

## RURAL BANKING AND FINANCIAL INCLUSION CHALLENGES AT CANARA BANK

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**ABSTRACT:** This study investigates the importance of rural banking in guaranteeing that all individuals have access to financial services, with a particular emphasis on Canara Bank's endeavors and obstacles in providing these services to those who are deprived of them. Rural banking is an essential method for establishing connections between the impoverished in outlying regions and traditional financial institutions. The report indicates that Canara Bank is confronted with a variety of challenges, such as a lack of banking infrastructure, seasonal revenue patterns, inadequate financial literacy, and challenges in securing financing for small-scale producers and rural business owners. The report also illustrates the influence of technological innovations, including government-sponsored initiatives, mobile banking, and digital payment methods, which are designed to simplify processes. The study underscores the necessity of a comprehensive approach that integrates technology, community engagement, and policy support by examining operational strategies, service initiatives, and financial products that are specifically designed for rural regions. The results indicate that, despite the substantial progress Canara Bank has made in expanding its rural presence, there are still issues that must be addressed to ensure that rural communities have access to financial services, that consumers are aware of them, and that the economy continues to expand.

**Index Terms:** *Rural Banking, Financial Inclusion, Canara Bank, Rural Economy, Banking Infrastructure, Financial Literacy, Agricultural Finance, Rural Credit, Digital Banking,*

### 1. INTRODUCTION

Rural banking is a critical component of the social and economic development of a nation, particularly in developing nations such as India. Rural residents require financing, savings, and insurance in order to expand agriculture, establish a business, and sustain employment.

Banks provide these services. Even though banking networks have expanded over time, a substantial portion of rural India continues to lack access to banking services. This illustrates the persistent disparities in financial literacy and access. Rural banking is a strategic tool for reducing poverty and promoting equitable development, in addition to being a business.

The objective of financial inclusion is to guarantee that all members of society, with a particular emphasis on the underprivileged and marginalized, have access to financial services that are both reasonably priced and delivered in a timely manner. This intricate concept encompasses far more than just access to banking infrastructure. It also involves comprehending, employing, and having confidence in financial matters. Nevertheless, financial inclusion must address the structural and socioeconomic issues that affect rural

communities. People in rural areas frequently lack access to essential financial services due to a lack of institutions, slow internet, or remote locations.

One of the primary challenges associated with banking in rural areas is the absence of knowledge regarding money and its utilization. Because they are oblivious of the benefits of professional banking services, numerous rural residents continue to utilize unofficial lenders, such as moneylenders, who frequently charge exorbitant interest rates.

Social and cultural factors, such as a reluctance to engage in digital banking and a lack of confidence in official organizations, can make it more challenging for individuals to utilize financial services. It is a difficult task for banks to educate residents in remote locations about the benefits and responsible use of their services, in addition to providing them.

Digital banking, mobile banking, and payment platforms are examples of how technology has facilitated the access of more individuals to financial services. Nevertheless, the digital divide is a significant concern in rural areas. These new technologies are not being utilized as extensively due to a dearth of digital infrastructure, inadequate internet connectivity, and inadequate computer skills.

Furthermore, rural banking operations are still constrained by operational challenges such as expensive transaction fees, sluggish service delivery, and insufficient staffing. In order for technology solutions to be beneficial to the individuals they are intended to help, these issues must be resolved.

## 2. LITERATURE SURVEY

Kumar, S., & Reddy, P. (2025): Kumar and Reddy investigated the potential of rural banking to promote increased engagement in the financial system among individuals who lack access to banking services. They discovered that the poor banking infrastructure and low levels of digital literacy in rural areas impeded access to formal loans. Mobile banking programs and agent-based banking technologies simplified the process of reaching a greater number of individuals and reducing transaction costs. The customized loan packages made it simpler for farmers and small business owners to repay their loans on schedule.

Rao, S., & Pillai, K. (2024): The impact of rural banking issues on financial inclusion was investigated by Rao and Pillai. The lack of qualified employees, inadequate branch networks, and subpar digital infrastructure made it challenging for individuals to obtain financial services. They noted that the manner in which individuals utilized their accounts and saved money was directly influenced by their financial literacy. The microcredit programs and lending plans for key sectors were advantageous to small farmers and business proprietors in rural areas. Technology-based banking solutions, including mobile wallets and banking correspondents, have simplified the process of reaching a broader audience.

