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INDIA'S LARGEST TEST PREP PLATFORM

CAIIB

Module-B Unit-2

Rural Banking

CAIIB Rural Banking Module B Unit 2- Rural Credit Institutions

Co-operative Credit System

State Cooperative Banks

State Cooperative Banks are the highest-level cooperative banks in each of the states. They raise funds and assist in their proper distribution among various sectors. Individual borrowers receive funds from state cooperative banks via **central cooperative banks** and **primary credit societies**.

The functions of the State Cooperative Banks can be broadly classified as under:

- Act as a balancing center, for the resources of the DCCBs as they channelize the funds to the DCCBs which are in need of funds, for meeting the credit demand, out of the funds deployed by the DCCBs having surplus funds.
- Act as an intermediary between the DCCBs and RBI and the money market i.e., to borrow money from market and lend to the DCCBs
- Play a pivotal role in the formulation and extension of credit policies for the cooperative movement of the state, as a whole.
- Act as an agency for investment of surplus funds of the DCCBs
- To supervise, regulate and inspect the functioning of the DCCBs and extend timely guidance to them, for their development
- To act as a nodal agency for channelizing the funds borrowed from RBI/NABARD to DCCBs and farmers through the PACS system
- To accept deposits from member societies, non- members, individuals, companies, local bodies, municipal bodies, etc.
- To provide financial support to state level cooperative federations and organizations such as co-operative sugar factories, State Cooperative Handloom Societies, Marketing Federations, etc.

District Central Cooperative Banks

- A District Co-operative Central Bank (DCCB) is a rural cooperative bank operating at the district level in various parts of India. It was established to provide banking to the rural hinterland for the agricultural sector with the branches primarily established in rural and semi-urban areas.
- The DCCBs can open branches within their area of operation, based on their administrative convenience and there is no need for them to make application for license with RBI. However, the banks need to take into account the operational and administrative aspects as also the profitability of such business units, while taking decisions to open branches.
- Many DCCBs, in large number of states, are facing several organization and managerial deficiencies. These are due to the defects in business policies, inadequate appraisal of the loans, mounting overdues at the PACS system and the

direct loans provided to cooperative processing factories like cooperative sugar/ spinning mills, high level of politicization in the management of DCCBs

Primary Agricultural Credit Societies (PACS)

- PACS are village level cooperative credit societies that serve as the last link in a three-tier cooperative credit structure headed by the **State Cooperative Banks (SCB) at the state level.**
- Credit from the SCBs is **transferred to the District Central Cooperative Banks (DCCBs)**, that operate at the district level. The DCCBs work with PACS, which deal directly with farmers.

The main functions of the PACS are

- To promote economic interests of the members in accordance with the co-operative principles
- To provide short- and medium-term loans
- To promote savings habit among members
- To supply agricultural inputs like fertilizers, seeds, insecticides and implements
- To provide marketing facilities for the sale of agricultural produces; and
- To supply domestic products requirements such as sugar, kerosene

Large-Sized Adivasi Multi-Purpose Co-operative Societies (LAMPS)

- LAMPS have been set up on the recommendations of the study team (Committee on Cooperative Structure in Tribal Areas) under the **Chairmanship of Shri Bawa**, appointed by GOI, in 1971.
- These societies operate mainly in hill and tribal areas. The objectives of LAMPS are to provide all types of credit, including those for meeting social obligations and consumer requisites under single roof; to provide technical guidance in the intensification and modernization of agriculture; to supply of inputs and essential commodities; and to arrange for the marketing of agricultural and minor forest products besides the products of the subsidiary occupations of the tribals.

The features of LAMPS are given below:

- **Members:** LAMPS is formed in a compact area of having population of 10,000 approx. and the majority of whom should be tribals. Membership restriction is there, i.e., 70% of the members should be tribals and 30% of the members may be non-tribals.
- **Sources of Finance:** Borrowings from cooperative banks/ commercial banks, share capital, and government contributions are sources of finance to LAMPS.
- **Board of Management:** The management is vested with managing committee which is composed of three government nominated directors, nine tribal and non -tribal elected directors.

