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1. Financial Inclusion and Rural Banking

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Abstract:

There have been consistent developments in rural India in recent years, with the highest digital usage for financial objectives, which naturally increases internet and cell penetration among the rural population. In the past, Indian economy was mostly driven by cash, but as time goes on, the state's agrarian economy is changing significantly. In rural India, employment and earnings are becoming more diverse. Currently, two thirds of agricultural revenue originate from the non-agricultural sector. The remarkable emergence of the rural digital citizen is symbolized by the expansion of digital financial services. The government of India has launched a number of programs, such as UPI and JAM (Jan-Dhan-Aadhar-Mobile), and the digital push is a fresh initiative to improve access to banking and financial services in rural areas. The major objective of the paper is to draw attention to the advantages of digital financial services and the difficulties that rural India faces

Keywords:

Digital, Financial Inclusion, Rural Banking, Banking Services, Social Factors.

1.1 Introduction:

Since there are still economic disparities in society, financial inclusion has gained attention as a significant area of study. Of course, there are a number of causes for this, including cultural differences and illiteracy. For instance, a large portion of available money is spent on alcohol in a male-dominated culture with other divisions such as caste, religion, and residential area (rural vs. urban), especially among the impoverished. This is a significant issue. Then there are natural disasters that impact everyone on the planet.

Then there's the agricultural industry, where workers receive pitiful wages and farmer suicides are a regular occurrence throughout India. Financial inclusion is also indirectly impacted by challenges with state and central funding for disaster relief. Increasing credit availability to all societal groups is not the only way to achieve financial inclusion. It necessitates a comprehensive strategy, which means looking at things from a more historical angle rather than from the vantage point of an armchair critic.

Financial inclusion relates, as is known, to ensuring 5A's i.e Adequacy of Norms, (ii) Availability Of Wide Range Of Products, (iii) Accessibility By Customers, (iv) Awareness About Products Offered By The Banks And (v) Affordability of Finance.

Rural regions have benefited greatly from the digital empowerment that banking correspondents have provided throughout the years. They are essentially the bank's representatives that offer financial services outside of the actual boundaries of real bank offices. Additionally, banks have pushed for phone number connection and Aadhaar.

Put simply, Banking Correspondents (BCs) use of digital tools makes it possible for rural residents to access and learn about the digital financial ecosystem. Working with Banking Correspondents (BCs) to increase digital financial awareness and involvement at the grassroots level, Digital Empowerment has been doing so since 2017. The major objective of the paper is to draw attention to the advantages of digital financial services and the difficulties that rural India faces.

1.2 Benefits of Rural Banking and Financial Inclusion:

Saving Time, Distance and Money: Our lives have gotten easier and simpler with the advent of digital technologies and their perks. It has been discovered that the average rural resident can profit greatly from digital banking and financial services. Rural residents benefited greatly from having access to digital financial and banking services during the pandemic and lockdown, when travel to distant locations was nearly impossible. The ease and convenience of transactions made possible by digital banking and payment systems was underlined by all BCs.

Additionally, there are sporadic ATMs. In addition to offering ATMs, every BC stated that although they mostly rely on online transactions, they do prefer to take out money from these machines. It is now simpler for people like him to handle all of their financial activities because to the availability of AEPS, or the Aadhaar Enabled Payment System.

No Cash, No Theft: In rural India, there is a generalized fear of stealing. Theft can take many different forms, such as leaving significant sums of cash on one's person while shopping or hiding money at home.

Nonetheless, the availability of online digital financial services such as ATMs, debit cards with double security and convenience guaranteed, and the SBI App enables a person to take out cash when needed on rare occasions. To safeguard access to cash from one's account, the app requires a self-created PIN and an OTP produced at the time of withdrawal.

Convenience to Access 24X7: People with digital access can access their money anywhere, at any time, even on bank holidays. It's simpler to pay precise quantities with digital payments and not have to worry about currency fluctuations. This option makes it simple for someone to buy items at the market, even if they forgot to bring cash or had to make an urgent purchase.

Making Budgeting Easier: It has been said that using a phone to monitor all transactions and create a cost budget is simple. Bank statements are easily accessible through net banking. Even digital payment apps facilitate account viewing and are linked to accounts. Every household can handle their own finances more easily and promote digital financial citizenship with a phone.

Universalization Access to Finance: Camps now have more access to digital financial services thanks to awareness- and digital financial literacy-raising initiatives. In a similar vein, all men residing in rural areas make use of digital financial services, either independently or via the BCs in each state. As education levels rise, more young women who own their own companies work jobs, or have graduated are aware of the benefits of using online banking. Many BCs—including women—focus especially on empowering their village's women through education and training so they can be financially and digitally independent.

