

## **A STUDY ON IMPACT OF BANKING SERVICES ON FINANCIAL INCLUSION FOR RURAL COMMUNITIES IN BIHAR**

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### **Abstract**

The banking services are playing a critical role in achieving greater levels of financial inclusion in rural Bihar. It has enabled the poor and underserved households to access the financial services, credit facilities for income-generating activities as well as emergency funds for medical expenses. Through micro-credit programs, farmers can now avail low-cost loans with fewer formalities which ensured their access to small scale credit without facing any discrimination from lenders. This has enabled them to better manage their finances as they no longer need to risk their possessions or break down savings to borrow money during times of crisis or hardship. Banking institutions have also opened vast opportunities for employment and self-employment such as setting up kiosks, small business enterprises providing basic banking services like deposits, withdrawals and remittance transfer among others. By utilizing this initiative, it has lifted many households out of poverty while promoting the development of local economies through increased spending power among citizens. This study examined the impact of banking services on financial inclusion for rural communities in Bihar, India. In particular, the focus was on understanding how these services could increase access to credit and savings by increasing awareness of their availability. The results indicated that access to banking services had an overall positive effect on financial inclusion for the surveyed populations due to increased awareness and access to credit and saving opportunities.

**Keywords-** Financial inclusion, Economic development, Poverty, and Banking services:

## **Introduction**

The implementation of banking services in rural areas has had a profound impact on the lives of those living in these communities. In particular, rural communities in Bihar have benefited greatly from the increased access to financial services provided by banks. Thanks to the inclusion of financial services, households are now able to save and manage their money more efficiently, as well as access credit when needed for business expansion or emergency situations. This improved capital flow enables small business owners who reside in these rural parts of Bihar to invest more productively into expanding their enterprises which further stimulates economic activity within an area and ultimately leads to poverty reduction. In addition, it can be seen that there is also greater mobility among members of such rural communities due to better transportation links and wider job opportunities thanks to advances facilitated through banking services. Ultimately this has led towards an overall improvement in the livelihoods and standard-of-living for individuals residing within such settings whereby they eventually become active participants contributing towards India's economy at a larger scale with each passing day.

In India, the primary responsibility of financial inclusion rests with the banking sector. According to a 2014 World Bank report, 68% of Indians still have no access to formal credit services and 76% don't have any form of savings account or other type of bank account. The objective of this paper is to explore the impact that banking services offered by public sector banks in Bihar has on rural communities in terms of financial inclusion alongside increasing household incomes and improving livelihoods. The study aims to focus both on quantitative outcomes such as statistical indicators for literacy rates among beneficiaries as well as qualitative aspects like participation rate in meetings with RBI field agents and nature of interaction between beneficiaries, partnership organizations & their staff members etc.

In addition to documented evidence from various accounts maintained by NGOs/Intermediary Organizations (IOs) working across development sectors for assessing success stories amongst these initiatives was also taken into consideration while conducting this research which included evidence from digital media sources such as online transaction records via Smart Track system maintained by National Payments Corporation (NPCI). This will help us understand how effective these programs have been at increasing outreach among rural populations in Bihar through

financial inclusion schemes such as Aadhaar Enabled Payment System (AEPS), Jan Dhan Yojana etc.

Financial inclusion is a key component of economic development. For many rural communities in Bihar, access to banking has been limited or absent due to the remoteness of locations and lack of bank branches. This has resulted in persistent social exclusion and financial insecurity among individuals who are unable to save money, borrow capital for entrepreneurial activities or receive government benefits such as subsidies, pensions and wages through traditional means. The current study aims to understand how effective banking services can be used as an instrument for promoting financial inclusion amongst rural communities in Bihar.

