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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

BANKING PENETRATION IN RURAL AREAS AND VILLAGES: TRENDS AND CHALLENGES

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ABSTRACT

Wealth in rural India is growing, which was not the case 7-10 years back. Financially remunerative farming and the real estate boom of the past decade has put many farmers in the league of at least rupee millionaires making them an attractive proposition for bankers. Rural banking in India plays a vital role in development of rural economy. The commercial banks, Regional Rural Banks are found in rural pockets of our country to help the rural people for their all round development. Rural banking is rightly called as an engine of rural growth. Therefore, there is need to develop a profitable model of rural banking. The overall position of Rural Banking in India is not quite encouraging. The banker offers almost everything from a plain savings product, to loans for businesses and wealth management advice to the rural population and creating new strategies to woo rural customers with deeper pockets for whom a State Bank of India was almost synonymous to banking as Life Insurance Corporation of India was for insurance. But do the villagers trust private banks? How does one break the strong affinity towards public sector banks? Since the rural banking is supposed to be a bank for poor people, it's presence in all the states of country especially in underdeveloped States can make things better. The government seems to be instrumental in spreading the branches of regional and rural banks at grass root level to provide such banking service to the really needy rural people. In this context, the purpose of this paper is to assess the level of banking penetration in rural areas and villages in the different states focusing on present position, emerging trends, and the challenges ahead in rural banking. The present paper is a qualitative analysis and secondary data was collected from various sources including journals, magzines, books and the internet.

KEYWORDS

Banking, Rural Banking, Microfinance, Rural Credit, RRBs, Rural Economy.

INTRODUCTION

The global financial crisis and the current Euro zone crisis have affected the banks in the advanced economies; the spillover is ricocheting on banks in emerging economies including India. Issues of financial stability, economic growth and managing inflation are the major challenges confronting regulators in advanced economies and are equally important for emerging economies like India. In recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. With greater liberalization, the financial system has come to play a much larger role in the allocation of resources than in the past and its role in future can be expected to be much larger than at present. The growing role of the financial sector in the allocation of resources has significant potential advantages for the efficiency with which our economy functions. Consequently, the adverse consequences of malfunction of the financial system are likely to be more severe than they used to be in the past. Hence, all our efforts today are focused at ensuring greater financial stability. Given the significance of the Indian banking system, one cannot afford to underplay the importance of a strong and resilient banking system for both the Urban and rural economies of the country. The great Indian rural story for long has been told by shampoo and motor cycle manufacturers, but bankers, especially the private ones, who always look for the big fish, have been lagging behind. Not anymore. It is not that the financial inclusion slogan of the regulator and the government that is leading lenders such as HDFC Bank and Kotak Mahindra into the Indian hinterland, but the sheer opportunity to make money. The banking group, which is renowned for taking the cream of the clientele, has found a new one - the rural rich. The confluence of affluence in rural India and saturating business with the urban rich, is forcing the banks to reach out to less privileged rural India. It is not only that, but also the possibility to convert the enormous savings that lie in physical assets, such as gold, into deposits that's luring an HDFC Bank, or an ICICI Bank.

REVIEW OF LITERATURE

The literature pertinent to rural banking in India is a little limited. The present paper is a qualitative analysis and secondary data was collected from various sources including journals, magazines, books and the internet. The literature obtained during the review relates to the reports of various committees, com missions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news etc.

RURAL BANKING SCENERIO IN INDIA

Financial inclusion is seen as one of the means for overall economic development of a country. The growth of the rural retail banking industry fosters financial inclusion by providing financial products and services to people in the farthest reaches of the country. In India, even now the rural areas lack access to basic financial services. However, the recent emergence of microfinance institutions (MFIs) and non-banking financial corporations (NBFCs) in this sector has led to a commendable growth in the industry.

The issue of rural retail banking is extremely topical. Over the past few decades, while urban retail banking has seen a lot of growth, rural areas have continued to suffer from insufficient access to financial services. The Rural Banks have been in existence for around 36 years in the Indian financial scene. The institution of Rural Banks and rural branches of commercial banks was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. The Banking Commission (1972) recommended establish an alternative institution for rural credit and ultimately Government of India established Regional Rural Banks as a separate institution basically for rural credit on the basis of the recommendations of the Working Group under the Chairmanship of Sh. M. Narashimham. In order to provide access to low - cost banking facilities to the poor, the Narashimham Working Group (1975) proposed the establishment of a new set of banks which could combine the local feel and the familiarity with rural problems, degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook etc.