- **Performance:** LAMPS in tribal areas provide concessional finance to tribals, which include short term, medium term and consumption loan to carry on their agricultural operations, allied activities and to meet other social purposes respectively at a concessional rate of interest

Long Term Cooperative Credit Structure

- The Long-Term Cooperative Credit Structure (LTCCS) had its beginning in the early 1920s, with the establishment of the **Land Mortgage Banks**, to provide long term loans to farmers, to redeem debts on land. The first Land Mortgage Bank was established in the year 1920, in Punjab. The first Central Land Mortgage Bank started functioning in Madras (present Chennai), to centralize the issue of debentures and to coordinate the working of the Primary Land Mortgage Banks.
- The contributions of **Agriculture & Rural Development Banks (ARDBs)** to the development of Indian agriculture have been quite significant in the post-Independence era. The ARDBs played a very important role in improving the productivity of land especially through development of minor irrigation and facilitating farm mechanization in the 60s and 70s.

Regional Rural Banks

The Regional Rural Banks have been established in the country during 1975-76, with a view to providing credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and to open branches in unbanked rural areas, particularly, in economically backward areas, including tribal areas.

The RRBs have been established with the following objectives:

- To make credit available to rural households for agriculture and allied activities
- To reduce the dependence of weaker sections, consisting of small and marginal farmers, agricultural labourers, artisans, small entrepreneurs, on the private money lenders
- To open branches in unbanked rural areas, particularly, in economically backward areas, including tribal areas.
- To mobilize rural savings and channelize them, for supporting productive activities, in rural areas.
- Supplement the other institutional agencies in credit delivery to rural areas.

Commercial Banks And Rural Financing

In 1969, 14 major commercial banks and another six banks in 1980 were nationalized, with the objective of accelerating development and making a significant impact on the problems of poverty and unemployment and bringing about progressive reduction in disparities between rich and poor sections.

The goals were to be achieved through:

- Reorientation of credit flows so as to benefit the neglected sectors of agriculture, small scale industries and small borrowers
- Widening branch network of banks, particularly in rural and semi- urban areas
- Mobilizing savings through bank deposits
- Deployment of funds, in all productive endeavours big or small, to make the production effort, broad based.

All these measures contributed to the growth of credit from the commercial banking system to the development of rural areas.

Revised Policy on Expansion of Banking Outlets

- A **'Banking Outlet'** for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payment Bank (PB) is a fixed-point service delivery unit, manned by either bank's staff or its Business Correspondent, where services of acceptance of deposits, encashment of cheques/ cash withdrawal or lending of money are provided for a **minimum of 4 hours per day, for at least 5 days a week.**
- A banking outlet, which does not provide delivery of service for a minimum of 4 hours per day and for at least 5 days a week, will be **considered a 'Part-time Banking Outlet'.**
- An **'Unbanked Rural Centre'(URC)** is a rural (Tier 5 and 6) centre that does not have a CBS enabled 'Banking Outlet' of a Scheduled Commercial Bank, a Small Finance Bank, a Payment Bank or a Regional Rural Bank nor a branch of Local Area Bank or licensed Co-operative Bank for carrying out customer- based banking transactions.
- Domestic scheduled commercial banks (other than RRBs) are permitted to open (unless otherwise specifically restricted), Banking Outlets in Tier 1 to Tier 6 centres, without having the need to take permission from Reserve Bank of India in each case.

The opening of 'Banking Outlets' during a financial year, will be subject to the conditions given below:

At least 25 percent of the total number of 'Banking Outlets' opened during a financial year should be opened in unbanked rural centres,A 'Part-time Banking Outlet', opened in any Centre, will be counted and added on pro-rata basis, for computing the requirement as well as the compliance with the norm of opening 25 per cent Banking Outlets, in unbanked rural centres.

- If a bank proposes to undertake government business at any of the banking outlets/part-time banking outlets, it would require prior approval of the Government authority concerned as also of Department of Government and Bank Accounts, Reserve Bank of India, Central Office.
- Banks having general permission may shift, merge or close all 'Banking Outlets'(except rural outlets and sole semi-urban outlets), at their discretion.

- Merger, Closure and shifting of any rural 'Banking Outlet' as well as a sole semi urban 'Banking Outlet' would require approval of the DCC/DLRC.
- Details of tier-wise classification of centres based on population

Classification of centres (tier-wise)	Population (as per 2011 Census)
Tier 1	1, 00,000 and above
Tier 2	50,000 to 99,999
Tier 3	20,000 to 49,999
Tier 4	10,000 to 19,999
Tier 5	5,000 to 9,999
Tier 6	Less than 5000

- Population-group wise classification of centres

Rural Centre	Population up to 9,999
Semi-urban centre	from 10,000 to 99,999
Urban centre	from 1,00,000 to 9,99,999
Metropolitan centre	10,00,000 and above

Other Financial Institutions Catering To Rural Areas

Local Area Banks

- With a view to providing institutional mechanisms for promoting rural savings as well as for the provision of credit for viable economic activities in the local areas, Government of India and RBI have approved the establishment of new local banks in the private sector, in the year 1996.
- It is expected that their lending will be to agriculture and allied activities, SSI, agro-industrial activities, trading activities and the non-farm sector, with a view to ensuring provision of timely and adequate credit to the local clientele in their area of operation.
- The operations of a LAB will be governed by the provisions of the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 and other relevant statutes.
- LABs are required to adhere to the prudential norms, accounting policies and other norms as are laid down by RBI and the IRAC norms prescribed by RBI in relation to the asset classification and provisioning are applicable to them. Currently, three LABs are functioning in the country in the states of Andhra Pradesh and Punjab.

