

RURAL BANKING IN INDIA: GROWTH AND PROSPECTS

¹Kouser Banu, Asst. Professor, Department of Commerce, Shri Sakthikailassh Womens College, Salem

²P.Epsiba, Asst. Professor, Department of Commerce, Shri Sakthikailassh Womens College, Salem

³S.Mythili, Asst. Professor, Department of Commerce, Shri Sakthikailassh Womens College, Salem

1. INTRODUCTION

Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in adequate supply of credit. The major source of credit to rural households, has been the informal sector. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services. Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity.

2. STATEMENT OF THE PROBLEM:

Rural banking are facing the problem of inadequate finance. They are dependent on NABARD to collect finance for their further operation. Poor rural people are unable to save anything due to poverty and low per capita income. The low level of saving of these customer create obstacle for RRB's to collect sufficient deposits. High overdues and poor recovery of loan is one of the biggest concern affecting the functioning of RRB's. Reasons being poor access of granting loan, insufficient and untrained staff, unproductive or less productive use of credit, inadequate production, poor marketing facilities and improper channel of recovery system. There is also a problem of regional imbalance in banking facilities provided by RRB's. They are creating this problem by concentrating their branches in some specific states and districts & loose other prospective group of customers. Many RRB's are suffering from the problem of heavy loans because of low repaying capacity of their customer, untrained staff, low level of deposits and heavy sanction of loan without checking the creditworthiness of their customers These banks have still not played a significant role in poverty alleviation of the country. Although various efforts have been made in this regard but lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, low awareness about savings have created many hurdles for banking.

THE OBJECTIVES OF THE STUDY:

- To provide cheap and liberal credit facilities to small and marginal farmers, agriculture labourers, artisans, small entrepreneurs and other weaker sections.
- To save the rural poor from the moneylenders.
- To act as a catalyst element and thereby accelerate the economic growth in the particular region

- To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
- To increase employment opportunities by encouraging trade and commerce in rural areas. To encourage entrepreneurship in rural areas.
- To cater to the needs of the backward areas which are not covered by the other efforts of the Government.
- To enhance banking and financing facilities in backward or unbanked areas
- To provide finance to co-operative societies, primary credit societies, Agricultural marketing societies. Enhance & Improve banking facilities to semi urban, rural and other untapped market.

3. RESEARCH METHODOLOGY

The research method of study explains the systematic way of findings to the predetermined objectives. Moreover this provides the clean path to accomplish and achieve clear solution for the problem stated. The following are the stages through which the research has passed to obtain the conclusions. This study was mainly done to identify the present level of buying behaviour and give suggestion to development of improvement of banking in selected study area. Limitations of the Study Every study has certain limitations, some of these are inherent in the research design, while some others become part of the study during various stages of research process.

DEFINITION

According to Clifford words “research defining and redefining problems formulating hypothesis or suggested solution, collecting, organizing and evaluating data making deduction and reaching conclusion to determine whether they fit the formulating hypothesis”.

RESEARCH DESIGN

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to research purpose with economy in procedure.

In this study descriptive type of research design has been used.

DESCRIPTIVE RESEARCH DESIGN

Descriptive research studies which are concerned with descriptive the characteristic of a particular concerned with the prediction with narration of facts and characteristics concerning individual group of situations are all example of descriptive research studies.

DATA COLLECTION

Primary data

Primary data are those which are collected a fresh and for the first time and thus happen to the original in character.

Secondary data

Secondary data are those which have been already collected and analyzed by some earlier researchers. Books, articles, internet and journal.

Convenient sampling

Accidental sampling (sometimes known as grab, convenience sampling or opportunity sampling) is a type of non-probability sampling that involves the sample being drawn from that part of the population that is close to hand. That is a sample population selected because it is readily available and convenient, as researchers are drawing on relationships or networks to which they have easy access.

Sampling size

150 customer are taken as sample size for this project

Sampling method

Convenient sampling method is used for this project.

