1286	0
4.	DCCBs(Dist Co-Op Banks)	297	470	86	853	0
	Total	2651	2263	2117	7031	10230

Figure: 1.1 - Banking Network in Madhya Pradesh

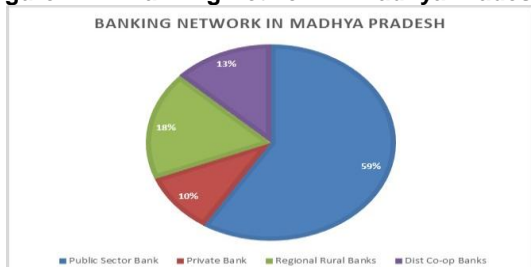
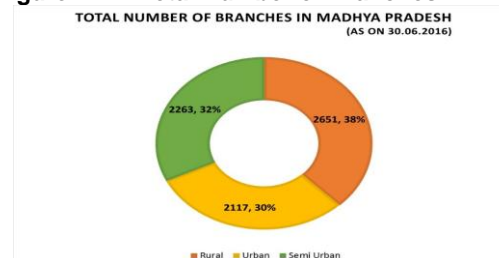


Figure: 1.2 - Total Number of Branches in M.P.



Out of the total branch network of 7031, 37% (2651) branches are located in rural areas and 32% branches are located in semi urban areas of MP (Figure No 1.2). Banks have created huge network of 11864 Sub service areas (SSAs) and 10347 Business Correspondent Agents (BCs) to service population living in remote locations.

MP Government Efforts - Identification of Shadow Areas / Launch of Samagra

After launch of PMJDY, many banks have started opening branches in unbanked areas. MP government is providing various types of support in terms of infrastructure, expenses to cover opening of branches and also promising/supporting through government department business.

The Rural Development and Panchyat Department of MP Government has identified "Shadow Areas"⁵ (area within radius of 5 kms from a normal branch in rural unbanked area) and started extending support to banks that are willing to participate in "Jan Dhan Yojana"; more particular private sector bank by providing fully constructed branch in rural or shadow areas.

To begin with, the government has earmarked Rs. 10 Lakh per branch with an aim to cover 100 shadow areas. The funds will go to village panchyat, who will construct the branch based on already approved design. Initially, bankers could start the branch operation through the available panchyat bhawans.

The department has also launched the concept of "Samagra". It is a form of ID for state population, providing details about different family members and data about various government scheme/subsidy/ benefits availed by family members. It is aimed making the DBT (Direct Benefit Transfer) scheme error free and efficient. It is also aimed at removing duplicity in system and ensuring that only needed shall get benefit of various government scheme/subsidy.

Samruddhi - Madhya Pradesh Financial Inclusion (MPFI) Model⁶

The state government of MP through its Department of Panchayat & Rural Development (P&RD) and State Level Banking Committee (SLBC) launched an innovative pro poor model of "Direct Benefit Transfer (DBT)" and Financial Inclusion under the name "Samruddhi" i.e. Prosperity.

The Madhya Pradesh Financial Inclusion (MPFI) model has three important pillars-

Samagra

An ID formulated under Samagra Samajik Suraksha Mission (SSSM), wherein a survey was conducted across MP covering more than 2.5 crore households to collect individual data about individual and its family members and unique ID number has been allotted to them.

Electronic Fund Management System (e-FMS)

A system was developed for timely and correct payment to beneficiary. All co-operative banks, post offices (without core banking) were advised to open accounts in commercial banks working on core banking platform. An effort has also been made to start the shifting of co-operative banks/

Remarking An Analisation

post offices on electronic/core banking platform. Various payments like scholarships, pensions, payments related to social sector schemes, MANREGA were started and now being successfully routed through e-FMS mode.

Ultra Small Bank Branches (USBs)/Customer Service Points (CSP)

An efforts has been made to identify the 'Shadow Area' (villages which did not have any financial institution like Post Office, Commercial Bank, Cooperative Bank etc. within a 5 km radius were termed Shadow Area) and CSP/USB were opened for opening of bank accounts in rural areas, enabling financial transactions, thus ensuring financial empowerment of population.