Rathore, V., & Sen, A. (2023): Sen and Rathore conducted an investigation into the obstacles that rural Indians encounter when seeking financial services. Due to the fact that individuals were acclimated to borrowing money from friends and family, it was challenging to access banks, and many lacked financial literacy, there were issues. The increase in the utilization of banking services was facilitated by digital literacy initiatives and banking correspondent networks. Farmers and small enterprises were able to more easily secure loans and

microcredit through priority sector loans and microcredit programs. Regulatory constraints, such as KYC and documentation, exacerbated the challenges faced by families with limited financial resources. The report posits that government assistance and interest subsidies are essential for enhancing the availability of credit. Technology-enabled monitoring simplified the process of monitoring and repaying loans.

Choudhury, A., & Rani, S. (2022): Choudhury and Rani investigated the ways in which rural banking facilitates the financial integration of impoverished communities. They noted that the lack of digital literacy and deficient banking infrastructure impeded access to formal financial services. Mobile banking and banking correspondents have simplified the process of reaching consumers in rural areas. The provision of small loans was contingent upon cooperative credit unions and microfinance enterprises.

Tripathi, N., & Shukla, R. (2021): Tripathi and Shukla examined strategies for expanding the financial system's user base and challenges associated with rural banking. They discovered that informal moneylenders remained prevalent due to their rapid access and flexible terms. Mobile banking was not utilized as frequently by individuals due to their limited computer proficiency and the scarcity of cellphones. Mobile vans, micro-ATMs, and rural banking correspondents were implemented to facilitate assistance. Although government initiatives increased the number of individuals who opened accounts, they did not result in an increase in their utilization. Financial education campaigns resulted in an increase in public awareness of credit, savings, and insurance products.

### 3. RURAL BANKING AND FINANCIAL INCLUSION CHALLENGES

Rural banking and financial inclusion are impeded by a multitude of institutional, technological, and sociocultural impediments. In order to resolve these challenges, we require a multifaceted approach that incorporates community engagement, technology, government policy, and institutions. Access to funding and inclusion for rural residents will be facilitated by the implementation of the subsequent strategies:

#### **Expand Financial and Digital Literacy:**

In order to participate in the economy to the fullest, individuals must possess the ability to read, write, and utilize technology. In rural areas, campaigns to educate individuals about money must be concentrated and utilize interactive media, including workshops, street plays, and video classes, as well as culturally appropriate content and local languages. Individuals in rural areas can acquire the knowledge necessary to operate digital payment systems, savings plans, and bank accounts by participating in practical training programs. Financial education programs that also foster trust in legitimate banking systems empower individuals in rural areas to make informed financial decisions and avoid unofficial lenders who may exploit them.

#### **Leverage Technology:**

Innovations in technology are essential for surmounting geographic and infrastructure obstacles. Rural populations have access to digital wallets, online banking, mobile banking applications, and USSD-based services for low-end phones. Biometric authentication technologies, such as the Aadhaar Enabled Payment System (AePS), have eliminated the

necessity for individuals to visit physical branches on a regular basis. These technologies simplify, expedite, and ensure the security of transactions. Technology has the potential to simplify online loan applications, digital insurance applications, and real-time money transfers. This broadens the availability of financial services to all individuals.

### **Strengthen Infrastructure:**

It is imperative to improve the digital and physical infrastructure of rural communities. This involves the expansion of internet accessibility through government initiatives and partnerships between the public and private sectors, ensuring that even the most remote communities can connect. By installing micro ATMs and point-of-sale systems, bank branches can reduce customer wait times and facilitate transactions. Furthermore, the strategic placement of banking correspondents and ATMs in villages could potentially improve the accessibility of financial services to rural residents.

### **Tailor Financial Products to Rural Needs:**

Typically, individuals who live in rural areas do not receive the same benefits from financial commodities. Examples of customized services that can enhance the relevance and utility of banking include micro-savings accounts, micro-insurance policies, agricultural loans, and small-ticket credit facilities. Rural debtors may secure loans without the necessity of pledging conventional assets if they possess adaptable collateral options, including livestock, future crop yields, or group guarantees. By designing your products to align with seasonal revenue patterns and local economic activities, you can guarantee that they are more widely used and last for an extended period.