4. REVIEW OF LITERATURE

Review of literature has vital relevance with any research work due to literature review the possibility of repetition of study can be eliminated and another dimension can be selected for the study. The literature review helps researcher to remove limitations of existing work or may assist to extend prevailing study.

Several research have been conducted to analyse the different aspects of performance of commercial banks in India and abroad. But there are very few research and literature available on the subject related to financial reforms and its impact on Indian banks. The available literature and research are divided into four major parts according to the area of research i.e literature related to

1. Review of Literature related to Performance Appraisal of Banks
2. Review of Literature related to Policy Framework and Recommendations for Banks
3. Review of Literature related to Impact of Reforms on Indian Banks
4. Review of Literature related to Service Quality of Indian Banks²

REVIEW RELATED TO DEVELOPMENT & PERFORMANCE MEASURES

Prashanta Athma (2000), in his Ph D research submitted at Usmania University Hyderabad, “Performance of Public Sector Banks

A Case Study of State Bank of Hyderabad, made an attempt to evaluate the performance of Public Sector Commercial Banks with special emphasis on State Bank of Hyderabad. The period of the study for evaluation of performance is from 1980 to 1993-94, a little more than a decade. In this study, Athma

outlined the Growth and Progress of Commercial Banking in India and. analyzed the trends in deposits, various components of profits of SBH, examined the trends in Asset structure, evaluated the level of customer satisfaction and compared the performance of SBH with other PSBs, Associate Banks of SBI and SBI. Statistical techniques like Ratios, Percentages, Compound Annual rate of growth and averages are computed for the purpose of meaningful comparison and analysis. The major findings of this study are that since nationalization, the progress of banking in India has been very impressive. All three types of Deposits have continuously grown during the study period, though the rate of growth was highest in fixed deposits. A comparison of SBH performance in respect of resource mobilization with other banks showed that the average growth of deposits of SBH is higher than any other bank group. Profits of SBH showed an increasing trend indicating a more than proportionate increase in spread than in burden. Finally, majority of the customers have given a very positive opinion about the various statements relating to counter service offered by SBH.

Zacharias Thomas(1997)Ph D Thesis, ‘Performance effectiveness of Nationalised Bank- A Case Study of Syndicate Bank’, submitted to Kochin University (1997),

Thesis studied the performance effectiveness of Nationalized Bank by taking Syndicate Bank as case study in his Ph.D thesis. Thomas has examined various aspects like growth and development of banking industry, achievements of Syndicate Bank in relation to capital adequacy, quality of assets, Profitability, Social Banking, Growth, Productivity, Customer Service and also made a comparative analysis of 'the performance 34 effectiveness of Syndicate Bank in relation to Nationalized bank. A period of ten years from 1984 to 1993-94 is taken for the study. This study is undertaken to review and analyze the performance effectiveness of Syndicate Bank and other Nationalized banks in India using an Economic ManagerialEfficiency Evaluation Model (EMEE Model) developed by researcher. Thomas in this study found that Syndicate Bank got 5th Position in Capital adequacy and quality of assets, 15th in Profitability, 14th Position in Social Banking, 8th in Growth, 7th in Productivity and 15th position in Customer Service among the nationalized banks. Further, he found that five nationalized banks showed low health performance, seven low priority performance and eleven low efficiency performance in comparison with Syndicate Bank.

Singh R (2003), in his paper Profitability management in banks under deregulate environment, IBA bulletin, No25,

It has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer noninterest income sources.

5.PROFILE OF RURAL BANKING IN INDIA.

History of Regional Rural Banks (RRBs):

The Regional Rural Banks were established on the recommendations of Narsimha Committee on Rural Credit. The committee was of the view that RRBs would be much better suited than the commercial banks or Co-Operative Banks in meeting the needs of rural areas. Considering the recommendations of the

committee the Government of India passed Regional Rural Banks Act 1976. After passing the Act within a year at least 25 RRBs were established in different parts of India.

The Regional Rural Banks were established with a view to develop such type of banking institutions which could function as a commercial organization in rural areas.

