6.1 Summery of Findings

The details and extensive analysis of both the secondary and the primary data in the previous chapters have enabled us to achieve all the objectives of the study at hand. The analyses have also helped us to answer the research questions taken in the study. The principal findings of the research are mentioned in the following-

❖ **Branch Expansion**

➢ The process of branch expansion of scheduled commercial banks has been slow following the reform in the state. The average annual growth in branch expansion has been 5 branches per year which is very small by any standard. Assam's shares in the total bank branches of India have also declined over the years. The bank group wise number of branches of commercial banks has remained almost unchanged with only exception of new private sector banks.

➢ The numbers of rural branches of the Nationalised Banks and the Regional Rural Banks have declined and that of urban branches for both of them have increased. Likewise, the number of rural branches of the RRBs has also declined during the same period which is really unfortunate. But the numbers of rural and urban branches of SBI group have increased during the same time. The private sector banks are mainly urban centric and not interested to open branches in rural areas.
The average population per bank branch has increased in the state over the years leading to a negative trend. The branch expansion process has failed to keep pace with the rise in population and accordingly with increasing demand for banking services.

**Deposit Mobilisation**

The deposit mobilisation in terms of absolute volume of the SCBs has increased during the period. The current deposit as a percentage to the NSDP of the state has also increased to more than fifty percent. But the percentage share of deposit in the total deposit volume of SCBs in India has declined during the same time. The compound annual growth rate of deposit has shown a better result during the second decade compared to first decade of reforms.

The public sector banks of Assam are overwhelmingly dominant over the private sector banks in case of deposit mobilisation. Between 1992 and 2000 the share of public sector banks is more than 98 percent in the total deposit of commercial banks. The figure has slightly been reduced after 2000 but it is still more than 95 percent of total deposit. It clearly reflects that the role played by the private sector banks in deposit mobilisation in the state is very small and marginal.

The bank category wise deposit mobilisation figure reveals that the share of each category in the total deposit of the sector has increased with only exceptions for Nationalised Banks and the
foreign bank. Though the fall in the share of foreign bank is very small and negligible but a good 10 percent fall can be witnessed in the share of the nationalised banks. It can be assumed that the private sector banks have gained at the cost of the Nationalised Banks as far as the deposit mobilisation is concerned.

- But in case of deposit mobilisation per bank branch, the performance of the private banks is better than that of public sector banks. Though the figures of the SBI group in this case are not bad but the figures of the other two groups in the public sector, viz., Nationalised Banks and the RRBs are much lower than that of SBI.

- Though the amount of per capita deposit of commercial banks operating in the state has increased over the years but it is still slightly lower than that of North Eastern Region as a whole and considerably below the figures for the all India level.

❖ Credit Disbursement

- Though the amount of credit delivered by the SCBs has increased but growth has not been the same during all the years since 1991. During the second half (2001-2008) of reforms the compound annual growth rate of credit in Assam has been found to be higher compared to 1991-2001 and at par with India. It implies that the reforms have influenced the SCBs to extend more credit in the later years of reforms.

- As in the case of deposit mobilisation the public sector banks have the absolute monopoly in credit delivery also. The share of public
sector banks in total credit in Assam is more than 98 percent for almost entire period. The private sector banks have able to raise their share in the total bank credit by some extent only in recent years. But still the share of private sector banks in total credit of the banks has been considerably small.

➢ All the commercial bank groups except the Nationalised Banks group have registered a growth in their shares in the total credit extended by the SCBs. The foreign bank has a very negligible share and that can be kept in abeyance. But the biggest losers are the nationalised banks group as its share has been reduced. The gainers are the SBI group and the domestic private sector banks as their respective shares in the total credit pool have increased.

➢ As far as the credit delivery by per bank branch is concerned the performance of the private sector banks are far better than that of public sector banks. This may have happened due to the fact that a large number of branches of public sector banks are situated in the rural areas where the credit disbursements are low. On the other hand, private banks are operating mainly in the urban and semi-urban areas where naturally credit delivery is high.