### **Enhance Institutional Support and Partnerships:**

By recapitalizing, modernizing technology, and training employees, existing rural financial institutions, such as Regional Rural Banks (RRBs), can enhance their service delivery. If banks, fintech companies, NGOs, and local community organizations are encouraged to collaborate, they can expand their reach and receive technical and operational support. Collaborations can also lead to the development of innovative concepts that can improve the accessibility of financial services to all individuals, including mobile banking vehicles, community-based microfinance programs, and digital literacy campaigns.

### **Reform Policies and Regulations:**

In order for rural banking to expand, the government must establish laws and regulations that encourage its development. With the assistance of targeted credit programs, simplified Know Your Customer (KYC) regulations, and cash payments to low-income families, individuals can more easily access formal financial services. Banks become more efficient and attract a greater number of rural residents to their services by simplifying the process of account registration, loan processing, and subsidy distribution. Policy changes can also encourage banks to establish additional branches in rural regions by offering them mandates and performance-based support.

### **Promote Community-Based Initiatives:**

Joint Liability Groups (JLGs) and Self-Help Groups (SHGs) are two examples of community-driven organizations that effectively promote group savings, credit availability, and economic activity. The establishment of connections between these organizations and

banks promotes financial education in the community, enhances credit discipline, and reduces the likelihood of default. Furthermore, these initiatives provide a platform for marginalized groups, such as women and small-scale producers, to express their concerns by promoting shared economic prosperity, fortifying group bonds, and establishing social capital.

#### **Enhance Consumer Protection:**

In order to establish trust among the populace, it is imperative that rural financial institutions are transparent, equitable, and capable of managing complaints. Consumer protection regulations can prevent predatory lending, fraud, and unlawful banking practices. Banks and fintech firms should guarantee that their products are easily comprehensible, that their pricing is transparent, and that they offer straightforward channels for clients to submit complaints. The confidence of individuals in formal financial institutions can be bolstered by campaigns that serve to enhance comprehension of consumer rights and obligations.

## **4. TYPES OF FINANCIAL INSTITUTIONS**

To meet the requirements of marginalized communities, rural banking and financial inclusion necessitate a diverse array of organizations and products. These encompass formal and informal financial institutions, as well as novel products that are more accessible, affordable, and convenient for individuals. The utilization of digital technologies has significantly increased the accessibility and utility of these services.

### **FORMAL FINANCIAL INSTITUTIONS**

#### **Commercial and Private Banks:**

Commercial banks offer a wide range of financial services, such as fixed deposits, loans, savings accounts, and payment services. They are controlled and reliable; however, they are rarely encountered in remote rural areas due to their exorbitant operational costs. Banking correspondents and mobile banking units are now employed by numerous institutions to provide assistance to individuals in these regions.

#### **Regional Rural Banks (RRBs):**

RRBs were established to provide support to individuals who live in rural and semi-urban areas. There is a particular emphasis on lending funds to community development initiatives, farmers, and small businesses. They are essential in guaranteeing that all individuals have access to financial services; however, they frequently encounter challenges such as outdated equipment, a personnel shortage, and delayed service.

#### **Cooperative Credit Societies:**

Primary Agricultural Credit Societies (PACS), District Central Cooperative Banks (DCCBs), and State Cooperative Banks (StCBs) comprise this group. These organizations are indispensable to the rural populace, as they are frequently trusted by the local populace. By offering loans, deposits, and credit to small enterprises and farmers, they motivate community members to interact with money.

#### **Non-Banking Financial Companies (NBFCs):**

NBFCs are capable of offering microfinance, minor loans, and agricultural financing to individuals who lack access to traditional banking services due to their flexibility and innovation. Several non-bank financial businesses (NBFCs) employ technology, local agents,

and other methods to evaluate credit in order to offer more individualized and expedited financial services than traditional banks.

**Microfinance Institutions (MFIs):**

MFIs specialize in offering modest loans and other financial services to individuals or organizations that are unable to access traditional banks. Typically, they collaborate with banks to facilitate loan availability, and they primarily assist low-income households through group financing and capacity-building initiatives.