The above three pillars were integrated with each other to form a stable system, which can provide an end-to-end financial solution for the rural poor. A new term was coined "**Government to Person (G2P)**" to define the integration. This model has brought in total shift in outlook of government machinery, bringing in transparency, establishing good governance and taking development process to grass root level and bridging the gap of excluded, disadvantaged and rural population from the main stream of society.

Even after such a large network of branches across length and breadth of Madhya Pradesh state, the banking has not reached to last end. Still many people are left out of ambit of formal banking network and are devoid of financial help. Hence in this study an effort is being made to understand the various factors behind spread of banking in semi urban and rural areas.

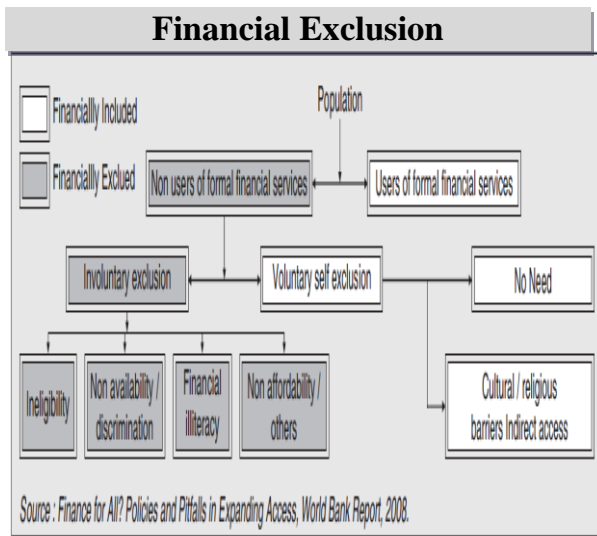
Need For Spreading Banking in Semi Urban and Rural Areas

One of the major concerns for government of India has been that, rural India has been denied with basic financial services, even after taking many steps in last six decades of post economic independence time period. India has large number of poor people. As per an estimate, India houses around 1/3rd of world's poor. The low income group people/households, farmers, small business men/micro units comprising major section of Indian society living in semi urban and rural India have remained "Financially Excluded".

The problem of "Financial Exclusion"⁷ has become a major road block in path of different social development programs of governments. The figure no 1.3 (Chart on Financial inclusion) explains the effects of financial exclusion in society. The underprivileged peoples were exploited and discriminated for ages by local money lenders. As per 2011 census data, approximately 59% of Indian households have access to basic banking services. More than 40% people are left out of banking network. This has been failing all efforts of government in fields of agriculture development, education, health and economic development. India was not able to make mark in various ratings done by world agencies. The Rich – Poor divide has been increasing. Being the second largest after China in terms of population, "The

Human Development Index” of Indian population was cause of concern around globe.