RURAL RETAIL BANKING

Our study has tried to understand how the Indian rural retail banking industry (industry) will develop over the next decade. We aimed to identify the institutional environment of this industry in the coming decade as well as the activities that banks and other financial institutions (FIs) in India will need to invest in to realize the full potential of this market.

The Reserve Bank of India (RBI) had a mandate to promote rural credit and banking by virtue of the provisions of Section 54 of the RBI Act. Through the State Bank of India (SBI) Act in 1955, the SBI was made an important organisation for extending rural credit to supplement the efforts of cooperative institutions. These cooperative institutions, better known as primary agricultural credit societies (PACS) also provide other agricultural inputs to the farmers. The next step to supplement the efforts of cooperatives and commercial banks was the establishment of regional rural banks in 1975 in different states with equity participation from commercial banks, central and state governments. In 1982, to consolidate the various arrangements made by the RBI to promote/supervise institutions and channel credit to rural areas, the National Bank for Agricultural and Rural Development (NABARD) was established.

Currently, according to a series of estimates and market studies the number of rural bank branches is 31,727. This is 39.7% of the total number of bank branches in the country. The number of no-frill accounts is 28.23 million. There are only 54 savings accounts for every 100 persons in rural areas and only 26% of rural citizens with an annual income of less than Rs. 50000 have a bank account. In the same income bracket, only 13% farmers have ever availed of bank loans while 54% have used non-institutional and other forms of lending3. Thus, there is sufficient need for extending financial services to the rural areas. Exhibit 1 details the supply and demand side factors that challenge the growth of rural retail banking.

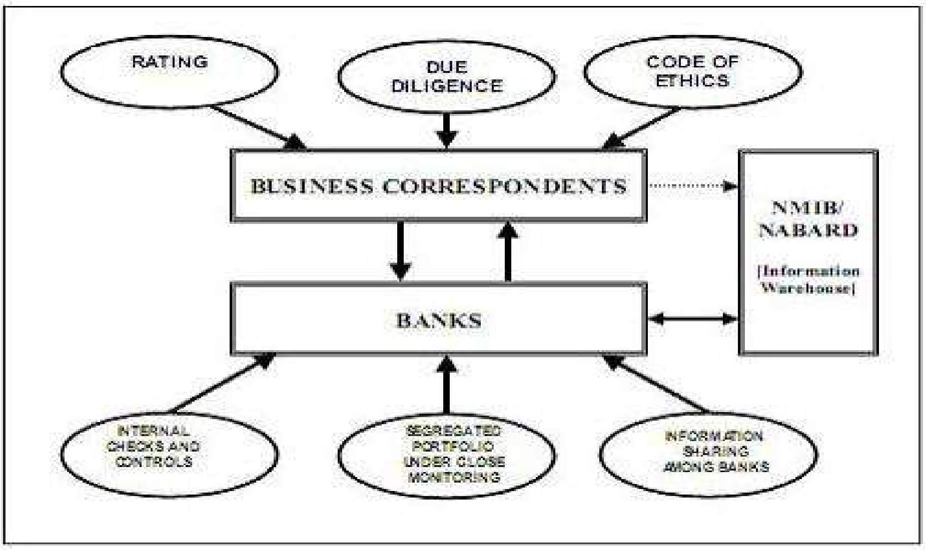
EXHIBIT 1: FACTORS INFLUENCING DEMAND AND SUPPLY IN THE RURAL RETAIL BANKING INDUSTRY

Supply Side Factors	Demand Side Factors
Persons are un-bankable according to bankers	High transaction costs for clients e.g. travel
Small loan amounts	Documentation
Long distance for services/branches	Lack of awareness
High transaction costs	Lack of social capital
Lack of collateral	Non-availability of special products
Information asymmetry	Convenience of informal lending
Human resource constraints	Prior rejection by formal banking system

A number of innovations and experiments have been initiated to bridge the gap between the rural population and the formal retail banking system.

