

## **A CONCEPTUAL STUDY ON DIGITALIZATION OF BANKING - ISSUES AND CHALLENGES IN RURAL INDIA**

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### **Abstract.**

The modern world in which we are living is dominated by the concept called “Digitalization”. The government of India recently announced Digital India Programme with a vision to transform India into a digitally empowered society and knowledge economy. The concept of digitalization has been playing major role in all sectors of the economy and banking sector is not exception to it. Digitalization has become decisive for Indian Banking sector, which plays major role in furthering financial inclusion and which is mainly concerned with providing better services to customers along with an opportunity to gain more in near future. Indian banking sector is achieving tremendous growth in recent years, encouraging higher amount of capital formation, which is because of digitalization of banking. Even though Indian banking sector is moving towards digitalization, there are various issues and challenges to be addressed, especially in rural banking. This conceptual research paper is an attempt made to analyze the issues and challenges in the area of Digitalization of Rural Banking and to gain a new perspective in that area.

**Keywords:** Digitalization, rural banking, India, growth, issues

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## 1. Introduction

The modern world is filled with digitalization; banking sector is not exception to it. Digitalization has become integral part of our life, without which we feel world is nothing. In the fast moving world digitalization is playing a prominent role. At most all the sectors of the economy depends on digitalization for their growth and banking sector is not exception to it. The countries which are easily adapting to it are performing exceptionally well compared to those countries which are lagging behind in adopting digitalization.

The banking sector which is called as the sector of development of all other sectors, because of the financial assistance it provides for other sectors and thereby encouraging capital formation. Even though India is one of the fastest developing countries in the world, it is lagging behind in the implementation of digitalization to banking sector. It is true that digitalization of banking will bring revolution in the economy; there is a need to take some important steps in digitalizing rural banking. Still 19% population remains unbanked even after the implementation of Jan Dhan Yojna by the central government according to the study conducted jointly by The Associated Chambers of Commerce & Industry of India and Ernst and young India (**ASSOCHAM-EY**) report 24<sup>th</sup> July 2017. Digitalization plays a major role in providing better services to those areas which are not there in financial inclusion. This conceptual paper highlights the various issues and challenges in implementing digitalization of rural banking.

### *1.1. Importance of Digitalization of rural banking*

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-

- i. Increases efficiency: digitalization of banking increases the efficiency in banking sector and enable smoother transactions.
- ii. Fast and furious: digitalization will reduces the time of transaction and thereby encourages easy flow of funds compared to traditional banking.
- iii. Vast coverage: digitalization of banking covers large number of people and has wide

coverage.

- iv. Improves the quality: Digitalization will improve the quality of service of the banking sector compared to traditional banking.
- v. Less human error: Digitalization of banking maintains proper records of transactions and thereby reduces the human error.
- vi. Environment friendly: As digitalization of banking saves paper and trees it is more of environment friendly
- vii. Increases Investment: Digitalization of banking leads to quick and easy access to various banking services and thereby increases the investment activities in the country.
- viii. 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.

### *1.2. Digital Banking Services*

There are various digital banking services which are provided by the banks to its customers some of them are- National Electronic Fund Transfer, Real Time Gross Settlement, Debit and Credit Cards, Mobile Banking, Inter Bank Mobile Payment System etc., Implementing these services in rural areas of India are not that easy from banks perspective as there are various issues and challenges needed to be addressed.

#### ➤ *Issues and challenges in Digitalization of rural banking*

There are various issues and challenges in the implementation of digitalization to rural banking, they are:-

- i. **The literacy rate is low in rural India compared to urban India:** It is evident that usage of digital banking services needs the education. According to the Survey report 29% of rural population lack literacy, which is the greatest challenge in implementation of digitalization to rural banking. The details are part of a survey on 'Social Consumption: Education' during the National Sample Survey (NSS) 71st Round, January to June 2014, conducted by the National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation.
- ii. **Lack of infrastructural facilities:** Digitalization of rural banking requires the availability of Infrastructural facilities, here we are considering mainly the Electricity and communication

networks. Nearly 96% villages in India are electrified but only 69% of homes have electricity connections, according to the World Bank report.

- iii. **Less number of people using smart phones:** the number of people in rural area using smart phone is very less which is the big hindrance in implementation of digitalization of rural banking.
- iv. **Lack of banking habits among rural people:** majority of the people in rural area do not have access to banking because of the lack of banking awareness and lack of financial literacy.
- v. **Network issues in rural areas:** there is a problem of communication networks because of which there is lesser digital payments in rural areas which needs to be addressed.
- vi. **Lack of financial literacy:** the financial literacy among rural people is very less, because of which people are not aware of different kinds of making payments
- vii. **Cash economy:** rural India mainly depends on cash than digital cash to meet their daily need as the transaction happens mainly with help of cash or barter form.
- viii. **Volume of transaction:** the volume of transaction in rural area is very less because of lesser demand for the goods and low level of income.
- ix. **Customer resistance to new technology:** the rural people do not change so easily in the case of usage of technology, as lack of awareness on usage of digital banking services.
- x. **Cost of financial services:** the cost of providing financial service is too high in rural area because of lack of infrastructural facilities and low volume of transaction in rural area.

## 2. Objectives

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

**3. Discussion** This conceptual paper highlights mainly on the implementation of digital banking in rural India and various issues and challenges need to be faced in implementing. This paper

also stresses the importance of usage of digital banking services in rural area and thereby contributing to the growth of the country. Demonetization which happened on 8<sup>th</sup> November 2016 is the best evident of importance of digitalization in banking sector especially in rural India which mainly depended on cash for the different kinds of transactions. It is evident from the developed countries that digitalization plays a dominant role in the development of a country.

Digitalization of banking is very important for the development of the country and for financial inclusion. Capital formation depends mainly on the savings of the people and investment activities. Because of lack of awareness among rural people on the digital banking services and lack of required facilities for the usage of digital banking services the saving rate is less and because of lesser saving habits the investment activity also reduced which is the main reason for the backwardness of rural India.

This conceptual paper will be helpful for both banking sector in taking necessary measures like creating awareness among people on importance of digital banking services, increasing financial literacy through various modes of creating awareness among the rural people. It is also helpful for government in taking necessary measures for implementation of digitalization to rural banking like providing proper infrastructural facilities especially, building communication networks along with electrification of rural area, which is the main pillar of success for implementing digitalization to rural banking in India.

As the majority of the rural people are not literate in case of handling and usage of tools such as basic internet or computer programs, so it is difficult to teach and make them understand. So there is more need of creating awareness among the students who are the future of rural India. The banking sector must reach out to the schools and colleges where the students can understand it easily and convey it to their family members like making payment of electricity bills, transferring funds and different kinds of online payments and thereby helpful in implementing the digitalization to rural banking.

#### **4. Inference**

With the implementation of digitalization to rural banking we can bridge the gap between rural and urban area as it promotes higher level of investment activities. Digitalization helps in

maintaining the records of transactions which can be easily accessed by the customer and banker. It is also helpful for the government in implementing various plans and reaching out to the people, the best example for this is DBT(Direct Benefit Transfer) through bank accounts, which reduces the leakage of government funds. Digitalization is helpful in taking India towards corruption free country in the world and also help in anti-money laundering and proper collection of taxes.

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