Figure: 1.3 - Chart on Financial Exclusion

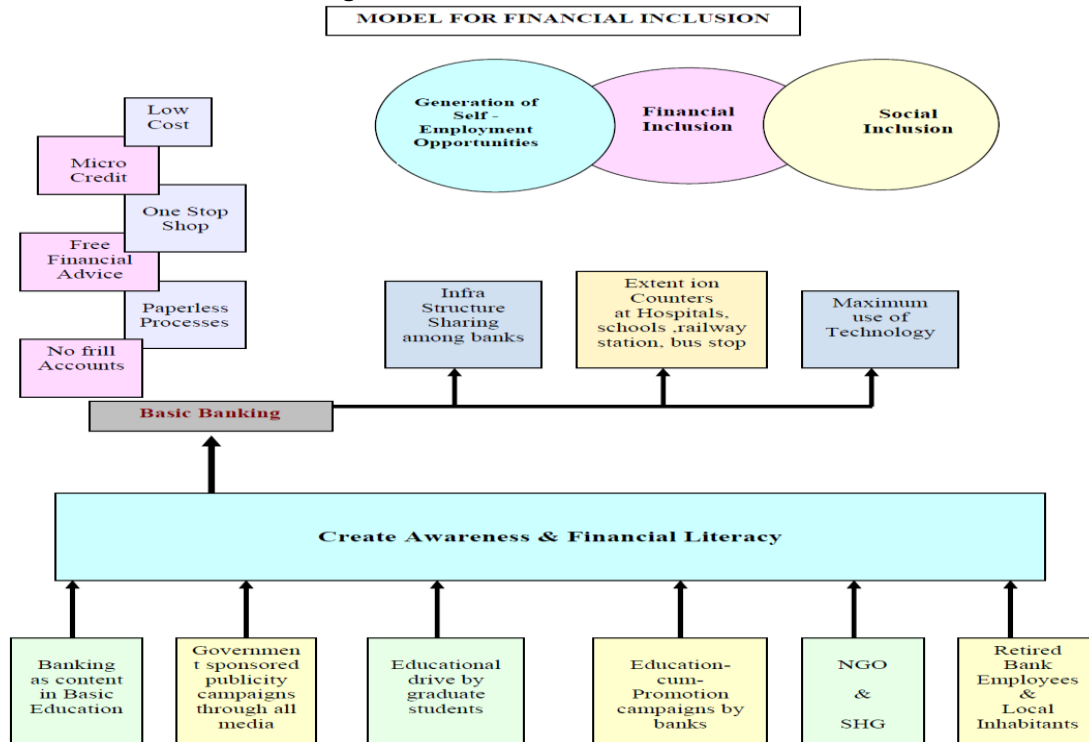


Source : Finance for All? Policies and Pitfalls in Expanding Access, World Bank Report, 2008.

Remarking An Analisation

Many researchers have substantiated the fact that the *role of intermediaries* like Government Departments, NGOs, and Banks is very much important in spreading financial literacy. One of important *Model on Financial Inclusion*⁸ has defined financial inclusion as empowerment of people and thus generating employment opportunities through social inclusion. The figure No 1.4 explains/exhibits the effects of financial inclusion in society.

Figure: 1.4 - Model for Financial Inclusion



Steps Taken by Government for Spreading Financial Inclusion

During 1990's Government of India started launching many development program. GOI has launched many rural developments, poverty alleviation, employment generation programs targeting many underprivileged, socially and economically deprived people. Few widely published and having wide impact on the society are as following -

1. Government started "Swarnjayanti Gram Swarajgar Yojana (SGSY)"⁹ in 1996 with a motive to cover up underprivileged section of society

pecially SC/ST, minorities, women's; by providing source of income generation enabling start of a business activity with the help of banks. The loan will be backed by government subsidy. The emphasis was also in creation of "Self Help Groups (SHGs)" to make people financially reliant and responsible. To provide further fillip to above scheme, under the aegis of lead banks; training and skill development centers were also opened to train people to choose from various income generating activities based on potential available under that area. They were named Rural Self-Employment Training Institute (RSETI).