Small Finance Banks

The objective of granting license by RBI, in the year 2014, for setting up of small finance banks is to further financial inclusion by

- Provision of savings vehicles primarily to unserved and underserved sections of the population

- Supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low-cost operations.
- Presently, 12 SFBs are functioning in the country.
- SFBs need to maintain a Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- They are required to extend 75% of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending by the Reserve Bank of India. At least 50% of its loan portfolio should constitute loans and advances of up to Rs. 25 lakh.

Payment Banks

- Based on the recommendations of the **Nachiket Mor Committee**, the decisions to grant license for setting up Payments Banks was considered by RBI, in 2015. The main objective of the Payment Bank is to advance financial inclusion, by offering banking and financial services to the unbanked and underbanked areas, helping the migrant labour force, low-income households, small entrepreneurs, etc.
- Currently, there are six Payment Banks namely, Airtel Payment Bank, India Post Payment Bank, Fino, Paytm Payment Bank, NSDL Payment Bank and Jio Payment Bank.
- They cannot issue loans and are not permitted to issue credit cards. The funds received by them as deposits are invested in government securities in the form of Statutory Liquidity Ratio (SLR) to the extent of 75 per cent of their demand deposits and the remaining is kept as demand deposits with other scheduled commercial banks.

Initiatives For Augmenting Credit Flow

Kisan Credit Card Scheme

- The Kisan Credit Card Scheme introduced during the year 1998 to enable the farmers to get their production credit requirement in a timely and hassle-free manner, has caused a positive impact in the growth of production credit for agriculture by various credit agencies.
- In order to boost the production credit at the ground level through the KCC system, GOI has formulated several schemes and implemented. Important among them are provision of interest subvention to the banks who are dispensing credit through KCC system, provision of incentives by way of interest rebate to KC card holders, who are prompt in repayment of the loans, extension of the benefits of the insurance programs implemented by the government to the holders of KCC, issue of RuPay credit cards to the KC card holders to enable them to carry out transactions for buying inputs, drawing cash from ATMs/PoS for their agricultural operations, etc.

Basic Savings Bank Deposit Accounts (BSSDA)

For furthering Financial Inclusion objectives, RBI had issued directives to commercial banks in November, 2005, to make available basic banking "no-frills" account with nil or low minimum balances and charges to offer a "Basic Savings Bank Deposit Account" (BSBDA) to all their customers.

- Total credits in such accounts should not exceed one lakh rupees in a year
- Maximum balance in the account should not exceed fifty thousand rupees at any point of time
- The total of debits by way of cash withdrawals and transfers will not exceed ten thousand rupees in a month
- Foreign remittances cannot be credited to small accounts, without completing normal KYC formalities
- Small accounts are valid for a period of 12 months, initially, which may be extended by another 12 months, if the person provides proof of having applied for an officially valid document .

Role of Information And Communication Technologies In Rural Banking

- **Electronic banking** refers to the use of technology which allows customer to access banking services electronically, whether it is to pay bills, transfer funds, view account or to obtain information and technology and advices.
- Other notable innovations taken place in the banking sector of India are introduction of **CBS, CTS, ECS, RTGS, EFT, NEFT, Debit & Credit Cards, Internet Banking, mobile banking**.
- Digital India program of GOI has given further push for taking technology to the rural India. Taking cue out of this, **ICICI bank, adopted village 'Akodara**,' a tiny village situated in the Sabarkantha district of Gujarat. The first digital village of the country. Bank has launched its own 'digital village' project, to provide services ranging from cashless banking to digitized school teaching.

Banks have introduced many innovative technology -driven products to meet the changing demands of their customers.

