CAIIB

Module-D Unit-1

Rural Banking

CAIIB Rural Banking Module D Unit 1-Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society

Improvement in availability of banking outlets

- The number of banking outlets has considerably increased with banks opening ATMs and the RBI permitting banks to establish the outlets of Business Correspondents. As per the data uploaded in Jan Dhan Darshak app, in relation to the record of the banking outlets mapped by the banks across the country, there are 1.66 lakh branches, 4.35 lakh BCs and 2.07 lakhs ATMs.
- PMJDY accounts with banks have grown three-fold from 14.72 crore in March, 2015 to 43.04 crore as on August, 2021. About 55 per cent of Jan Dhan account holders are women and about 67 per cent accounts are in rural and semi urban areas. The aggregate deposits under PMJDY accounts stood at 1.46 lakh core and the deposits in these accounts have increased 6.3 time over the six years period (i.e., between August, 2015 and August, 2021.

Areas Of Concern And Actions Pursued

Population Served

- To promote financial inclusion and to extend the banking network in unbanked areas, general permission has been granted by Reserve Bank of India (RBI) to domestic Scheduled Commercial Banks including Public Sector Banks (excluding Regional Rural Banks) to open branches at any place in the country, without seeking prior approval of RBI in each case, subject to at least 25 percent of the total number of branches opened during a financial year being opened in unbanked rural (Tier 5 and Tier 6) centers.
- RBI has also specified that the total number of branches opened in Tier 1 centers (population 100,000 and above) during the financial year cannot exceed the total number of branches opened in Tier 2 to Tier 6 centers (population up to 99,999) and all centers in the North Eastern States and Sikkim.

High Transaction Cost

- Commercial banks face high transaction cost in their rural branches. The real issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers, leading to some amount of uncertainty in the minds of the bankers and lack of security, for carrying cash in remote areas, etc.
- The ICT can play an important role by increasing effective access and improving delivery and governance in banking services. Bharat Interface for Money (BHIM) developed by National Payment Corporation of India (NPCI) enables fast, secure, reliable cashless payment, through the Mobile Phone. It is interoperable with other Unified Payment Interface applications. BHIM application is currently

available on Android. The BHIM-Aadhaar digital payment platform, is specially designed to suit the rural customers.

Cost of Credit:

- As regards cost of credit, for most of the period, the administered interest rate regime was applicable for bank lending and this included concessional terms for priority sector. Currently, all interest rates (except loans to weaker sections) on bank advances including in rural areas are deregulated.
- According to recent survey of NSSO, in the rural segment of India, about 34 per cent of all households have acquired credit from non-institutional sources, while the institutional or formal sources have advanced credit to 66 per cent of rural households.

The survey as well as other studies had highlighted the following issues:

- The credit-deposit ratio obtained across the states/regions revealed that despite the intermediation of banks, the ratio continues to be low, in the rural area.
- The all-in costs of credit from banks, after factoring in timeliness, transaction-costs and access, appear high for agriculture relative to private corporate sector,
- The performance of some of the public sector banks in rural and agricultural lending is also inadequate; the performance of most of the private and foreign banks is even lower that of the public sector banks, despite considerable expansion of the scope of priority sector lending by RBI.
- Credit-system in rural areas finds it difficult to cope with the rising demands of commercialized agriculture.
- Although there has been notable progress in micro finance, it is mostly confined to the states with fairly well-developed banking system. Further, the cost of credit, at around 20 to 30 per cent, also appears high.

Present Focus On Banking In Rural Areas

Present policies regarding rural banking are based on the Report of the **Committee on Financial Inclusion in India (Chairman Dr. C. Rangarajan),** 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost.

According to the Report, the overall strategy for building an inclusive financial sector should be based on:

- Effecting improvements within the existing formal credit delivery mechanism;
- Suggesting measures for improving credit absorption capacity, especially, amongst marginal and sub-marginal farmers and poor non-cultivator households;
- **E**volving new models for effective outreach; and
- **L**everaging on technology-based solutions.

- Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode **National Rural Financial Inclusion Plan (NRFIP),** with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012, and the remaining by 2015.
- The Committee has also recommended that the Government should constitute a **National Mission on Financial Inclusion (NaMFI)** comprising representatives of all stakeholders, for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

Inclusive Banking Activities

Strengthening of Institutional Mechanism

- RBI has set up **Financial Stability and Development Council (FSDC)**, which has an exclusive mandate for financial inclusion and financial literacy. A separate Technical Group on financial inclusion and financial literacy, under the Chairmanship of a Deputy Governor, has been set up under the aegis of FSDC.
- In order to spearhead efforts towards greater financial inclusion, RBI has constituted a **Financial Inclusion Advisory Committee (FIAC)** under the Chairmanship of Deputy Governor.

Revamping of Lead Bank Scheme

- A Committee of Executive Directors of the Reserve Bank was constituted to study the efficacy of the Lead Bank Scheme (LBS) and suggest measures for its improvement.
- A Steering Sub-committee of SLBC/ UT Level Bankers Committee (UTLBC) has been constituted in all the states/UTs. Action points pertaining to alignment of corporate business targets for branches, blocks, districts and states with an Annual Credit Plan (ACP), standardization of information/data, and management of data flow under the LBS are under various stages of implementation.