E: ISSN NO.: 2455-0817

Remarking An Analisation

2. Swarna Jayanti Shahari Rozgar Yojana (SJSRY) was launched by Government of India in 1997, to cover up unemployed, unprivileged youth of cities. They scheme was supplement to Swarnjayanti Gram Swaroggar Yojana (SGSY), which was majorly covering rural India. The scheme was re launched in 2009 by adding many new dimensions to it like covering up urban community development programs.
3. Government of India started a program named "Bharat Nirman" during 2005-06 to boost amenities at village levels and make them more connected with major towns. There were six different focus areas under the scheme. It covered rural roads (Pradhan Mantri Gram Sadak Yojana), rural housing (Indira Awaas Yojana), rural electrification (Rajiv Gandhi Grameen Vidyutikaran Yojana), rural telephony, safe drinking water (National Rural Drinking Water Programme) and increase in irrigated agri land. The program was aimed at focused approach for development of above six areas, thus augmenting rural infrastructural facility, which further resulted in all-round development of country.
4. Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) was launched in year 2005, targeting EWS/LIG living in urban cities. The program was aimed at providing access to affordable housing with proper amenities to urban poor's. This program aimed at increasing the basic living standards of urban poor's and thus making remarkable changes in their outlook and bringing them to major stream of overall development. To give fillip to above scheme Rajiv Awas Yojana (RAY), was launched in year 2009 with an overall objective of "Slum Free India".
5. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) was launched in 2006 to provide at least 100 days guaranteed job, thus enhancing financial stability and improving livelihood.
6. With an aim for increasing the employment and opening new avenues for growth for young Indians; government set up National Skill Development Corporation (NSDC) in year 2008. This Corporation was set-up to increase the "Public-Private Partnership (PPP)" in skill development by co-coordinating with private sectors. It acted as stimulant for increasing initiatives from private-sector to identify various skill sets applicable for Indian subcontinents, having high growth potential in long run and having potential for generating large number of employment avenues; which can be further imbibed in youth by providing proper trainings.
7. Many other programs in fields of education (Sarva Siksha Abhiyan, SSA), sanitation (Total Sanitation Campaign, TSC), health (National Rural Health mission, NRHM) and development of women, child and other weaker sections were also launched. These programs lead to growth of rural India.
8. The Government of India in 2011 started a program in association with Indian Banking Association (IBA) to cover up villages with 2000 and more population and provide basic banking facility. It was named "Swabhimaan".¹⁰ The services of "Banking Correspondents (BC/Bank Mitra/Saathi)" were used to spread the reach of banking amongst common masses. Each BC was expected to cover up an area in five kilometers radius. The presence of banking interface through local person of area named BC is expected to boost confidence of common people and thus motivate them to get connected with direct banking channels for availing basic financial services. The idea was also to provide benefit of government social service scheme and subsidies directly to bank accounts of beneficiary/common people. However, the program achieved limited objective. Some odd 70000 plus villages only got covered.
9. Pradhan Mantri Jan Dhan Yojana (PMJDY) - On august 15, 2014, from the auspicious podium of "Lal-Kila" Delhi; Honorable Prime minister of India announced the launching of Pradhan Mantri Jan Dhan Yojana (PMJDY). It outlined the commitment of Government of India to take the task of "Financial Inclusion" as national top priority/agenda. It has to be executed in mission mode. The scheme was launched across the India at every district level on august 28, 2014. The scheme works on philosophy "Sab Ka Sath Sab Ka Vikas".¹¹

The objective of scheme is to ensure that each household in India has access to different financial services. It includes access to basic saving account (at least one account per family), need based access to basic credit facility that too at affordable cost, access to various money transfer and remittance facilities, access to insurance (health and life insurance) and access to pension scheme. The scheme aims at covering the excluded section i.e. weaker and low income groups of society living not only in rural areas, but it also aims to cover urban excluded sections of society.

To achieve above objective, scheme advocates use of modern technology to cover the gap existing in present financial system of country. The increase of "financial literacy" and wide publicity and proper monitoring were considered as important factor for successfully running the scheme across the country.

Under the scheme following facilities were provided –

 - a. Basic saving accounts with "Rupay Debit Card" with no charges.
 - b. Providing accidental insurance cover of Rupees One Lakh (Rs. 1,00,000/-) linked to Rupay Debit Card.
 - c. Facility of micro Insurance linked to account.
 - d. Facility of pension scheme for unorganized sector linked to account.
10. Launch of social sector welfare schemes - Keeping in mind the aim of an overall success of PMJDY program, government announced 03 social sector welfare schemes in budget 2015.

E: ISSN NO.: 2455-0817

Amongst the 03 schemes, in PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana) - a cover of Rs. 2.00 Lakh is provided (18-50 years; Life cover upto 55 years) for one year with an annual premium of Rs. 330/- by Life Insurance Corporation of India (LIC). Further PMSBY (Pradhan Mantri Suraksha Bima Yojana) aims at covering uncovered population at a very low premium of Rs. 12/- for one year. All individuals in age bracket of 18-70 years can apply for accidental cover of Rs. 2.00 Lakh by simply paying the premium through auto debit mode. This policy/scheme was widely publicized by central government through various modes with an aim to spread the reach of insurance to the weaker section of society, to provide a financial security in case of any unfortunate death of members of family. This scheme has paved the way to comply/achieve the overall aim of financial inclusion. This policy has received high support and subscription level and very soon it is expected to cross the subscription level of 10 crore.

With an overall aim of financial inclusion and providing pension during old age to unorganized, weaker sections of society, the scheme (Atal Pension Yojana -APY) was launched to provide fixed minimum guaranteed pension in multiple of Rs. 1000/-, Rs. 2000/-, Rs. 3000/-, Rs. 4000/- & Rs. 5000/- after 60 Years.

11. The RBI under consultation of government of India has formulated guidelines for launch of Payment and Small Banks.¹² The aim is to push financial inclusion by giving chance to various serious players in financial markets, companies, and telecom players, retail chains to enter into "banking arena" and provide benefit to customers.