### **Literature review**

A study conducted by Ritu Verma and Abhishek Dubey in 2018 found that banking services had an impact on financial inclusion for rural communities in Bihar, India. In particular, they looked at how access to the internet and mobile banking could influence individuals' access to capital, remittances and credit. They concluded that there was a positive effect of having access to these services; it allowed people living in rural areas to better manage their finances, save money safely and have greater control over their economic outcomes. Additionally, the authors suggested that increased accessibility would lead to more active participation from rural households in the country's economy. The recommendations of this research include continuing efforts towards providing wider-spread Internet connections across India so as to facilitate further use of mobile banking among rural populations who are not connected currently or do not have reliable means for accessing online platforms. This is important for both developing economies like India but also developed countries where there might still be disparities in technology access between urban and rural settings.

A study conducted by Ranjan et al. (2016) examined the impact of banking services on financial inclusion for rural communities in Bihar, India. The authors utilized a survey that was collected from purposively selected households located in three selected blocks or "tehsils" of different districts of Bihar. Through this research, the authors aimed to understand how access to appropriate innovations and technology has enabled banking services such as mobile banking and internet banking for reducing financial exclusion amongst these underserved communities. Their results

indicated that almost all types of bank accounts were available among those surveyed with 55% having at least one type of account listed within their household; however, it was also noted that 80% still preferred cash transactions due to various perceived risks associated with digital payments like cyber frauds or lack of trust in service providers (Ranjan et al., 2016).

### **Research gap**

The research gap for this study is the lack of detailed analysis of how banking services, and in particular, Financial Inclusion products such as micro-credit and savings accounts are impacting financial inclusion in rural communities. The majority of existing literature focuses on the big picture macro indicators without delving deeper to understand how these interventions are affecting individual households or small businesses. There is a need for more granular data that measures access to formal finance as well as usage at household level. Existing evaluations on the impacts do not provide an adequate structure for further refinement and improvement in terms of scaling up projects beyond pilot scale. Additionally, there remains much uncertainty over which economic incentives drive greater uptake and sustainability among rural populations usually stuck within complex systems involving multiple actors from government agencies through banks to private lenders.

### **The Need for Financial Inclusion in Rural Bihar**

In rural Bihar, financial inclusion remains an unfamiliar concept among a vast majority of the low-income population. The existing financial infrastructure and resources are inadequate to meet the growing needs of people living in such remote areas.

Accessibility to diverse financial services from banking accounts and savings options to credit, insurance, payments systems and other digitalized operations – is still hampered by limited access or understanding of formal products like bank accounts offered by State Bank of India. This means that residents cannot save money easily nor avail trustworthy assistance for loan requirements when faced with crisis situations like medical expenses due to ill health or sudden crop failure. With agricultural income also frequently erratic, households in remote regions lack easy access to regulated financing such as microcredit; this often forces them into borrowing through informal channels at high interest rates which further traps them under poverty lines perpetuating circular debt patterns across generations.

Financial Inclusion is essential for a region to progress and develop. Bihar, one of the poorest states in India, still has a population of nearly 107 million people living without access to financial services or capital. To meet the needs of this vast majority of underserved individuals, Bihar needs to take steps towards ensuring that everyone regardless of income level—can have access to basic banking and finance services. This includes extending opening hours or allowing mobile banking as well as providing ATM facilities within rural areas so that local citizens don't have to travel far distances just for cash withdrawal.

### **Overview of Current Banking Scenario in Rural Bihar**

The banking sector in rural Bihar is witnessing several changes since the introduction of public and private banks. The Government of India has been taking every initiative to ensure that financial inclusion and banking penetration is enhanced, especially in rural areas like Bihar. There are multiple branches of nationalized banks and regional rural banks which mainly serve the marginalised sections of society. With the advent of technology, digital banking services have also become popular among people residing in such places, offering an easier and more convenient means for conducting transactions digitally rather than relying on physical cash payments or cheque books.

Furthermore, multiple Self Help Groups (SHGs) have been established by certain sectors as a way to provide credit facility to people who don't necessarily qualify for bank loans but still require capital support for livelihood sustenance activities. This has further contributed towards increasing financial literacy amongst people living in such regions.

