

STUDY ON DIGITALIZATION OF BANKING IN RURAL INDIA: ISSUES AND CHALLENGES

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ABSTRACT

The term called "Digitalization" governs the modern world in which we work. The Government of India has recently announced the Digital India Program with the vision of transforming India into an information economy and a digitally empowered society. All sectors of the economy have played a major role in the concept of digitalization, and the banking sector is no exception. Digitalization has become critical for the Indian banking sector, which plays a major role in fostering financial inclusion and which is primarily concerned with providing customers with better services and opportunities to earn more in the near future. In recent years, the Indian banking sector has achieved tremendous growth, fostering a higher level of capital creation due to the digitalization of banking. While the Indian banking sector is moving towards digitalization, different issues and challenges need to be addressed, especially in rural banking. This conceptual research paper is an attempt to examine and gain a new perspective on the issues and challenges in the field of digitization of rural banking.

Keywords: Digitalization, Rural Banking, India, Growth, Issues.

Introduction

Digitalization fills the modern world; the banking industry is no exception to it. Digitalization, without which we believe that the world is nothing, has become an integral part of our lives. Digitalization plays a leading role in the fast-moving world. For development, most sectors of the economy rely on digitalization, and the banking sector is no exception. Compared to those countries that are lagging behind in embracing digitalization, the countries that respond to it quickly perform exceptionally well.

Because of the financial assistance it offers for other sectors and thus facilitates the formation of capital, the banking sector is known as the growth sector of all other sectors. Though India is one of the world's fastest growing countries, it is lagging behind in introducing digitalization to the banking industry. It is true that banking digitalization would bring economic revolution; there is a need to take some important steps toward rural banking digitalization. According to the study jointly conducted by the Associated Chambers of Commerce & Industry of India and Ernst and Young India (ASSOCHAM-EY) report on 24 July 2017, 19 percent of the population remains unbanked even after the introduction of Jan DhanYojna by the central government. Digitalization plays an important role in delivering improved services to those areas where financial inclusion is not present. This conceptual paper highlights the numerous problems and challenges involved in introducing rural banking digitalization.

Review of Literature

Malecki (2003) the author addressed the shortcomings of rural America's digital revolution. The increasing use of digital technology is the need for the hour, but the majority of rural America still does not have the same equipment. The main explanation for this kind of backwardness is due to human capital shortages. A larger portion of the working population base has moved its base from rural areas to urban areas because of better revenue generation opportunities. The ultimate outcome is downward growth in economic activity.

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Yang etal (2005) through this text, the authors built a case study approach to see the operational effectiveness of small community banks. Community banking is a mechanism serving a particular geographical region. Business prospects for this form of banking system are minimal. The banks' members are often the leaders of the village in which the bank is based. Because of slow operations and profitability, they are able to support local awareness and needs.

Mukherjee (2011) the author discussed the role of information and communication technology in the rural sector in bringing about growth. Growth and development are being pursued by rural-dominated economies. New age innovations are helping the economy by delivering value-added services at an affordable cost to achieve the desired outcome. Due to the changing nature of customer demand, the progress of the sector may become more favorable. In each and every field of society, ICT has started to play an important role.

Sharma (2012) The author explains the need in rural areas for internet banking. Rural people are strongly dominated by the Indian economy. There are around 6 lakh villages in the country, with 70% of the population still living in rural areas. Because of the complex existence of the rural economy and its livelihoods, serving this large population base is not a simple job. It is necessary to provide services which, with the aid of the current banking system, conventional banking institutions might not be able to provide. There is also a need to establish an alternative service solely for the rural poor.

Akinola (2012) the paper discusses the protection and reliability of the cashless culture. It is a fact that cashless society has many benefits because, on the one hand, it will lead to a reduction in corruption, crimes, and, on the other hand, it would be able to significantly increase government revenue. By implementing such rules and regulations, the government may compel the cashless system to be enforced, but it may fail if the service users are not in a position to understand the potential benefits. Customers also perceive that there could be a range of security risks that could lead to money losses.

Deshpandeetal (2015) in developing rural villages, the authors describe the role of ICT. A country's economic development is wholly dependent on the growth of both urban and rural areas. A higher growth concentration in urban areas would not be able to meet the growth goal. As a consequence, the nation will shift in a backward direction.

Dhanrajetal (2016) the authors tried to explain the role played by regional rural banks (RRBs) in shaping the rural economy and the structure of rural credit. In the year 1975, the RRBs were developed to form the rural economy by providing the needy segment with credit. Owing to their inability to access credit, these segments were excluded from formal banking systems. The capital requirements are intended specifically for small and marginal farmers, small-scale rural producers and workers.

Importance of Digitalization of Banking in Rural Area

Digitalization of rural banking is very helpful in financial inclusion and helps the economy to grow faster with the development of all other sectors. Some of the significances of digitalizing rural banking are:

- **Increases Efficiency:** digitalization of banking increases the efficiency in banking sector and enables smoother transactions.
- **Fast and furious:** digitalization will reduce the time of transaction and thereby encourages easy flow of funds compared to traditional banking.
- **Vast coverage:** digitalization of banking covers large number of people and has wide coverage.
- **Improves the quality:** Digitalization will improve the quality of service of the banking sector compared to traditional banking.
- **Less human error:** Digitalization of banking maintains proper records of transactions and thereby reduces the human error.
- **Environment friendly:** As digitalization of banking saves paper and trees it is more of environment friendly
- **Increases Investment:** Digitalization of banking leads to quick and easy access to various banking services and thereby increases the investment activities in the country.
- **Less cost:** Digitalization of banking reduces the cost of printing currency notes as there is no usage of hard cash and less cost in maintaining records as its available online.