➢ During the initial years of reforms the SBI group has the largest amount of credit per bank branch compared to other bank groups. But after 1996 the domestic private sector banks surpassed the SBI group in this case and the gap has kept widening throughout the reform period since then.
As far as per capita credit by the SCBs is concerned, the figure for Assam is slightly below than that of the North East Region. Whereas the all India figure is much higher than that of Assam and N-E Region.

Credit-Deposit Ratio of Banks

The credit-deposit ratio of the banking sector of Assam has improved during the reform era. Here, one thing worth noting is that the C:D ratio of the RRBs has been better than that of rest of commercial banks. As far as the utilised C:D ratio is concerned the figure has declined in the state.

The C:D ratio of the public sector banks has shown some variations since the start of the reforms but they are hovering around 40 percent mark. The ratio is also much higher than that of private sector banks since the initiation of reform measures. The C:D ratio of private sector banks in the last few years is clearly much higher than that of public sector banks.

Though the domestic private sector banks has started from the bottom as far as the bank group wise C:D ratio is concerned but they have ended in the top followed by the RRBs and the SBI group. The Nationalised Banks are at the fourth place whereas the foreign bank is at the bottom. In recent years some domestic private sector banks even have C:D ratios of over 100.

The population wise C:D ratio of the state has revealed that the rural C:D ratio of banks is generally higher than C:D ratio of semi-urban
and urban areas of the state. In the last few years the gap in the C:D ratio among rural, semi-urban and urban areas has widened.

➢ Overall, the reforms has failed to motivate the banks the lend more to the people of the state as it is evident from the low C:D ratio of the banking sector as a whole and also across bank groups. The C: D ratio of the private sector banks has been pathetic during the initial years of reforms but they have able to improve that in recent years.

❖ Business Performance of Banks

➢ The business performance of the scheduled commercial banks operating in the state has shown some definite improvement during the reform period. This is evident from the fact that the performance in terms of business per branch and business per employee of the banks during the current decade has increased. This definitely marks an increase of the business of the banks leading to the enhancement in performance.

➢ One of the major objectives of the banking sector reforms has been to reduce the volume of non-performing assets of the banks. It seems that the commercial banks of the state have able to achieve this objective by a good margin. The non-performing assets as percent to the total outstanding of the banks have declined sharply during the last ten years. The decline can be seen in both priority sector lending as well as non-priority sector lending.

➢ The RRBs are also successful in reducing the non-performing assets. They have able to reduce the volume of NPAs as a percent
to total outstanding from a staggering 52 percent to 8.81 percent and, thereby, have able to increase the volume of performing assets.

❖ Use of Technology

➢ The number of ATMs of the commercial banks operating in the state is low as evident from the number of ATMs as percent to total branches. This is specially so in case of public sector banks. Among the public sector banks SBI group has the maximum number of ATMs both in absolute number and as percent of the total branches followed by Nationalised Banks group. Interestingly the RRBs have not a single ATM in the state. On the other hand, the number of ATMs as a percentage of total number of branches of domestic private sector banks is more than ninety percent. Clearly the private sector banks are better placed as far as the percentage of ATMs to the number of branches is concerned.

➢ Another very important point is that a large share of the ATMs is in the urban areas of the state. The major six cities of the state account almost 70 percent of the total ATMs with Guwahati having 41 percent of the total ATMs of the state followed by Jorhat at distant 8.6 percent.

❖ Sector Wise Credit Delivery

➢ Though agriculture has been the backbone of the state economy but it has suffered the most as the credit towards this sector by the banks has declined very sharply during the reform period. The share
of agriculture to the total credit of the commercial banks in 2008 has become half of the credit extended to agriculture in 1996.

- The industrial sector has shown some variations in the figures but in the recent years the ratio has fallen by a considerable level. The sector which is used to receive the maximum credit from the banks till 2003 has gone to the second place since 2004 after the personal loans segment. The service sector has continued to receive the same share in the total credit with a small change in the ratio.