These banks are expected to meet the needs of remittance, need of credit of unorganized sector, small business, farmers, students, low income groups/households and migrant section of society. It is expected that with lenient view on various banking guidelines/rules like on KYC and AML, they expected to attract many unbanked section of populations. They are also expected to heat-up the existing completion in banking arena by providing extra benefits in terms of higher interest rate on deposit and technology based easy mode for remittance of money and low charges for various transaction.

Emerging Trends in Rural India

The various efforts of government and private players have brought significant changes in the Indian village. Many new trends have impacted the life cycle of villagers like -

Corporate Moving to Rural India

During the time of slowdown across the world most of corporate found it difficult to do business in metro cities. However slowdown did not affect Indian economy severely, but India did not remain fully aloof from it. The demand shrank in urban areas. *At this time, many corporate found rural India*

Remarking An Analisation

as growth engine for their business and balance sheet.

Companies found magic in small packs, sachets, and size. Concept of "Small" helped them to lure consumers in these areas. FMCG companies launched all major products like toothpaste, oil, creams, shampoo etc. in sachet or small packs.¹³ Mobile companies came up with small value recharge starting in multiple of Rs. 10 to increase their connections. Mobile handset companies came up with low price mobile sets. Automobile sector came up with heavy duty all-purpose two and four wheeler models. Thus there has been total reengineering in all dimensions, be it product, price, packaging, size, features, promotion, distribution etc. A total connect has been made by corporate with rural masses.

Likewise banking industry could also harness the unexploited business potential of rural India and find this area as growth engines for them. They have to do complete overhauling of their products, policies and process. They have to simply move away from "No Frill Accounts" to "Complete Banking Solutions especially for rural India"; by identifying their requirements properly.

Various Social Development Schemes by Government

Many government social welfare scheme like MANREGA guaranteeing at least 100 days of job, investment in infrastructure, roads through PMGSY (Pradhan Mantri Gramin Sarak Yojana), good support for selling agricultural produce and improvement in literacy rates, has paved the way for development of rural economy and purchasing powers.

Spread of Television (TV) and Mobile Network

The spread of Television/DTH and recent advancement in mobile network has brought people in touch with modern world and its product. It has brought aspirational changes in mindset of people living in rural India. Now rural India is becoming sensitive to its aesthetic needs and has started investing (spending) in these areas.

Use of modern techniques of Farming/Farm Mechanization

The farmers are getting more and more educated and using modern farming techniques like green house/poly house, modern irrigation techniques and use of organic manures to increase their productions. Farmers are increasing the use of modern tools, machines to increase their efficiency levels. Bankers can find opportunity by meeting the funding requirements of farmers. This will also help in their efforts to meet out the priority sector targets set by RBI.

Increase in Rural Income Level

Various government schemes coupled with increase in agriculture produce along with other factors like increase in literacy rate; enhancement of electronic media, TV, mobile connectivity, increase in mode of transport with good connectivity through roads in rural areas has put in hands sufficient money to spend into various other living expenses.

The lower income groups in villages are now called middle income groups. The spending pattern

E: ISSN NO.: 2455-0817

has changed from food to non-food items like entertainment, education, housing etc. This change has created requirements for various types of loans like purchase of two/three wheelers, housing and education loans in rural India. As per various study done, rural market is supporting more than 50% sales figures of FMCG companies. The demand for motorcycles, cold drinks, gold ornament etc. has increased by many folds in these areas. Hence Banks need to acknowledge the facts and have to come out with viable solutions/products by addressing various due diligence issues in current setup and products; to meet the growing demand.

Financial Inclusion Drive by Government

Today Government of India is very much serious about Financial Inclusion drive. It is working hard to bridge the rich poor divide existing in country. They want to bring all the financially excluded section of population into the ambit of banking. The efforts have increased the network of branches in villages.

Remarking An Analisation

But still long way to go! There are more than 5 Lakh villages to be connected with formal branches.