Ease of accessibility by the Elders: One more barrier that digital access to financial services has surpassed is age. While many young people use digital platforms with enthusiasm, elderly people can simply access their pension without physically traveling to distant banks. Additionally, they no longer need lengthy and intricate forms to be filled out. In a similar vein, some states provide for home visits by senior residents and women who are unable to leave their homes in order to facilitate their access. Seniors and even those with lesser literacy skills find it easier to access fingerprint machines for cash withdrawals.

Enabling Businesses and Entrepreneurs: Digital payments facilitate transactions and make it simpler for business owners to get payments on time. The majority of businesspeople go to BCs in order to deposit, withdraw, or transfer bigger sums of money to their vendors. In addition, a lot of female business owners who manage tailoring shops, dairy businesses, or Kirana stores employ digital technologies to enhance their operations.

1.3 Challenges Faced in Rural Banking and Financial Inclusion:

Poor Grievances Redressal Mechanism: It has been observed that when people file complaints online, bank employees occasionally don't respond to their complaints. Not only do these people shy away from banking establishments due to the extremely impolite staff members.

Fraudulent and Victims of Fraud: A surge in online fraud incidents has coincided with the growing use of digital payments. Users who are naive and typically ignorant provide sketchy information to criminals posing as bank personnel. They completely empty the victim's bank accounts or take out substantial sums of money. Most people are cautious of technology, and these kinds of incidents only serve to further erode public trust.

Gendered Use of Digital Financial Services: Very few women use digital services; men use them the most. Numerous studies have revealed that educated, recent graduates, and working women made up a significant portion of digital users, a finding that might be directly linked to the increased percentage of girls completing higher education. However, elderly women—must be 45 years of age or older—rarely use phones. When a woman opens a bank account, her husbands typically manage it because their numbers are linked to the account. Because of patriarchal traditions, women's access to digital infrastructure and services is sometimes hampered by men's family power and financial status.

Sustaining a Banking Correspondent: For many banking correspondents, running their own business can be challenging.

To ensure a consistent income, some have diversified by taking on additional projects or adding supplementary services.

Some banking correspondents struggle to function because they cannot afford the necessary business supplies, such as a portable laptop or scanner.

Customers occasionally deposit funds into BC's personal account, and BC subsequently transfers the funds online on their behalf.

Infrastructure and Connectivity: Many rural areas lack proper infrastructure, including roads and telecommunication networks. This can make it difficult for financial institutions to establish branches and provide reliable connectivity for online banking services.

Low Literacy Levels: In many rural areas, there may be lower levels of literacy and financial awareness. This can hinder the adoption of financial products and services as people may not fully understand the benefits or how to use them.

Limited Access to Banking Services: The physical distance between rural areas and banking institutions can be a significant barrier. Lack of access to banking facilities and ATMs may discourage people from using formal financial services.

Income Disparities: Rural areas often face income disparities, and a significant portion of the population may rely on agriculture, which can be seasonal. Irregular income streams can make it challenging for individuals to engage in regular financial activities.

Limited Collateral: In rural settings, people may have limited assets that can be used as collateral for loans. This lack of collateral can restrict access to credit for individuals and businesses in rural areas.

Technological Barriers: While technology can be a solution, it can also be a challenge in rural areas. Lack of technological infrastructure, electricity, and digital literacy can limit the adoption of online banking and mobile financial services.

Risk Perception: Financial institutions may perceive rural areas as higher risk due to factors such as agricultural dependency, weather-related risks, and lack of credit history. This perception can result in limited financial services being offered to rural customers.

Regulatory Challenges: Regulatory frameworks may not always be conducive to promoting financial inclusion. Regulatory barriers can limit the ability of financial institutions to reach underserved rural populations.

Cultural and Social Factors: In rural areas, the acceptance and uptake of formal financial services may be influenced by social conventions and cultural standards.

Comprehending and tackling these variables is essential for the accomplishment of financial inclusion programs.

Natural Disasters: Natural disasters frequently have a greater potential to disrupt economic activity and jeopardize the financial security of both individuals and businesses in rural areas. Rural areas are often more vulnerable to natural disasters, which can lead to disruptions in economic activities and affect the financial stability of individuals and businesses.

1.4 Conclusion:

In order to effectively promote rural banking and financial inclusion, solutions that cater to the unique requirements and conditions of rural communities must be developed, taking into account these challenges. To overcome these obstacles and advance inclusive financial systems in rural areas, cooperation between governments, financial institutions, and other stakeholders is crucial.

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