- **Local area banks (LABs):** an initiative that attempted to mobilize rural savings by local institutions and make them available for investment locally. As of 2005, only four LABs were functioning in the country. The major handicap in their business model was the lack of a re-financing facility that hindered their ability to lend at better rates.
- **Self-help groups (SHGs):** with bank linkages was another indigenously developed banking model. Being a savings - first model, credit discipline is a norm of the group; besides joint liability and social collateral make such groups bankable in the eyes of bankers. The linkages are achieved through non-governmental organizations (NGOs) and other intermediaries, and this has formed the basis of the micro-finance movement in India. However, the absence of NGOs in states like Bihar, Uttar Pradesh and those in the north-east has been a stumbling block in spreading this model in these states.
- **NGO/MFI bulk-lending:** The alternative to the above model has been the NGO/MFI bulk-lending model where funds were placed at the disposal of NGOs or MFIs for lending to SHGs or other groups and even to individuals. However, this model was not able to scale-up due to the low capitalization of the NGO/MFIs and their inability to undertake financial intermediation. Also, this meant that the formal banks had a two-level exposure and this further reduced the potential for scaling-up.
- **Partnership model:** In the partnership model**,** the MFI evaluates, recommends, originates the loans, helps in disbursal and subsequently tracks and collects the loans. However, the loans sit on the books of the bank and not of the MFI. This model has overcome the constraints of capitalization of the MFI and the double exposure that the banks were subjected to.
- **Kisan Credit Card (KCC):** Other recent innovations include the Kisan Credit Card (KCC) that enables the farmer to get loans over a three to five year period as a revolving credit entitlement, thus, providing them control over their cash flows and reduced transaction costs for both the banks and the farmers. However, the biggest roadblock has been the creation of point of sale (POS) kiosks and acceptance of the cards.
- **Business facilitator/ business correspondent:** The business facilitator and the business correspondent models (Exhibit 2) have been other innovations in this field. Institutions or persons, who interface between the rural poor and banks, are leveraged to provide support services under well-defined terms and conditions by way of contractual arrangements. In the case of the business facilitator model, as per the law, these agencies provide basic support services such as customer identification, collection of information/applications, credit appraisal, marketing etc. Under the business correspondent model, specific agencies e.g. MFIs, NBFCs etc. also provide disbursal of small value credit as “pass through” agents for the parent bank.

EXHIBIT 2: BUSINESS CORRESPONDENT MODEL



PRESENT POSITION AND THE CHALLENGES AHEAD

The enhanced role of the banking sector in the Indian economy, the increasing levels of deregulation and the increasing levels of competition have placed numerous demands on banks. Operating in this demanding environment has exposed banks to various challenges.

i) **CUSTOMER SERVICE:** It is no longer adequate for banks to provide only traditional banking services. Apart from providing the conventional banking services, banks have begun offering a bouquet of financial services to their clients, including cross selling of financial products. The ultimate aim is to offer a one-stop-shop for meeting varied customers' financial needs. Some banks have begun employing customer relationship management systems to not only retain the existing customers but also to attract new customers. The establishment of new private sector banks and foreign banks has rapidly changed the competitive landscape in the Indian consumer banking industry and placed greater demands on banks to gear themselves up to meet the increasing needs of customers. For the discerning current day bank customers, it is not only relevant to offer a wide menu of services but also provide these in an increasingly efficient manner in terms of cost, time and convenience.

While banks are focusing on the methodologies of meeting the increasing demands placed on them, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector. While commercial considerations are no doubt important, banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis. Further, experience has shown that consumers' interests are at times not accorded full protection and their grievances are not properly attended to. Feedback received reveals recent trends of levying unreasonably high service/user charges and enhancement of user charges without proper and prior intimation. It is in this context that the Governor, Reserve Bank of India had mentioned in the Annual Policy Statement 2005-06 that RBI will take initiatives to encourage

- greater degree of financial inclusion in the country;
- setting up of a mechanism for ensuring fair treatment of consumers; and
- Effective redressal of customer grievances.