Scope for Spread of Banking in Rural India

The semi urban & rural household constitutes nearly 60-70% in India. There are more than 6 Lakh villages in country. Nearly 40 million people lives in semi urban and rural areas. *Till date Indian banks have only concentrated their efforts and network to the metro and urban cities only.* There has been very less presence of banks in semi urban and rural areas. The masses over here are still keeping cash or investing in other areas/commodities like land, gold and various forms of jewelry and ornaments. To meet out any family exigency or social expenses like wedding; they money is borrowed from friends, family or the moneylenders.

The below mentioned table exhibits the population wise number of branches and percentage of deposit and access to formal credit at all India Level.¹⁴

Table: 1.3 – Deposit and credit of Scheduled Commercial Banks according to Population Group March 15

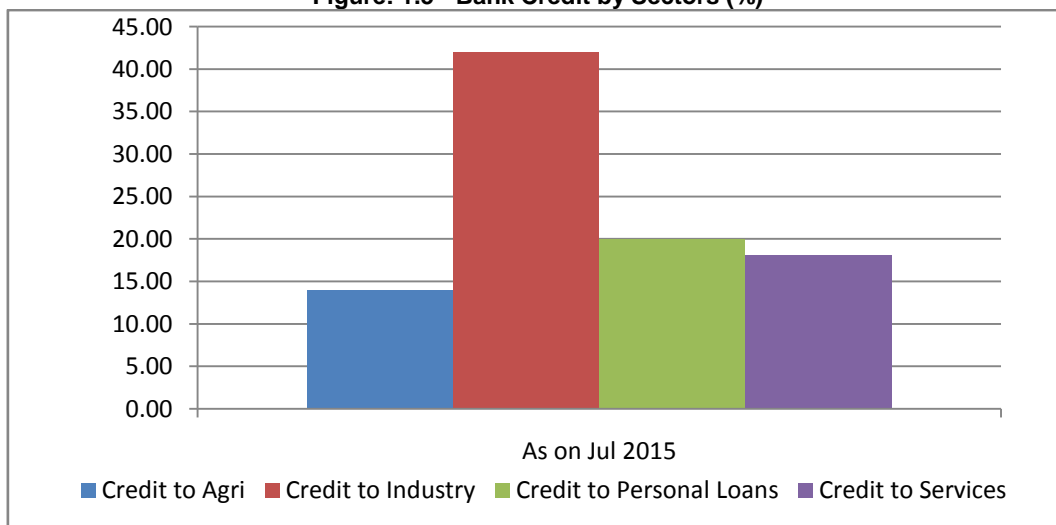
Population Group		Rural	Semi Urban	Urban	Metropolitan	All-India
No. of Offices		48536	34131	25149	22666	130482
Deposit	No. of Accounts	493969524	404661314	266228270	275033175	1439892283
	Amount	9156764.6	13172507	19649009	47242832	89221112
Credit	No. of Accounts	49927765	40469781	21153955	32688135	144239636
	Amount	5983459.9	7591878.8	11039154	44170232	68784725
Credit (Non Food Credit)	No. of Accounts	49927607	40469656	21153879	32688073	144239215
	Amount	5496483.8	7536968.5	11014722	43753479	67801653

We find that out of total branches only 37% are opened at rural location. The total deposit share of rural India is nearly 10% of total deposit maintained in commercial banks. The condition of availability of formal credit to rural India is into single digit, is at 8% level. Rural India is home for more than 83 crore¹⁵ people, and such a low coverage in terms of formal deposit and credit ratio is one of the important causes of their exclusion from the main stream of development.

If a comparison is made between percentage of credit facility extended to agriculture sector as compared to other important field of economy like industry, services and personal loans, we find that it at lowest level. It is not very encouraging to know that less than 15%¹⁶ of total credit facility is extended to agriculture and allied activities.

But there exist a silver lining that if banks could increase their formal branch network and increase their reach in these areas, there will be total change in their business in terms of volume and profit.

Figure: 1.5 - Bank Credit by Sectors (%)



Remarking An Analisation

The under penetration of commercial banks in rural and semi urban areas coupled with limited exposure of banks to agriculture and allied activities; creates a picture full of opportunities for exponential growth for banking in rural and semi urban areas. Banks will be rewarded in terms of revenue, balance-sheet size & profits growth, if they are investing in the area. As per the MacKinsey report on banking industry titled "Gateway to the defining decade by 2015"; the growth of banking in these untouched areas will increase by 20% in size and spread. It is expected to generate revenue of Rs. 80000 crore.

