

Chapter 10

Rural Outreach for Banks: Challenges and Possible Solutions

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ABSTRACT

The intention of this chapter was to explore the reasons as to why the poor in Indian cities shun banking services. On the basis of a survey of 25 low-income daily wage earners, it was noted that although there is awareness about banks, strict ID card requirements and corruption are the major explanations of this sociological happening. Further, in this chapter, the authors have tried to document the steps taken by the Serva UP Gramin Bank to address this issue. Finally, based on the results of a research survey and field visits to the Serva UP Gramin Bank, recommendations of encouraging private banks to compete in the rural market and increasing the reach of the bank branches have been enumerated.

OBJECTIVE

Low-income villagers often leave their homes for the cities to earn a better living. However, once they earn money, they rarely use the services of the bank to remit the amount to their villages. In fact, most of them hardly have any bank accounts. The objective of this project was to explore this social phenomenon and to identify the reasons as to why these individuals fail to have a bank account or use bank remittance services. Additionally, the role of the banking sector in addressing these concerns was also examined. Based on this primary research, recommendations have been suggested so that the banks can better serve the underprivileged society.

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CASE DESCRIPTION

Technology has become so dramatically revolutionary that one can transfer money from one part of the world to the other through a click on the computer. Today, banks have record low processing transaction times that make banking services more efficient. However, it seems that rural India and people of the low-income category have eschewed modern-age banking facilities.

An interesting sociological phenomenon exists in this country, which sets the background for this case. Men from near and distant villages move to the cities in search of work often leaving their families behind. These men belong to the low-income segment earning around Rs. 50/- per day. They earn in the cities and take their compensation back to the villages or pass the amount through a friend/relative travelling that route. Nevertheless, these men hardly have any bank accounts or use the services of a bank to remit the money. At times, it seems counterintuitive to reject the services of a financial firm. The organized banks provide a great deal of security to the funds and transfer the money instantaneously. However, the reasons that were found for such an action were mostly “structural” in nature.

LITERATURE REVIEW

In recent times, the banking sector in India has experienced phenomenal growth in terms of geographical reach and credit disbursal. However, penetration into the hinterlands of rural India is still, largely missing (Christabell & Vimal, 2012). As a result, especially for the rural poor, core banking services, such as, credit facility and amenities for deposits and withdrawals of money are absent. According to All Indian Debt Investment Survey in 2002 (Christabell & Vimal, 2012), nearly 111.5 million households did not have access to bank credit. Additionally, 17 million household owed money to moneylenders. As per 2011 census, 58.7% of households were availing banking services at that time (Bhaskar, 2013). Further, in 2013, CRISIL published its own financial inclusion index called “Inclusix” (Bhaskar, 2013). This index took into account three vital parameters: (a) Branch penetration (b) Credit Penetration and (c) Deposit Penetration. For 2011, the score of Inclusix was 40.1 (on a scale of 100) (Bhaskar, 2013), suggesting enormous room for improvement. With a view of making financial services available to all sections of the society, the Indian government has taken steps towards “Financial Inclusion” of the entire country. These steps may be viewed in the following three phases (Memdani & Rajyalakshmi, 2013):

- *First Phase (1969-1991)*: This phase included the period of nationalizing banks in India. This was done with a view of providing financial services to all society strata. Primarily, the following strategies were incorporated as a step towards financial inclusion: Lead Bank Scheme, Priority Sector Lending Norms, and Interest Rate Caps for poor clients.
- *Second Phase (2005-2006)*: Although nationalization fell out of favor, RBI (The Reserve Bank of India) issued a policy circular in 2006 urging banks to form strategies with a view of achieving financial inclusion. Further, RBI advised banks to start No Frills Account for the rural poor and provide for easier and transparent KYC norms.
- *Third Phase (Rangrajan Committee)*: The Rangrajan Committee suggested the development of a National Rural Financial Inclusion Plan, whose aim would be to provide financial services and products to approximately 50% of the rural Indian population. This committee also proposed that

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