It would, therefore, be reasonable to expect banks to focus on the above aspects while designing their products for customers.

ii) **BRANCH BANKING:** Traditionally banks have been looking to expansion of their branch network to increase their business. Against this background it is interesting to observe that the new private sector banks as well as the foreign banks have been able to achieve business expansion through other means. It has been realized that it might not be necessary to establish a wider brick and mortar network to reach a wider population. Banks are, therefore, examining the potential benefits that may accrue by tapping the agency arrangement route and the outsourcing route. While proceeding in this direction banks ought not to lose sight of the new risks that they might be assuming and hence put in place appropriate strategies and systems for managing these new risks.

iii) **COMPETITION:** With the ever increasing pace and extent of globalisation of the Indian economy and the systematic opening up of the Indian banking system to global competition, banks need to equip themselves to operate in the increasingly competitive environment. This will make it imperative for banks to enhance their systems and procedures to international standards and also simultaneously fortify their financial positions.

iv) **TECHNOLOGY :** A few banks which have impressive branch networks have not been able to meet their customers' expectations due to inefficiencies arising out of inadequate investment in technology and consequently faced an erosion of their market shares. The beneficiaries are those banks which have invested in technology. Another distinct advantage of use of technology is the ability to effectively use quantitative techniques and models which can enhance the quality of their risk management systems. Recognising the benefits of modernising their technology infrastructure banks is taking the right initiatives. The challenge in this regard will be for banks to ensure that they derive maximum advantage out of their investments in technology and to avoid wasteful expenditure which might arise on account of

a. uncoordinated and piecemeal adoption of technology;
b. Adoption of inappropriate/ inconsistent technology and
c. Adoption of obsolete technology.

A case in point is the implementation of core banking solutions by some banks without assessing its scalability or adaptability to meet Basel II requirements.

v) **BASEL II IMPLEMENTATION:** As you are aware, Basel II is the revised framework for capital adequacy for banks. Implementation of Basel II is seen as one of the significant challenges facing the banking sector in many jurisdictions. With the introduction of capital charge for market risks with effect from the year ended March 31, 2005 banks in India are compliant with all elements of Basel I. I will now outline the approach to Basel II implementation in India. Commercial banks in India will start implementing Basel II with effect from March 31, 2007. They will initially adopt the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk. After adequate skills are developed, both by the banks and also by the supervisors, some banks may be allowed to migrate to the Internal Rating Based (IRB) Approach. Implementation of Basel II will require more capital for banks in India due to the fact that operational risk is not captured under Basel I, and the capital charge for market risk was not prescribed until recently. Though last year has not been a very good year for banks, they are exploring all avenues for meeting the capital requirements under Basel II. The cushion available in the system, which has a CRAR of over 12 per cent now, is, however, comforting. With a view to ensuring migration to Basel II in a non-disruptive manner, a consultative and participative approach has been adopted for both designing and implementing Basel II in India. A Steering Committee comprising senior officials from 14 banks (public, private and foreign) has been constituted wherein representation from the Indian Banks' Association and the RBI has also been ensured. The Steering Committee had formed sub-groups to address specific issues. On the basis of recommendations of the Steering Committee, draft guidelines to the banks on implementation of the New Capital Adequacy Framework have been issued. Though Basel II implementation is considered as a challenge generally, the above approach has lightened the burden on banks in India.

Notwithstanding the above, capacity building, both in banks and the regulatory bodies is a serious challenge, especially with regard to adoption of the advanced approaches. We have initiated supervisory capacity-building measures to identify the gaps and to assess as well as quantify the extent of additional capital which may be required to be maintained by such banks. The magnitude of this task appears daunting since we have as many as 90 scheduled commercial banks in India.

vi) **IMPROVING RISK MANAGEMENT SYSTEMS:** With the increasing degree of deregulation and exposure of banks to various types of risks, efficient risk management systems have become essential. As you are aware, as a step towards further enhancing and fine-tuning risk management systems in banks, Reserve Bank has issued guidelines on asset-liability management and risk management systems in banks in 1999 and Guidance Notes on Credit Risk Management and Market Risk Management in October 2002 and the Guidance Note on Operational risk management in 2005. Though Basel II focuses significantly on risks its implementation should not be seen as an end in itself. It should be seen as a medium whereby the risk management systems in banks are constantly upgraded to address the changing environment.

At the initial stages of development of the risk management systems, banks were managing each risk in isolation. The current business environment demands a more integrated approach to risk management. It is no longer sufficient to manage each risk independently or in functional silos. Enterprises worldwide are, therefore, now putting in place an integrated framework for risk management which is proactive, systematic and spans across the entire organisation. Banks in India are also moving from the individual silo system to an enterprise wide risk management system. This is placing greater demands on the risk management skills in banks and has brought to the forefront the need for capacity building. While the first milestone would be risk integration across the entity, banks are also aware of the desirability of risk aggregation across the group both in the specific risk areas as also across the risks. Banks would be required to allocate significant resources towards this objective over the next few years.