Commenting on the opportunity available for the banks in semi urban and rural market, chairman of one of the largest government bank (SBI) said – "Financial Inclusion has been challenging, but in the end, it has its own reward. All Public sector banks, which have gone into the rural and the difficult areas, are now reaping the rewards. To increment the reward, they now want to extend and magnify their presence in the regions."

The above explains about the available opportunities for growth of retail banking in these areas. But opportunities pose many challenges, which Indian banking industry has to factor in. They have to be well prepared for this and devise a road map for this. To name a few challenges in front of banking industry –

1. Low income groups
2. Ignorance and lack of awareness
3. Low level of financial awareness
4. Environment, cultural and psychological barriers
5. Current stringent banking procedures/laws
6. Launching of aligned products

In times of increase of stressed assets, NPAs due to corporate loans, banks may find good growth in retail loan books by capturing smaller cities, talukas and villages. These areas have less competition, provide high yields on ROI and there is diversification of risk by doing small ticket size loans.

Conclusion

In India, the growth of economy is primarily driven by rural India. Whenever there is good monsoon, we hear words that it will provide the necessary fillip to all sectors. With good harvest season, more than 60% people in India are expected to have more cash in hand to spend. No doubt, firstly it will be on agriculture based products followed by spending on meeting living expenses to make their life better. But there exist a gap to fill in terms of monetary self-reliance and financial literacy. If banking sector takes the lead and fill the gap, it will too ride on band wagon of growth which other sectors of industries always cherish for.

The Indian Economy is getting strong and growing with each year, whereas other world economies are facing slowdown or falling. Today India is unfolding its immense power in terms of young vibrant population ready to work in any area and has large underutilized, unexplored reserves of natural resources. Till few years back, the growth in India has been backed by the numbers of service and industrial sector with a small contribution from agricultural sector.

After independence the share of agriculture to GDP has drastically reduced. But with adaptation of modern techniques of farming, many social welfare schemes started by previous governments and start of many projects to improve the condition of irrigation, roads, education; have changes the paradigm. Today everyone from industry to government has understood that rural India cannot be left behind. More than 83 crore people living in rural India, constituting 3/4th of Indian population (as per 2011 census) cannot be left behind for inclusive growth of country.¹⁷ Thus agriculture and allied activities; one of the major source of Income in these areas have gained important.

The importance of agriculture has been understood as a fulcrum for all-round socio-economic development of country. "Rural economy has been agenda for Today!"

While addressing a business meet of Indian CEOs in year 2000 worlds one of the most influential management gurus C.K. Prahalad has said that –

"The future lies with those companies who see the poor as their customers".

The other two famous lines from him exhibit the potential of rural India.

"Poor people know more about life than you will ever know".

"The problem of poverty must force us to innovate".

The above words sum-up the importance of inclusive growth and finding business in it.

References

1. A conference on Global competition & competitiveness of Indian corporate organized by IIM Kolkata & Lucknow (2007)
2. Ananth, S. and Oncu, T. Sabri (2013): "Challenges to Financial Inclusion in India: The Case of Andhra Pradesh", RBI's CAFRL (Centre for Advanced Financial Research and Learning), working paper-I. Vol. 48, No. 7, February.
3. Bhatnagar, K.V. & Gupta, A. (2013): "Samruddhi: The Madhya Pradesh Model of Financial Inclusion", A report by published by United Nations Development Programme (UNDP).
4. Chakrabarty, Dr. K. C., Deputy Governor, RBI (2013): "Financial Inclusion in India: Journey so Far and way Forward", Speech delivered at Financial Inclusion Conclave organized by CNBC TV 18 at New Delhi, September.
5. Challapalli, Sravanthi (2000): "Big bucks in small packs", article published in Business Line's Catalyst, 14 December.
6. Census of India (2011): Primary Census Abstract.
7. Government of India (2014): "Mission document on PMJDY".
8. Janalakshmi (A Bangalore based Urban MFI), CGAP (the consulting group to assist the poor) housed with World Bank and Innovation Labs (A Bangalore based design innovative consultancy) (2014): A Project report brochure titled "The Journey to customer-centricity: How Janalakshmi, a financial institution service provider in India, is transforming through customer-centricity."