- **HDFC bank** has leveraged the popularity of wearable devices in the country and has launched **'watch banking'** with its Apple watch. The bank will provide all its banking services through all wearable devices across platforms like iOS and Android.
- **Axis bank** has launched a **multi-social payment app** across social platforms, such as Facebook, Twitter, WhatsApp, SMS or email. The app allows sending and receiving money without asking for bank details. The user just has to use the '#PingPayKaro', in order to make a transaction.
- **IndusInd Bank** has launched **facetime**, wherein a customer can speak to his manager directly through video conferencing.

- Use of **Block Chain solutions – Emirates NBD and ICICI Bank** partnership to launch a blockchain pilot network for international remittances and trade finance is a precursor for advances in this technology.

Initiatives of RBI

- RBI has played a very pivotal role in developing the payment market infrastructure and facilitating use of technology in the banking sector, by setting up institutions like the **IDRBT, NPCI, CCIL**, etc. Currently, these institutions provide the platform for running mission-critical and secured payment system applications like **RTGS, Secured Financial Messaging System, Negotiated Dealing Settlement System, etc.**
- GOI has taken several steps to tackle the menace of cyberattacks and important institutional arrangements have been made. **Indian Computer Emergence Response Team (CERT-In)** monitors Indian cyberspace and coordinates alerts and warning of imminent attacks and detection of malicious attacks among public and private cyber users and organizations in the country.

Prepaid Payment Instruments

Prepaid Payment Instruments (PPIs) are payment instruments that facilitate purchase of goods and services, including financial services, remittance facilities, etc., against the value stored on such instruments.

- **Closed System Prepaid Payment Instruments:** These are PPIs issued by an entity, including individuals, proprietorship firms, partnership firms, etc., for facilitating the purchase of goods and services from that entity only. These instruments do not permit cash withdrawal or redemption.
- **Semi-Closed System Prepaid Payment Instruments:** These are PPIs which can be used for purchase of goods and services, including financial services, remittance facilities, etc., at a group of clearly identified merchant locations/establishments which have a specific contract with the issuer to accept the PPIs as payment instrument. These instruments do not permit cash withdrawal, irrespective of whether they are issued by bank or non-bank PPI Issuers.
- **Open System Prepaid Payment Instruments:** These are PPIs which shall be only issued by banks, can be used for purchase of goods and services, including financial services, remittance facilities, etc. at any merchant locations. Banks issuing such PPIs shall also facilitate cash withdrawal at ATMs/BCs.

NABARD's Role in Financial Inclusion

NABARD is adopting a differentiated strategy for focused Financial Inclusion Fund (FIF) interventions, to address regional inadequacies and to bring about inclusive and equitable financial inclusion across the country.

The standard scheme operated by NABARD under the auspices of FIF are as under:

- **Financial Literacy Programs:** Financial and Digital Literacy Camps by branches of banks
- **Banking Technology Adoption:** (i) Deployment of micro- ATMs (ii) POS/mPOS Deployment in Tier 3 to 6 centres (iii) Dual Authentication facility at BC Point (iv) On–boarding to BHIM UPI (v) On-boarding to PFMS Platform
- **Regulatory Infrastructure Support:** (i) Membership of AUA/KUA (ii) onboarding to CKYCR
- **Support for Connectivity and Power Infrastructure**

Rural Insurance And Micro Insurance

Crop Insurance Scheme – Pradhan Mantri Fasal Bima Yojana:

The scheme was launched from Kharif 2016, after effecting modifications in the previously implemented crop insurance scheme. The objectives of the scheme are

- Providing financial support to farmers suffering crop loss/damage arising out of unforeseen events
- Stabilizing the income of farmers to ensure their continuance in farming
- Encouraging farmers to adopt innovative and modern agricultural practices
- Ensuring credit worthiness of the farmers
- crop diversification and enhancing growth and competitiveness of agriculture sector protecting the farmers from production risks.

Uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops. In case of annual commercial and horticultural crops, the premium to be paid by farmers will be only 5%.

Micro Insurance

- Micro Insurance is defined as "the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved".
- Micro insurance can be an effective tool to help eliminate poverty from the country. It is an opportunity for the insurers and other market participants to expand by tapping into new market segments and support insurance growth of the market.

Challenges in micro insurance:

- Lack of awareness among the people to go in for micro insurance products.
- Wrong selection of products, and poor infrastructure facilities leading to high administrative costs
- Lack of availability of data related to potential claims from properly designing good quality products by the insurers
- Farm labourers keep moving from one area to another area so portability of micro insurance product has become an issue
- Discontinuation of payment of the premium leading to the policy holders losing the benefit of the policy

- Delay in settlement of claims due to delay in submission of requisite documents such such as death certificates, nominee holders not having bank account for effecting settlements, etc.

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