**INFORMAL FINANCIAL INSTITUTIONS**

**Self-Help Groups (SHGs):**

Self-help groups, or SHGs, are neighborhood-based organizations that are frequently led by women. They help individuals save money, obtain modest loans, and receive financial assistance from other members. Many SHGs collaborate with banks in order to obtain official credit. This establishes a connection between the formal financial system and unofficial community finance.

**Informal Moneylenders and Community Lending:**

Historic informal systems that are still prevalent in rural areas include local moneylenders, family loans, and community savings organizations. Despite their simplicity of use, these systems can exacerbate financial vulnerability and frequently require exorbitant borrowing rates. They illustrate the importance of having formal, affordable alternatives.

**5. DATA ANALYSIS AND INTERPRETATION**

**TABLE 1: DEMOGRAPHIC & BANKING PENETRATION IN RURAL AREAS (CANARA BANK FOCUS)**

Parameter	Details / Data	Observations / Implications	Sources / Notes
Rural Population Covered	65% of total customers are from rural regions (2024)	Indicates significant rural reach but room for expansion	Canara Bank Annual Report 2024
Number of Rural Branches	5,000+ branches in rural areas	Large network enables physical access, but some remote villages still uncovered	Canara Bank Branch Directory
Account Penetration	~60% of rural households have at least one bank account	Many rural people still unbanked; digital solutions can improve access	RBI Financial Inclusion Report
ATM / Banking Kiosk Availability	2,000 ATMs & 1,500 Business Correspondent (BC) outlets in rural areas	Provides cash access; BCs help in last-mile connectivity	Canara Bank Annual Report 2024
Gender Ratio of Account Holders	40% female, 60% male	Gender gap in banking inclusion exists; targeted programs needed	Canara Bank Reports

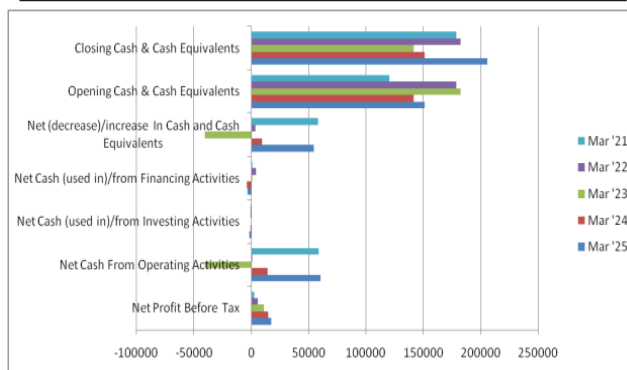


**TABLE 2: TECHNOLOGY ADOPTION CHALLENGES IN RURAL BANKING**

Technology Aspect	Description	Rural Impact	Canara Bank Measures
Internet Banking	Online banking services	Limited usage due to connectivity and literacy	Offline digital kiosks, mobile banking vans
Mobile Banking Apps	Banking on mobile phones	Smartphone penetration is low in villages	Simplified app interface, vernacular language support
UPI & Digital Payments	Cashless transactions	Farmers and older population resist digital payment	Awareness campaigns, small incentive programs
ATM / POS Usage	Automated transaction points	Infrequent use in remote villages; maintenance issues	Deployment of solar-powered ATMs, training of BCs
Cybersecurity	Safety of digital transactions	Fear of fraud and scams	Regular security awareness sessions, fraud helpline

**CANARA BANK CASH FLOW**

Canara Bank Cash Flow	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Net Profit Before Tax	17026.67	14554.3	10603.8	5678.41	2557.58
Net Cash From Operating Activities	59946.57	14254.1	-40676	268.1	58533.2
Net Cash (used in)/from Investing Activities	-1860.12	-1083.1	-389.58	-657.28	-665.84
Net Cash (used in)/from Financing Activities	-3505.99	-3834.5	434.85	4035.45	283.89
Net (decrease)/increase In Cash and Cash Equivalents	54580.46	9336.52	-40631	3646.27	58151.3
Opening Cash & Cash Equivalents	150759.72	141423	182054	178408	120257
Closing Cash & Cash Equivalents	205340.18	150760	141423	182054	178408