<https://www.cgap.org/sites/default/files/Other-Kaleido-Brochure-March-2014.pdf>

9. Mowel, Amy Jensen (2013): "The role of transaction costs in access to savings and credit", NSE-IFMR joint Financial Inclusion Research initiative.
10. Mohan, Rakesh, and Ray, Partha (2017): "Indian Financial Sector: Structures, Trends and Turns", IMF Working Paper.
11. RBI Guidelines (2014): "For Licensing of Payments Banks and Small Banks".
12. RBI Report (2015).
13. Rao, Shri N. D. S. V. Nageswara (2010): "Financial Inclusion - Banker's Perspective", Bank Quest (Oct-Dec 2010)
14. Reddy, Mr. A. Amrender, (2010): "Rural banking strategies for Inclusive Growth", The Indian Economic Review-"Inclusive India: Does Market Offers Solutions for Growth?", Vol. 07, May, pp. 8 -13.
15. Saraswathy, M., and Lele, Abhijit (2014): "Universal Financial access faces multiple challenges", an article published in Business Standards on 29 August. www.businessstandard.com/article/printerfriendly/version?article_id=114082801051_1
16. Trivedi, Shabsikant (2014): Article published in Business Standard issue dated September 01 , 2014
17. Yadav, Beena (2011): "Swabhimaan: A Unique Financial Inclusion Initiative", Dy. Director (M&C) Press Information Bureau, New Delhi.
18. <http://dbie.rbi.org.in/OpenDocument/opendoc/openDocument.jsp>
19. <http://censusindia.gov.in/>
20. http://www.pmjdy.gov.in/files/E-Documents/PMJDY_BROCHURE_ENG.pdf
21. [http://rural.nic.in/sites/downloads/right-information-act/05sgsynrlm\(f\).pdf](http://rural.nic.in/sites/downloads/right-information-act/05sgsynrlm(f).pdf)
22. <https://www.microfinancegateway.org/library/samruddhi-madhya-pradesh-model-financial-inclusion>.
23. <http://slbcmadhyapradesh.in/banking.aspx>
24. <https://www.rbi.org.in/commonman/English/Scripts/Home.aspx>
25. <https://www.mp.gov.in/web/guest/state-profile>
26. <https://economictimes.indiatimes.com/>

Footnotes

1. Details available at <https://www.rbi.org.in/commonman/English/Scripts/Home.aspx>
2. Sources - www.mp.gov.in/web/guest/state-profile
3. Sources – 2011 Census of India
4. <http://slbcmadhyapradesh.in/banking.aspx>
5. Article by Mr. Shabsikant Trivedi published in Business Standard issue dated September 01 , 2014

Remarking An Analisation

6. Bhatnagar, K.V. & Gupta, A. (2013): "Samruddhi: The Madhya Pradesh Model of Financial Inclusion", A report by published by United Nations Development Programme (UNDP), December. <https://www.microfinancegateway.org/library/samruddhi-madhya-pradesh-model-financial-inclusion>.
7. Rao, Shri N. D. S. V. Nageswara (2010): "Financial Inclusion - Banker's Perspective", Bank Quest (Oct-Dec 2010)
8. A conference on Global competition & competitiveness of Indian corporate organized by IIM Kolkata & Lucknow (2007)
9. [http://rural.nic.in/sites/downloads/right-information-act/05sgsynrlm\(f\).pdf](http://rural.nic.in/sites/downloads/right-information-act/05sgsynrlm(f).pdf)
10. Yadav, Beena (2011): "Swabhimaan: A Unique Financial Inclusion Initiative", Dy. Director (M&C) Press Information Bureau, New Delhi.
11. Government of India (2014): "Mission document on PMJDY", http://www.pmjdy.gov.in/files/E-Documents/PMJDY_BROCHURE_ENG.pdf.
12. RBI Guidelines (2014): "For Licensing of Payments Banks and Small Banks".
13. Challapalli, Sravanthi (2000): "Big bucks in small packs", article published in Business Line's Catalyst, 14 December.
14. Sources RBI Report 2015.
15. Census of India 2011 (Primary Census Abstract)
16. RBI Database - <http://dbie.rbi.org.in/OpenDocument/opendoc/openDocument.jsp>
17. Data available on <http://censusindia.gov.in/>