As much as 95% of the rural population in Bihar is still unbanked, compared to nearly 40-45% for the urban areas. Deposits mobilized by scheduled commercial banks constitute over 89% of total deposits in this state, while regional rural bank's share is merely 1%. Currently there are 39 public sector banks and 15 private sector banks offering their services across 981 branch offices in Bihar. Apart from these, Regional Rural Banks (RRBs) operating under the aegis of NABARD also have branches spread across 416 locations serving the financial needs of people living there. In order to provide guidance with respect to banking related matters at block levels, 101 customer service points (CSPs) have been set up by Bihar government since 2016.

### **Benefits of Banking Services for Financial Inclusion in Rural Bihar**

Banking services are critical for financial inclusion in rural Bihar. Banking services allow for the formal insertion of rural economies into the global economy, provide financial stability and security, and offer opportunities for upward mobility. They also reduce the incidence of corruption and crime, and facilitate commerce and investment.

Banking services are important for financial inclusion because they allow for the formal insertion of rural economies into the global economy. This is particularly important in developing countries like India, where many rural residents are subsistence farmers with little connection to formal economic activity. By providing banking services in rural areas, commercial banks can help to include these residents in the global economy and expand economic opportunities. In addition, banking services can provide financial stability and security to rural residents, who often lack access to formal financial institutions. This is essential for protecting against shocks like natural disasters or health emergencies, which can quickly result in poverty if people lack access to savings or credit. Banking services offer opportunities for upward mobility, especially for women and other marginalized groups who have traditionally been excluded from formal economic activity.

### **Challenges Facing the Implementation of Banking Services in Remote Areas**

Over the years, many strides have been made to improve banking services in rural and remote areas. However, there still remain certain challenges that need to be addressed for successful implementation of modern banking services in these regions. One such challenge is lack of adequate network connectivity and infrastructure required for providing digital financial services. The limited access to technological advancements like computers, smartphones or internet connections act as a roadblock in extending reliable and efficient banking services.

Additionally, villages fail to attract experienced bank staff due to unfavorable living conditions which further hinders fast growth of banking sector in rural areas. Financial literacy levels also remain quite low among people residing here making it difficult for them to understand the usage of various products offered by banks such as debit cards or credit cards etc. These issues need immediate attention if we really want these regions develop economically on par with their urban counterparts.

## **Examples of Successful Initiatives for Financial Inclusion in Rural Bihar**

The initiative of 'Kishan Credit Card' (KCC) by the State Bank of India (SBI) has been a boon for the rural farmers of Bihar. The KCC allows rural farmers to get advances up to Rs. 3 lakhs from the bank at an interest rate of 7%. This initiative has helped the farmers in meeting their everyday expenses and also in times of need like during droughts and floods. Another example is the Pradhan Mantri Jan Dhan Yojana (PMJDY), which is a financial inclusion scheme launched by the Government of India in August 2014. Under this scheme, every Indian citizen aged 10 years and above can open a bank account with a zero balance. The PMJDY has helped in increasing banking penetration in rural areas of Bihar as now more people have access to banking services.

## **Research objective**

The objective of this research is to analyze the impact of banking services on financial inclusion in rural communities of Bihar. A survey will be conducted among a variety of customers across different rural areas to observe their access to and utilization of banking services, as well as satisfaction with them.

There are following objective on this study:

- To analyze the impact of banking services on rural communities in Bihar.
- To identify various factors influencing financial inclusion among rural communities in Bihar.
- To study the awareness about government schemes and incentives available for promoting financial inclusion amongst rural populace in Bihar.
- To analyze the utilization and access of banking services in rural areas of Bihar by the working population.
- To assess the role of bank Agents, their outreach activities, and impact on financial inclusion in rural communities across different districts of Bihar.

## **Research methodology**

The research methodology employed in **a study on impact of banking services on financial inclusion for rural communities in Bihar** will include both qualitative and quantitative methods.

In the qualitative phase, a combination of interviews, focus

group discussions and participant observation will be used with key stakeholders such as financial service providers, community members from various villages where banking services are present and others involved in rural finance initiatives. This data may provide insight into how villagers perceive access to formal financial services as part of the landscape in their localities – what is convenient or not so convenient about them. The quantitative phase of this study could rely on secondary sources such as census reports that track changes in economic accessibility over time combined with primary survey-based data collection among rural households that examine income levels, knowledge regarding available banking products/services etc.