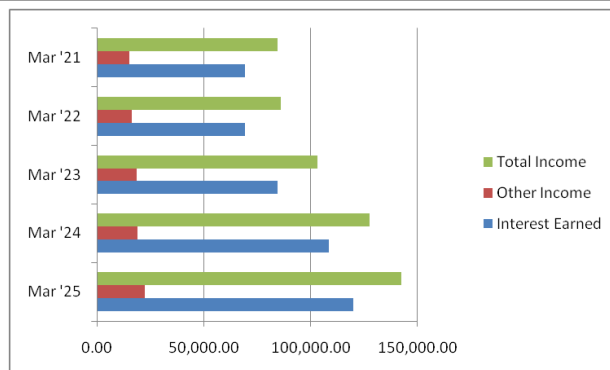


**INTERPRETATION:** The financial flow statement of Canara Bank indicates a substantial improvement in FY 25. The primary business's profitability increased, as evidenced by the fact that Net Cash from Operating Activities increased from ₹14,254.10 crore in FY 24 to

₹59,946.57 crore. Investments amounted to ₹1,860.12 crore, while financing amounted to ₹3,505.99 crore.

**INCOME**

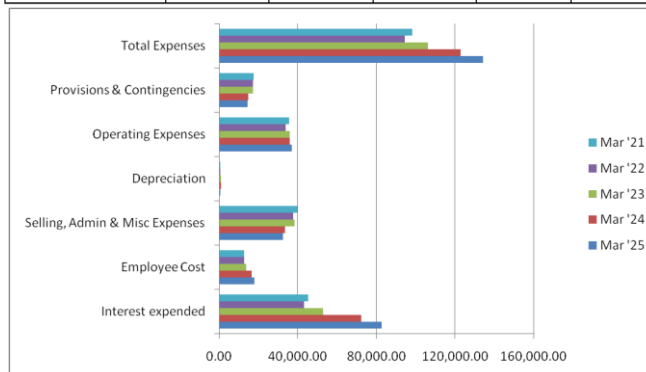
Income	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Interest Earned	119,755.07	108,687.93	84,424.78	69,410.24	69,239.78
Other Income	22,452.80	18,966.44	18,762.20	16,496.90	15,285.29
Total Income	142,207.87	127,654.37	103,186.98	85,907.14	84,525.07



**INTERPRETATION:** The income figures for FY 25 indicate an exceptional increase. The total income, which was ₹127,654.37 crore in FY 24, increased to ₹142,207.87 crore as a result of a substantial increase in Interest Earned from ₹108,687.93 crore to ₹119,755.07 crore. Furthermore, Other Income increased to ₹22,452.80 crore, suggesting a broader range of income sources.

**EXPENDITURE**

Expenditure	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Interest expended	82,683.11	72,121.99	52,989.49	43,026.26	45,177.62
Employee Cost	17,856.09	16,434.18	13,743.83	12,703.64	12,689.96
Selling, Admin & Misc Expenses	32,568.39	33,382.54	38,399.96	37,810.64	39,581.80
Depreciation	837.19	868.94	992.96	815.58	820.17
Operating Expenses	36,898.08	35,827.40	36,024.50	33,919.30	35,640.24
Provisions & Contingencies	14,363.59	14,858.26	17,112.25	17,410.56	17,451.69
Total Expenses	133,944.78	122,807.65	106,126.24	94,356.12	98,269.55



**INTERPRETATION:** The budget figures indicate that the total expenses increased from ₹122,807.65 crore in FY 24 to ₹133,944.78 crore in FY 25. This was primarily the result of an increase in interest expenditures from ₹72,121.99 crore to ₹82,683.11 crore. Selling, administrative, and other expenses also increased, resulting in a total of ₹17,856.09 crore in employee costs. The management of non-interest overheads was enhanced, as evidenced by the slight decrease in costs to ₹32,568.39 crore.

## 6. CONCLUSION

In the final analysis, rural banking is essential for the empowerment of individuals who lack access to banking services.

Despite the fact that conditions are improving, there are still deficiencies in financial literacy, credit options, and the availability of branches. By expanding banking networks, streamlining processes, developing personalized financial products, collaborating with cooperatives and self-help groups, and providing digital literacy programs, these issues can be resolved, thereby significantly increasing access to financial services. Banks such as Canara Bank can guarantee the social and economic empowerment of rural residents by employing inclusive policies and technology.

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