Assignment of Lead Bank Responsibility

- Under the LBS, one bank in each district is assigned the leadership role and acts as a consortium leader to co-ordinate the efforts of the banks in that district, particularly in matters such as branch expansion and credit planning to meet the credit needs of the district.

Financial Inclusion Plans (FIPs)

- In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans (FIPs).
- These FIPs capture banks' achievements on various parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts

(BSBDAs), overdraft facilities, KCCs and General Credit Card (GCC) accounts and transactions in ICT-BC accounts.

Penetration of Banking Services

- The use of information technology (IT) and intermediaries has made it possible to increase outreach, scale and depth of banking services at an affordable cost.
- SLBC convenor banks were advised that while opening new banking outlets in Unbanked Rural Centers (URCs) in tier 5 and 6 centers, banks should give priority to URCs having population above 5,000 (i.e., tier-5 centres).
- Further, SLBC convenor banks were advised to consider opening of a CBS enabled banking outlet or a part time banking outlet, in the villages with population less than 2,000 that still remain unbanked.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

- Financial inclusion in India has progressed substantially since the introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY). According to Financial Inclusion Insights (FII – 2015), while ownership of bank accounts has increased to about 2/3rd of all adults in India, active use has increased to about 40 percent.

Aadhaar-Enabled Unified Payment Infrastructure

- A Taskforce on an Aadhaar-Enabled Unified Payment Infrastructure recommended increasing commissions to BCs, in order to make them profitable. This profitability is highly dependent on the volume of transactions per BC, and one can model scenarios where a UBI (universal basic income) can lead to increased financial inclusion through an increased number of transactions.

New Banking Entities Permitted in the Financial Inclusion Space

- RBI has granted approval to eligible entities to set up differentiated banks namely “Small Finance Banks” (SFBs) and “Payments Banks” to further the cause of financial inclusion in the country.
- SFBs are expected to enhance the supply of credit to small business units, small and marginal farmers, micro and small industries and other entities in the unorganized sector. The Payment Banks are expected to provide cost-efficient remittance services in a secured technology driven environment.

Role of Payment System in Promoting Financial Inclusion

- Considering the strong linkage between financial inclusion and the payment systems, RBI has taken several steps. Some of these include encouraging use of Mobile Banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalization of the Aadhaar Bridge Payment System (ABPS) and Aadhaar-Enabled Payment system (AEPS), etc.

Financial Literacy Centres (FLCs) / Rural Self Employment Training Institutes

- Banks in India have been mandated to set up FLCs for extending financial literacy. RBI is encouraging banks to set up CFLs (Centres for Financial Literacy) at the block level, on a pilot basis.
- The **Rural Self Employment Training Institutes (RSETIs)** have been set up by various banks all over the country at the district level. The key objective of RSETI is "Short term training and long-term hand holding with assistance to credit linkage for trainees".

Direct Benefit Transfer and Aadhaar Seeding of accounts:

- An important driver for enhancing the demand side of financial inclusion is **Direct Benefit Transfer (DBT).**
- It has the potential to be game changer. If entitlements under various state sponsored schemes starts directly flowing into the bank accounts of individuals under DBT mode, it can act as a catalyst to encourage saving habit leading to build up of investment and seed capital for availing productive credit.

National Strategy for financial inclusion – Plan for 2019-2024

- National Strategy for Financial Inclusion 2019-2024 has been prepared, under the aegis of the Financial Inclusion Advisory Committee, based on the inputs and suggestions from the Government of India and other financial sector regulators.
- The strategy envisages to make formal financial services available, accessible, and affordable to all the citizens, in a safe and transparent manner, to support inclusive and resilient multi-stakeholder led growth.
- It proposes forward looking recommendations to help achieve universal access to financial services through a bouquet of basic financial services leveraging on the BC Model, access to livelihood and skills development, financial literacy and education, customer protection and grievance redressal with effective co-ordination.

Financial Inclusion Index developed by RBI

- RBI has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion across the country. The FI-Index has been conceptualized as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with Government and respective sectoral regulators.
- The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. The FI-Index comprises of three broad parameters (weights indicated in brackets) viz., Access (35%), Usage (45%), and Quality (20%) with each of these consisting of various dimensions. A unique feature of the Index is the Quality parameter which captures the quality aspect of financial inclusion as reflected by financial literacy, consumer protection, and inequalities and deficiencies in services.

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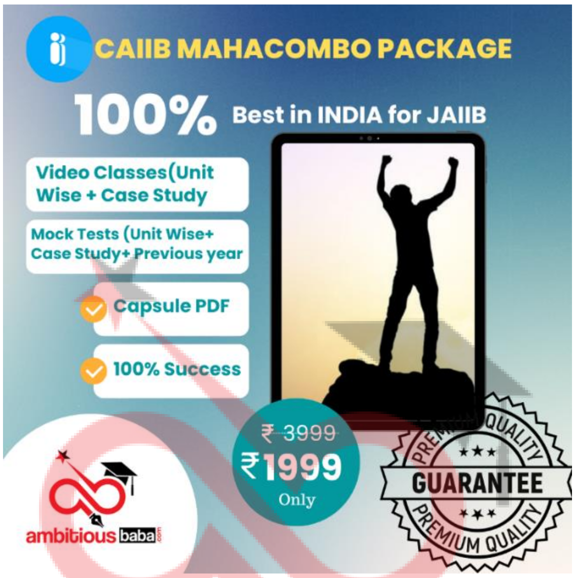

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