- It seems that the only sector that has benefited during the reform period is the personal loan segment of the banks. The credit flow towards this sector has risen sharply in the last four to five years constituting almost forty percent of the total credit. It can be assumed that the sectors like agriculture and industry have been the losers due to the increasing attention given to the personal loan by the banks.

- In case of public sector banks, normally industrial sector is used to occupy the first place among all the sectors in the total credit. It is followed by the personal loans sector and the agricultural sector. The shares of the industry and service sectors in the pool of total credit have remained almost the same. In contrast, the share of the agriculture sector has decreased whereas that of personal loan segment has increased during the period.

- The picture in case of private sector banks of the state is different than that of public sector banks. The private sector banks have
shown the least importance to the agriculture which is reflected in the small share of agriculture in total credit. In certain years the ratio is even less than one percent. Private Banks have given maximum allocation of credit to the industry and the personal loan sectors of the economy followed by service sector.

- **Micro Finance**
  - Though there has been fast expansion of the micro finance movement in the state in recent years but the growth has not been uniformed in all areas. Some districts of the state like Kamrup, Sonitpur and Morigaon have able to achieve better results but on the other hand districts like Karimganj, Hailakandi and Tinsukia are lagging far behind.
  - Among all the bank groups the RRBs have the best performance in spreading micro finance in the state through the SHG-Bank Linkage Programme. All the Nationalised Banks operating in the state have not participated in the programme which has definitely slowed down the progress of the programme. The performance and involvement of the private sector banks in micro finance have been very disappointing. Only two banks, viz., Federal Bank and the ICICI Bank have set up some deposit linkage targets but have failed to achieve those targets.

- **Service Quality**
  - The Service Quality Index or the MSP value for the public sector and private sector banks reveals that the later has a better service
quality than the former. In case of the five dimensions used to measure the overall service quality, the private sector banks come out to be the better service provider in each dimension compared to public sector banks. Among the different categories of banks, the new private sector banks top the list with the highest service quality followed by old private sector banks, SBI group, Nationalised Banks group and RRBs.

Among the public sector bank groups SBI group has come out as the best service provider followed by the Nationalised Banks and RRBs. The RRBs have been the worst performer among the group in the five dimensions as well as in comparison of overall service quality. As far as the individual banks under public sector are concerned Punjab National Bank provides the best banking services followed by Allahabad Bank and State Bank of India. In case of private sector banks, the new private sector banks have the better service quality compared to old private sector banks. HDFC Bank is the best service provider among the private sector banks followed by ICICI Bank, Indusind Bank, Axis Bank and the Federal Bank.

The regression analysis has shown that the new private sector banks influence the service quality of the SCBs the most followed by old private sector banks. The impact of the RRB is also found to be very high but the impact is negative. It is also found that other factors such as gender and occupational status of the customers influence the service quality of banks significantly. But the service
quality of banks does not differ by any significant levels due to the customers living in big city or in a small town.

➤ Another important finding that has surfaced during the study is that people are indifferent between public sector and private sector banks regarding the safety of their money. This is certainly against the common belief among the people that money in private sector banks is relatively less safe compared to public sector banks.

❖ Financial Inclusion

➤ As far as the branch network is concerned a slight improvement can be seen but that too only in the urban areas of the state. Some major indicators of the spread of banking penetration like percentage of rural branches, average population per bank office (APPBO) in rural, urban and overall and area covered by per bank branch have shown very discouraging figures in recent years. Except very small improvement in case of area covered by the per bank office all other above mentioned indicators have demonstrated a negative growth.

➤ During the last fifteen years (1994-2008) all total 133 bank branches (including co-operative banks) are opened in the state and out of these only 2 branches (1.5 percent) are opened in the unbanked areas. This is clearly a vindication of the slow progress made by the financial inclusion movement in Assam. The commercial banks are clearly reluctant to open new branches in the unbanked areas.