Digital Banking Services

Some of the digital banking services are- National Electronic Fund Transfer, Real Time Gross Settlement, Debit and Credit Cards, Mobile Banking, Inter Bank Mobile Payment System, etc., National Electronic Fund Transfer, Real Time Gross Settlement, Mobile Banking, Inter Bank Mobile Payment System, etc. The implementation of these services in rural areas of India is not as easy from the perspective of banks as there are various problems and challenges that need to be tackled. Issues and challenges of rural banking digitalization in the introduction of rural banking digitalization, there are numerous issues and challenges:

- Compared to urban India, literacy rates in rural India are low: it is obvious that the use of digital banking services requires education. According to the survey report, 29% of the rural population lacks literacy, which is the biggest obstacle for rural banking in introducing digitalization. During the National Sample Survey (NSS) 71st Round, January to June 2014, carried out by the National Sample Survey Office (NSSO) under the Ministry of Statistics and Program Implementation, the specifics are part of a survey on 'Social Consumption: Education'.
- Lack of infrastructural facilities: rural banking digitalization includes the availability of infrastructural facilities; we mainly consider electricity and communication networks here. According to the World Bank Survey, nearly 96 percent of villages in India are electrified, but only 69 percent of homes have electricity connections.
- Less mobile users: the amount of people using smartphones in rural areas is far smaller, which is a significant impediment to the digitalization of rural banking.
- Lack of banking habits among rural people: because of a lack of banking knowledge and a lack of financial literacy, most people in rural areas do not have access to banking.
- Network problems in rural areas: internet networks are a challenge where there are less digital payments that need to be tackled in rural areas.
- Lack of financial literacy: There is far less financial literacy among rural people, so people are not aware of various types of payments.
- Cash economy: rural India relies primarily on cash to meet their daily needs than digital cash, as the transaction occurs primarily with the help of cash or barter type.
- Transaction rate: The volume of transactions in rural areas is much lower due to lower demand for commodities and low income levels.
- Customer resistance to emerging technologies: in the case of the use of technology, the rural population does not change as easily as the lack of knowledge of the use of digital banking services.
- Financial services costs: the expense of delivering financial services in rural areas is too high, due to the lack of infrastructure and the low volume of transactions in rural areas.

Objectives of this Study

- To analyze various issues and challenges in implementation of digitalization in rural banking.
- To analyze the factors influencing the Digitalization of rural banking- such as Communication networks, education, occupation, income, gender, socio-economic status.
- To analyze what needs to be done and what has been done in digitalization of rural banking.
- To analyze probable areas which need to be focused for implementing digitalization of rural banking and helping in making India a digital India.

Discussion

This conceptual paper mainly highlights the introduction of digital banking in rural India and the implementation of various problems and challenges that need to be addressed. The paper also highlights the importance of using digital banking services in rural areas, thereby contributing to the country's development. The demonetization that took place on 8 November 2016 is the best proof of the importance of digitalization in the banking sector, especially in rural India, which relies primarily on cash for the various types of transactions.

In developing countries, it is evident that digitalization plays a dominant role in a country's growth. For the growth of the nation and for financial inclusion, the digitalization of banking is very significant. The creation of capital is primarily based on people's savings and investment activities. Due to the lack of knowledge among rural people of digital banking services and the lack of necessary facilities

for the use of digital banking services, the saving rate is lower and the investment activity has also decreased due to lower saving habits, which is the key reason for rural India's backwardness. This conceptual paper would enable both banking sectors to take the required steps, such as raising people's awareness of the value of digital banking services, and growing financial literacy through various ways of raising rural people's awareness.

It is also helpful for governments to take the requisite steps to introduce digitalization for rural banking, such as the provision of adequate infrastructural facilities, in particular the development of communication networks, along with the electrification of rural areas, which is the key pillar of progress for rural banking digitalization in India.

In the case of the handling and use of technologies such as the simple internet or computer programs, the majority of rural people are not literate, so it is hard to educate and make them understand. There is therefore a greater need to raise consciousness among students of rural India's future. The banking sector must reach out to schools and colleges where it can be easily understood by students and communicated to their family members, such as paying electricity bills, transferring funds and various forms of online payments and thus helping to implement rural banking digitalization.

Conclusion

We can bridge the gap between rural and urban areas with the introduction of digitalization for rural banking, as it encourages higher levels of investment activities. Digitalization helps to preserve transaction records that the customer and banker can easily access. It is also beneficial for the government to introduce different plans and reach out to individuals, the best example of which is DBT (Direct Benefit Transfer) via bank accounts, which reduces the leakage of government funds. Digitalization helps to bring India into the world's corruption-free nation and also helps to fight money laundering and collect taxes properly.

There are enormous chances that the cashless economy in India will become a rural economy. Another way is to build awareness among rural people about digital transactions and financial literacy through collaborations with various educational organizations and NGOs. Multilingual online payment systems, that is, mobile applications in regional languages, can also be provided to facilitate transactions.

However, digital payments can lead to new potential technologies, as well as to the promotion of digital payment dispensing in the rural sector in an upgraded state.

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