In the Reserve Bank, we have adopted the risk based approach to supervision since 2003 and have brought about 23 banks under the fold of risk based supervision (RBS) on a pilot basis. On the basis of the feedback received from the pilot project, the RBS framework has now been reviewed. The risk based approach to supervision is also serving as a catalyst to banks' migration to the integrated risk management systems. In view of the relevance of improved risk management systems under the changing circumstances and the larger emphasis placed on risk management systems in banks under Basel II, it is essential that the RBS stabilizes at an early date and serves as an important feedback not only to bank managements but also to RBI. However, taking into account the diversity in the Indian banking system, stabilizing the RBS as an effective supervisory mechanism will be a challenge to the RBI.

vii) **IMPLEMENTATION OF NEW ACCOUNTING STANDARDS:** Derivative activity in banks has been increasing at a brisk pace. While the risk management framework for derivative trading, which is a relatively new area for Indian banks (particularly in the more structured products), is an essential pre-requisite, the absence of clear accounting guidelines in this area is matter of significant concern. It is widely accepted that as the volume of transactions increases, which is happening in the Indian banking system, the need to upgrade the accounting framework needs no emphasis. The World Bank's ROSC on Accounting and Auditing in India has commented on the absence of an accounting standard which deals with recognition, measurement and disclosures pertaining to financial instruments. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) is considering issue of Accounting Standards on the above aspects pertaining to financial Instruments. These will be the Indian parallel to International Accounting Standards 32 and 39. The proposed Accounting Standards will be of considerable significance for financial entities and could therefore have implications for the financial sector. The formal introduction of these Accounting Standards by the ICAI is likely to take some time in view of the processes involved. In the meanwhile, the Reserve Bank is considering the need for banks and financial entities adopting the broad underlying principles of IAS 39. Since this is likely to give rise to some regulatory / prudential issues all relevant aspects are being comprehensively examined. The proposals in this regard would, as is normal, be discussed with the market participants before introduction. Adoption and implementation of these principles are likely to pose a great challenge to both the banks and the Reserve Bank.

viii) **TRANSPARENCY AND DISCLOSURES:** In pursuance of the Financial Sector Reforms introduced since 1991 and in order to bring about meaningful disclosure of the true financial position of banks to enable the users of financial statements to study and have a meaningful comparison of their positions, a series of measures were initiated. The disclosure requirements broadly covered the following aspects:

- Capital adequacy
- Asset quality
- Maturity distribution of select items of assets and liabilities
- Profitability
- Country risk exposure
- Risk exposures in derivatives
- Segment reporting
- Related Party disclosures

With a view to moving closer towards international best practices including International Accounting Standards (IAS) and the disclosure requirements under Pillar 3 of Basel II, Reserve Bank has proposed enhanced disclosures which lay a greater emphasis on disclosure of certain qualitative aspects. Transparency and disclosure standards are also recognised as important constituents of a sound corporate governance mechanism. Banks are required to formulate a formal disclosure policy approved by the Board of directors that addresses the bank's approach for determining what disclosures it will make and the internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency.

ix) **SUPERVISION OF FINANCIAL CONGLOMERATES:** In view of increased focus on empowering supervisors to undertake consolidated supervision of bank groups and since the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision have underscored consolidated supervision as an independent principle, the Reserve Bank had introduced, as an initial step, consolidated accounting and other quantitative methods to facilitate consolidated supervision. The components of consolidated supervision include, consolidated financial statements intended for public disclosure, consolidated prudential reports intended for supervisory assessment of risks and application of certain prudential regulations on group basis. In due course, consolidated supervision as introduced above would evolve to cover banks in mixed conglomerates, where the parent may be non-financial entities or parents may be financial entities coming under the jurisdiction of other regulators.