➤ In case of number of accounts per 100 of households in the state, there have not been any significant changes in the situation. In fact
figures for number of accounts per 100 of households for rural, urban and overall have declined.

- Slight improvement can be seen in case of number of deposit accounts per 100 of rural population in the state. But the same in case of urban population has declined for most of the time. Similar is the situation with the overall figure for number of deposit accounts per 100 of population in the state.

- Number of credit accounts per 100 of population in the rural areas has declined compared to that of in the initial years of reform showing an increase in the level of exclusion. But figures for the urban areas and for the state as a whole have increased by small amounts in recent years after a decline in the middle period.

- The number of current and savings accounts per 100 of adult populations in the state has shown a gradual increase since 1996 across all the three categories of rural, urban and overall population. Though the figures have declined a bit during the first half of the current decade but again have started to rise in recent years. This has shown that financial inclusion in terms of deposit linkage has started to rise in recent times.

- The picture of credit linkage by the commercial banks in terms of per 100 of adult population in rural areas is not encouraging at all. In fact it has gone down compared to the figures in the initial years of the banking sector reforms. The overall figure for the indicator has also remained almost the same without any increase. The only positive
development has been in case of urban areas which again start to rise in recent times after a fall for some years.

➢ The process of financial inclusion through the opening of No Frills accounts has not made satisfactory progress either. Similar is the situation in case of issue of general purpose credit cards (GCC). The number of banks participated in these processes is also very low, in fact, less than the half of total SCBs operating in the state. Again not a single private bank is involved in the opening of either No Frills accounts or in issuing general purpose credit cards.

❖ Availability of Credit to the Poor

➢ In terms of meeting the social obligations of providing credit under priority sector advance, the public sector banks have performed satisfactorily. They are always able to maintain the priority sector advance limit of 40 percent of the total credit. For some years the ratio is even more than the half of their total credit. Therefore, availability of credit under priority sector advance has increased as far as the public sector banks are concerned. But the same can not be said for the private sector banks as they have normally failed to fulfill the priority sector norm. For many years the ratio has been even less than twenty percent of their total credit.

➢ As far as the Weaker Section Advance of the commercial banks is concerned, the reforms have failed to enhance the supply of such credit. In fact, the shares of such credit in the total credit and in the priority sector advance of the banks have fallen for the last few
years. It is a clear indication of the banking sector going away from the weaker sections of the population.

➢ A sharp fall can be seen in the Weaker Section Advance of the RRBs of the state. Though a considerable fall can also be seen in case of public sector commercial banks but they are better placed than the RRBs. But important revelation is that of the private sector banks of the state. Not only a reduction in their already existing marginal shares of WSA to PSA and WSA to total advance have taken place during the period but also for the last few years the ratio of WSA to total advance has been less than one percent.

The discussions made in the previous chapters have also enabled us to answer all the three research questions pursued in the research as mentioned below-

➢ Initially the shares of the private sector banks in the total deposit and credit of the SCBs in the state were very small and negligible. But gradually the private sector banks have been able to raise their shares in the total volume of deposit and credit. The private sector banks have able to raise the share of deposit in the total volume of the SCBs from 2.46 percent in 1991-92 to 5.37 percent in 2007-08. Thus the private sector banks have not been able increase their share in the total deposit significantly. Likewise, their share in the total credit of the SCBs has increased from mere 0.87 percent in 1991-92 to 10.40 percent in 2007-08. Therefore, we can conclude that the private sector banks of the state have been able to make
more penetration in the banking sector of Assam in terms of credit
disbursement than deposit mobilisation. Here one important point is
that the share of foreign bank in the total credit and deposit of
private sector bank is very small and marginal.

➤ The status of the financial inclusion in the state has not change
much during the reform period. The growth in the financial inclusion
has been slow and even for some years the growth has been
negative. The growth in financial inclusion in urban areas has been
slightly better compared to that of rural Assam in recent years. The
slight growth in the urban areas has also been reflected in a small
increase in the overall figure of financial inclusion in the state in last
few years.