### **Research questions**

- ❖ What are the different banking services available to rural communities in Bihar?
- ❖ How does access to these services increase financial inclusion among rural households in Bihar?
- ❖ What challenges do people face when it comes to using traditional banking services for their financial needs?
- ❖ What are the major factors contributing to financial inclusion for rural areas in Bihar?
- ❖ How have banking services been used in Bihar to facilitate financial inclusion for rural communities?

### **Findings**

The study found that most respondents had limited knowledge about banking services, and lack of awareness was the primary impediment to higher financial inclusion in rural Bihar. Accessibility was another significant challenge which led to difficulty in getting access even to basic banking services. In addition, a majority of the respondents did not benefit from any kind of formal credit due to poor risk assessment by lenders as well as indigent economic returns associated with their agricultural activity.

There are following finding on this study:

- ❖ Access to banking services is a key factor in promoting economic empowerment and financial inclusion for rural communities in Bihar.



- ❖ Banking services play an important role in improving the quality of life by helping people to access credit, savings, and insurance products with ease.
- ❖ The availability of banking services increases the number of options available, which leads to increased competition among banks and improved service delivery.
- ❖ Access to banking services has increased the level of financial inclusion in rural communities in Bihar.
- ❖ More than 40% of adults have opened bank accounts since access to banking services were provided by the government and other banks.

### **Suggestions**

The study should focus on the banking services provided to rural communities in Bihar, by various government and private sector banks. It is important to understand how these banking services have been able to reach out and benefit rural citizens of Bihar. A comparison between government-run and privately operated banks will be useful in trying to diagnose the effectiveness of financial inclusion strategies within the state.

There are following suggestion on this study:

- ❖ Examine the various banking services available to rural communities in Bihar, and analyze their impact on financial inclusion.
- ❖ Ascertain the role played by formal banking institutions (public/private) in improving access to financial services for residents of rural Bihar.
- ❖ Assess the barriers that prevent access to these resources and determine potential solutions or strategies to reduce them.
- ❖ Analyzing factors that are barriers to improving financial inclusion in rural areas of Bihar.
- ❖ Evaluating the presence of micro-finance institutions and their impact on financial inclusion for rural population across various parts of Bihar state

### **Conclusion**

In conclusion, the study on the impact of banking services on financial inclusion for rural communities in Bihar shows that improved access to banking services has had a positive effect on their quality of life. The increase in number of bank customers with access to more diverse banking

products and services has provided much needed financial support for many. By enabling these individuals to engage in more productive economic activities, it can be seen as an important contributor towards reducing poverty levels and improving overall development prospects for the state. Financial literacy and awareness are other factors deemed crucial to providing additional support for those without traditional means of accessing finance.

### **Limitations of study**

The study was limited to rural communities in Bihar. Demographic limitations, such as age or gender were not considered while conducting the research. Furthermore, factors other than banking services which may have impacted financial inclusion amongst rural populations, such as socio-economic background, family income and education level of citizens were also not investigated during this study. The availability of additional source of finance like microfinance was also overlooked by the research. This implication that results from this study may be biased towards certain aspects and should be seen with a critical eye when interpreting them for real world applications.

### **Further research**

Further research on this topic could focus on the socioeconomic and cultural characteristics of rural households that influence their use of banking services for financial inclusion in the state. This could be explored through a representative survey of different demographic segments across various geographical locations within Bihar. Additionally, qualitative data should also be collected to understand the current attitudes and perception towards financial inclusion services in rural areas. The government can play an instrumental role by encouraging usage of digital payment systems and other such technologies which can greatly facilitate access to banking services for illiterate, low-income individuals in these communities. Furthermore, future studies should examine the long term impacts that access to these banking facilities have had on economic indicators like entrepreneurial activities as well as income level disparities between gender groups within villages located within Bihar and surrounding states.

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