The financial landscape is increasingly witnessing entry of some of the bigger banks into other financial segments like merchant banking, insurance etc., which has made them financial conglomerates. Emergence of several new players with diversified presence across major segments and possibility of some of the non-banking institutions in the financial sector acquiring large enough proportions to have systemic impact make it imperative for supervision to be spread across various segments of the financial sector. In this direction, an inter-regulatory Working Group was constituted with members from RBI, SEBI and IRDA. The framework proposed by the Group will be complementary to the existing regulatory structure wherein the individual entities are regulated by the respective regulators and the identified financial conglomerates would be subjected to focussed regulatory oversight through a mechanism of inter-regulatory exchange of information. As a first step in this direction, an inter-agency Working Group on Financial Conglomerates (FC) comprising the above three supervisory bodies identified 23 FCs and a pilot process for obtaining information from these conglomerates has been initiated. The complexities involved in the supervision of financial conglomerates are a challenge not only to the Reserve Bank of India but also to the other regulatory agencies, which need to have a close and continued coordination on an on-going basis.

x) **'KNOW YOUR CUSTOMER' (KYC) GUIDELINES – ANTI MONEY LAUNDERING STANDARDS :** Banks were advised in 2002 to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. These 'Know Your Customer' guidelines were revisited in the context of the recommendations made by the Financial Action Task Force on Anti Money Laundering standards and on Combating Financing of Terrorism. These standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards both by the banks/financial institutions and the country has become necessary for international financial relationships. Detailed guidelines based on the Recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary, were issued to banks in November 2004. Banks were required to ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures is formulated and put in place with the approval of the Board within three months and be fully compliant with these guidelines before December 31, 2005. Compliance with the above is a significant challenge to the entire banking industry to fortify itself against misuse by anti-social persons/ entities and thus project a picture of solidarity and financial integrity of the Indian banking system to the international community.

xi) **CORPORATE GOVERNNACE:** Banks are "special" as they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but they also leverage such funds through credit creation. Banks are also important for smooth functioning of the payment system. In view of the above, legal prescriptions for ownership and governance of banks laid down in Banking Regulation Act, 1949 have been supplemented by regulatory prescriptions issued by RBI from time to time. In this context, one must remember that profit motive should not be the sole criterion for business decisions. Flow of bank finance for productive purposes must always take priority over the granting of credit for speculative investment no matter how profitable the latter may be. If bank finance flows increasingly to finance speculative activities, it will be to the detriment of real productive investment for research, development and the production of real goods/ services. One might conclude that such uncontrolled flow would ultimately affect economic growth. Hence, funding of speculative activities must be subject to prudential limits, even though it might yield attractive returns. This will be a significant challenge to banks where the priorities and incentives might not be well balanced by the operation of sound principles of corporate governance. If the internal imbalances are not re-balanced immediately, the correction may evolve through external forces and may be painful and costly to all stakeholders. The focus, therefore, should be on enhancing and fortifying operation of the principles of sound corporate governance.

CONCLUSION

With the increasing levels of globalisation of the Indian banking industry, evolution of universal banks and bundling of financial services, competition in the banking industry will intensify further. The banking industry has the potential and the ability to rise to the occasion as demonstrated by the rapid pace of automation which has already had a profound impact on raising the standard of banking services. The financial strength of individual banks, which are major participants in the financial system, is the first line of defence against financial risks. Strong capital positions and balance sheets place banks in a better position to deal with and absorb the economic shocks. Banks need to supplement this with sophisticated and robust risk management practices and the resolve to face competition without diluting the operating standards. Based on the study concluded, following scenarios are the most probable in the year 2020 for the Indian rural retail banking industry:

- ***Consumer awareness*** – with increased education among the consumers and greater availability of information, the consumer awareness will increase regarding the financial services and products that are present in the market and they will demand one-stop shop solutions for all their financial needs.
- ***Consumer databases*** – the introduction of the UID project has led to the hope and an increasing probability of presence of extensive consumer databases in 2020. These databases will provide information about consumer credit history and financial transactions to enable the FIs to customize products suited to the consumers' needs.
- ***Capitalization of MFIs*** **-** there is a low probability that international banks would be the chosen medium of capitalization for the MFIs in 2020. They will be largely capitalized by the local Indian financial markets. This could be owing to the FDI regulations in the country as well as sufficient liquidity in the Indian financial markets.
- ***Localized institutions*** **–** the FIs would work towards designing localized financial services that would serve to provide one-stop shop solutions and remove information asymmetry because of their local presence.
- ***Mobile-based delivery model*** **–** the high penetration of mobile services in the country and advances in secure transfer mechanisms will see the rise of mobile phones as delivery platforms by 2020. This will be further augmented by the low costs associated with this delivery mechanism.

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