➤ Credit availability towards the economically needy, poor and weaker
sections of the society has not increased following the banking
sector reforms. Though the public sector banks have able to
maintain the priority sector advance norm but private sector banks
have fail to emulate the same consistently. Again, broadening of the
priority sector with new inclusion and reclassification might have
helped the public sector banks in fulfilling the norm. But credit
provided to weaker section of the society by the SCBs has, in fact,
declined in Assam. This has been proved by the falling ratios of
weaker section advance to total credit and weaker section advance
to the priority sector advance of the SCBs. Hence, it can be
concluded that the banking sector reforms have not able to increase
the credit availability towards economically needy, poor and weaker sections of the society.

6.2 Broad Inferences and Policy Implications

The detail study made in the previous chapters has brought in fore many positive and negative sides of the impact of banking sector reforms upon the scheduled commercial banks in Assam. In the positive side, the reforms have able to bring enhancement in competition in the banking sector. Though not formidable at present, the private sector banks have able to generate some amount of competition with the public sector banks. The rising shares in the different indicators of the commercial banking put across the fact that they have able to create some ground for them. It has also apparent during the study that the new domestic private sector banks have gained at the cost of Nationalised Banks group to a large extent and the RRBs to some extent. The banking business of the SBI group has not been affected by any significant amount due to the entry of the new domestic private sector banks in the commercial banking industry of Assam.

Another important contribution of reforms is the introduction of new information technology in banking services specially by the private sector banks. The public sector banks have also introduced the same but after the private sector banks have done so. Further, these measures have helped to improve the quality of service offered by the SCBs in the state. Again, the reforms have helped the banking industry to enhance the efficiency and productivity and to make the sector stronger than before. Some amount of
improvement can be seen in the financial inclusion but that has mainly possible due to the rise in the inclusion in urban areas and has happened only in recent years.

On the other hand, many negative sides have also emerged during the course of the study. Some of the major set backs are like slow expansion of branch networking, banking sector becoming more urban centric, low level of financial inclusion, non implementation of different models of extending banking service other than traditional form, etc. Further, though the C:D ratio of the banks has shown some improvement but basically that is due to sudden spurt in the personal loan segment of the both public and private sector banks. But inspite of signs of improvement in service quality of the SCBs, the impact on socio economic life of the state has not improved if not reduced. Therefore, the Reserve Bank of India has a role in directing or orienting banking service in Assam basically for socio economic development particularly for financial inclusion and priority sector advance.

In this context it may be noted that the commercial banks in general and private sector banks in particular may not be best suited in the post reform compulsions of the banking industry for adequate deployment of advances to sectors such as agriculture, micro enterprise, etc. But these sectors are of vital importance from social and equity point of view. An alternative model for enhancing social orientation of banking industry can be thought of in terms of “Tradable Credit Points”. The whole model, in fact,
has been borrowed from Tradable Pollution Permit from Environmental Economics (Hanley et al., 2001).

As mentioned above institutions such as foreign banks and the domestic private sector banks may not find it easy and economical to extend financial services to rural and interior places. Local banks including RRBs are often better placed to serve such areas. They, in this regard, are in advantageous position compared to foreign and domestic private sector banks in terms of better knowledge of the local area, branch networking, relatively lower levels of operational costs, etc. Introduction of a system 'tradable social sector involvement credit' can be tried for enhancement of social sector involvement of the banking industry while protecting its economic strength. In such a system the private sector banks may be allowed to buy social sector involvement credit from RRBs and local banks to fulfill their social sector involvement targets. Local areas institutions like RRBs and Micro Finance Institutions who operate in less prospective but socially more relevant areas will be compensated from the sale of the credits for extending banking services towards excluded and apparently unfancied sectors. If such a system becomes functional then the twin ideals of efficient and competitive banking industry and deeper and wider financial inclusion can be achieved.