The Regional Rural Banks Act 1976 provide for incorporation, regulation and winding up Regional Rural Banks with a view to developing the rural economy by providing for the purpose of development of Agriculture, Trade, Commerce, Industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, Agricultural Labourers, Artisans and small entrepreneurs and for matters connected therewith and individuals thereto.

Area of Functioning of Regional Rural Banks:

The Regional Rural Banks are required to function within a limited area for which they are established. Usually the functional area of Each RRB is confined to a few districts of the state in which they are set up. The area of functioning of RRBs is decided by central government in consultation with NABARD and the Sponsor Banks by way of a notification issued in this regard.

It is therefore necessary for RRBs to establish their Head Office in central place of their notified area of functioning because they are also authorized to open their branches or appoint agency within their specified areas.

Sponsorship of Regional Rural Banks:

Each Regional Rural Bank is sponsored by a Public Sector Bank. A sponsor bank in relation to a Regional Rural Bank is a Bank by which such a RRB is sponsored. It is duty of a sponsor bank to aid and assist the RRB sponsored by it.

A sponsor bank helps RRB by:

- a) Subscribing to the share capital.
- b) Training personnel of Regional Rural Bank.
- c) Providing managerial and financial assistance to RRB.

A sponsor bank provides such managerial (staff) and financial assistance during the first 5 years of its functioning. The central government may, either on its own motion or on the recommendations of NABARD extend such period of 5 years for such further period(not exceeding 5 years at a time) as may be deemed fit.

The authorized capital of Regional Rural Banks is Rs. 5 crores which is contributed by Central Government, State Government and the Sponsor Bank in ration of 50:15:35.

Functions of Regional Rural Banks:

All the Regional Rural Banks are authorized to carry on to transact the business of a banking as defined in the Banking Regulation Act 1949. RRBs grant loans to small and marginal farmers, Agricultural labourers, Co-operative societies and to individuals including artisans, small entrepreneurs and persons of small means.

In brief RRBs do all such functions as are done by domestic banks like accepting deposits from public, providing credit, remittance services etc. They can also invest in Government securities and deposit schemes of Banks and Financial Institutions.

Regional Rural Banks may also seek refinance facilities provided by NABARD for the loans sanctioned and disbursed by them.

All the RRBs are covered under DICGC scheme and they are also required to observe the RBI stipulations for Cash Reserve Ratio and Statutory Liquidity Ratio.

The Reserve bank of India has brought all the RRBs under the ambit of Priority Sector lending w.e.f April 1997. Like all other commercial banks RRB are bound to provide 40% of their Net Bank Credit to Priority Sector. Out of which 25% of PS advances or 10 % of Net Bank Credit is to be given to weaker sectors.

CONCLUSION

Banking should not confine their operations only in agriculture sector but also provides benefits to small entrepreneurs, village and cottage industries and small farmers. And they should establish proper co-ordination with other institutional financing agencies, co-operative banks, commercial banks and local participants to enhance their capability and exploit untapped rural market. Rural banks need to remove lack of transparency in their operation which lead to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities due to underdeveloped transport and communication facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

REFERENCES

- [1] Sundaram and Varshney -Banking and Financial System — Sultan Chand and Sons – 2005. [2] Mithani and Gordon- Banking and Financial System - –Himalaya Publishing House – 2005.
- [3] Dr.Shubra Gupta -Rural financing (Role of RRBs) — Kurukshetra , June, 2011
- [4] Dept. of Financial Services, Ministry of finance, GOI report on RRBs as on 31st March, 2011
- [5] Das, U.R. (1998) “Performances and Prospects of RRBs”, Banking Finance November.
- [6] Bose, S. (2005) Regional Rural Banks: The Past and the Present Debate

[7] Kannan, R. (2004), Regional Rural Banks

[8] Velayudham, T. K., and Sankaranarayanan, V. (1990) “Regional Rural Banks and Rural Credit: Some Issues”, Economic and Political Weekly, September 22, pp.2157-2164.

[9] NABARD: Reports

[10] RBI, Monthly Bulletins, Various issues