

Rural Banking in India: Realizing the Potential through Technology

Catalyzed by the growth of the domestic economy, the banking sector in India has truly come of age. But with the current slowdown and fears of a global recession, the Indian economy and the banking sector have been looking for new avenues of growth. In the face of these circumstances, it is ironic that rural banking which has hitherto been a slow growth sector could prove the next development engine for Indian banks. With affordable and relevant technology driving penetration as well as providing an improved service experience, rural banking could bring in financial inclusion and help banks grow their business radically.

Indian banks have awakened to the vast potential of the rural sector. Specialized and innovative schemes to improve rural penetration have become the popular mantra. No-frills credit cards, franchisee networks, supply chain financing for agriculture, investments in rural infrastructure and cross-selling of products are only some of the programs directed at the rural sector. Needless to say, at the core of these initiatives lies sophisticated yet reasonably priced technology - playing a significant role both in effective operations and delivery.

The First Steps...

India lives in its villages, and the founding fathers deemed it imperative to enable financial inclusion for the rural population. The Regional Rural Bank (RRB) emerged from India's early aspirations for a stronger institutional arrangement to develop a savings culture in the rural eco-system, provide rural credit and agriculture finance, while enabling poverty elevation. The formation of the Narasimham Committee in 1975, and eventually the passing of the RRB Act in 1976 were key milestones in this journey. Legislation mandated joint ownership of RRBs by the Central Government, State Government and a sponsor commercial bank, in the ratio of 50%: 35%: 15%, respectively.

From a modest beginning of just 6 RRBs with 17 branches covering 12 districts in 1975, the numbers grew to 196 RRBs with 14,446 branches working in 518 districts across the

country, in 2004. However, given the multi-agency shareholding and entailed restrictions, several RRBs failed to sustain viable operations and others merged vertically or horizontally, resulting in the total number of RRBs stabilizing at 91, in 2007, with over 14,000 branches, spread across 585 of the 622 identified districts.

Thus, history has clearly established that the original mandate of promoting profitable banking with a rural focus will be an enduring phenomenon, only when the RRB is able to deliver customer-relevant products with optimal operational efficiency and ensure the functioning of a sustainable and viable business. With 80% of RRBs in rural India, it serves the larger cause of financial inclusion as well.

The Challenges

This, however, is easier said than done. RRBs today continue to traverse an increasingly rocky path, facing significant economic, infrastructural and business hurdles that heighten in complexity with every passing year.

Lack of a Robust Governance Structure

While other rural financial services providers like Scheduled Commercial Banks and private banking entrants have robust processes for functions ranging from HR to product development, RRBs are largely insulated in operation and lag behind their commercial counterparts in efficiency and rationalization of process as well as governance mandates.

Manual Operations

While automation of operations at RRBs is the vision of The Reserve Bank of India (RBI), even mechanization remains a challenge for several of these banks. Basic automation, like the Advanced Ledger Posting Machine (ALPM), for end-of-day (EOD) reporting, is yet to reach a significant number of RRBs. Lack of automation also hampers reporting and MIS, which in turn results in poor visibility into business and operational parameters, critical for management-driven business decisions.

Inadequate Infrastructure

Lack of sufficient infrastructure and consequently the inability of most RRBs to retain qualified managers affect the growth and the discharge of their operations. Inadequate infrastructure support also translates into high project preparation costs, and risk aversion amongst sponsor entities.

Dynamic Market Conditions

Few RRBs are up to the rigours of channel expansion and customer segmentation mandated to conduct business in today's fast changing times. Even the otherwise ubiquitous ATM, is ever so often a channel not supported by RRBs.

Most RRBs also lack a robust product innovation agenda to deliver relevant offerings, factoring in the need for customer convenience and flexibility – increasingly critical in today's highly competitive and dynamic rural marketplace.

Undefined Roadmap

The RRBs' share of woes also includes budgetary constraints, mounting over-dues, lack of adequate infrastructure facilities, and limited channels of investment. Owing to these problems, some RRBs are not able to achieve financial viability. In addition, they have little visibility into operational and business imperatives. Working for growth in very challenging conditions, sustenance is possible only when RRBs have a clear roadmap for:

- Abiding relationships with customers through customer data analysis
- Operations with clear cost-efficiency and productivity
- Unified 360-degree view of the business
- Relevant and timely product innovation

Technology can Transform

The RBI's diktat is for RRBs to achieve automation before the dawn of 2011. In fact, for RRBs established after September 2009, automation will be a clear mandate right from day one of inception.

Rightly so - since, a robust technology solution can enable RRBs to confront several current market and business challenges. As an ideal solution, it can help RRBs break through the insular mould, share information, reuse data and business logic, deliver one view of the customer, and sustain fruitful relationships in the long term.

Knowledge Repository

RRBs can leverage technology to build a knowledge repository by consolidating knowledge about products, customers, systems, processes, revenue and practices. This provides them with an integrated, 360-degree view of the entity. Such consolidated knowledge is intellectual capital which can be realized by proactively sharing it with all stakeholders – both within and outside the bank. Employees will thus be empowered with the knowledge necessary to sustain and grow business. They will also have the wide-ranging information to match customers with products and enable mapping of process to the business challenge.

Customer-centricity

RRBs can no longer adopt the one-size-fits-all approach restricting their offerings to a skeletal spread of microfinance for Self Help Groups (SHG), and small loans and deposits. They must cater to the market's need for a comprehensive range of banking and insurance products arising from diverse customer segments ranging from the agri-based sector, the cottage and small scale industry and artisans. A primary route through which an RRB can address all these requirements is by having an integrated back office environment. It provides them with a holistic and actionable view of customers, their interactions, accounts, transactions, and products, from a

single integrated hub. This can enable the RRB to mine customer data and leverage the information to offer customers tailored financial services that fulfill their needs. Capitalizing on already existing data will help the RRB save money and seize cross-sell opportunities.

Process-centricity

RRBs must migrate to an IT environment that comprises an integrated suite of core function-enabling systems that make it easy for the RRB to standardize processes for all services. Such an environment introduces much needed intelligence into the RRB organization and empowers it to chart a successful and sustainable future road-map, which in turn can strengthen profitability.

Regulation Compliance

Like every strong player in the banking domain, mitigating compliance risk would be a clear mandate for RRBs as well. To play a meaningful role in the financial eco-system of the country, it will be imperative that RRBs comply with regulations like AML and KYC.

To enable regulatory compliance, RRBs can leverage technology for effective data mining techniques to improve systems that detect violations or outlying risk factors, consolidate processing for data-intensive jobs and factor in compliance requirements at the product development level too. Above all, the technology platform can enable complete visibility into customer transactions. It can also form the basis of information sharing between RRBs for mutual risk-mitigation from poor credit and eventual gains.

It's the Way the World Works

Worldwide, the mandate for 'social and development banks' like credit unions, co-operative societies and micro-finance institutions, has been to extend financial inclusion. This includes services to under-banked rural areas, credit for agriculture and small scale-industry related businesses, as opposed to the traditional approach to business from a pure-profit perspective.

The most successful among these institutions have been the ones that have adopted appropriate technology platforms to achieve customer-centricity, break down silos, reuse data and business logic, while accessing an enterprise-wide view of operations. They have driven their service agenda successfully, while also creating enough profits to ensure sustenance and viability in the long term.

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