CHAPTER-VIII

CONCLUSIONS AND SUGGESTIONS
8.1 Conclusions

Regional development is a systematic and a planned effort to bring about equality between different geographical segments in a country. The different regions of a country are generally endowed with different natural resources and climates. These factors coupled with historical, political and sociological differences, lead to regional disparities. This often results in considerable and increasing differences in the levels of living of the people of different regions. In order to have a balanced development some sort of necessary external support should be provided so that the potential for growth in each region could be fully realised. The external inputs, apart from other interventionist measures, generally take the form of capital or technology, or both, in which the backward areas are deficient. The biggest single hurdle in the development of these regions is undoubtedly the lack of infrastructural support.

Amongst the infrastructural facilities, banks occupy an important place as they play a vital role in the economic development of a region. Their operations record the pulse of the economic activities of a region. Commercial banks, by financing the requirements of industry, trade and commerce in the country, give direction to its development.

The Banks are expected to play an important role in regional economic development in which the removal of regional
disparities has been emphasised as a key objective. Prior to nationalisation there was a high degree of skewness in the spread of commercial banks in India. However, since nationalisation there has come about a drastic change in banking policies with a growing emphasis on balanced sectoral and regional development.

A number of studies have been conducted in India on different aspects of banking. Researchers have made a number of attempts to study the extent of variations in banking services in rural areas or at the all-India level. In certain studies attempts were made to highlight the factors responsible for regional variations in banking services. Most of the studies point out that since nationalisation, variations in banking services have come down. All the same very few studies have been made to ascertain the extent of disparities in banking services - population group-wise.

In fact a clearer regional perspective based on an in-depth regional analysis is the crying need of the day. Regional disparities in banking services is one of the most important areas of economic and social research.

In the present work, an attempt has been made to examine as to how far the growth of scheduled commercial banking has helped to narrow down the regional disparities in banking services in different population groups. Apart from this, the growth of commercial banking in different population groups has also been studied. Backward regions/unbanked states, have also been identified.
The study covers the period from 1975-1987 and analyses the dimensions of disparities in the commercial banking services in the twenty-one states of India. The different states have been divided into rural, semi-urban and urban-metropolitan areas. Besides disparities have been examined at the state level (in aggregative terms) also. Being a multi-dimensional phenomenon, banking development has been measured with the help of branch expansion, deposit mobilisation and credit deployment.

Because of heterogeneity in the states these variables, such were not comparable. Hence, six indicators, i.e. population served per branch, per capita deposits, deposits per branch, per capita credit, credit per branch and credit-deposit ratio were developed, to measure the level of banking development in each state population group-wise. The disparities were studied with the help of co-efficient of variation and Herfindahl Index. But as these two methods fail to reveal the aggregate behaviour of all the six indicators taken together, these variables have been standardized with the help of 'Z Sum' technique for aggregation. The weights were assigned to all the indicators with the help of Principal Component Analysis and finally a composite index was computed.

Then the states were grouped into four categories, i.e. highly-banked, moderately-banked, low-banked and very low-banked on the basis of normal distribution curve.
Prior to nationalisation, rural banking was badly neglected. Commercial banks concentrated their business in cities and urban areas. Consequently, rural areas lagged behind. Not only this, what soever banking infrastructure was available in rural areas, it was highly skewed. However, the analysis reveals that rural orientation of commercial banks has witnessed a phenomenal change in the profile of banking during the period under reference. More and more branches were set up in the rural areas of different states. Rural areas continued to receive special attention of the banks. With the setting up of new branches in rural areas, the national average of population served per bank office came down substantially by around four times during the period under study.

As a result of rural branch expansion, improved banking habits and growing monetisation of the economy, deposit mobilisation in rural areas increased by around fifteen times during the period under reference. On account of increased deposits, per capita rural deposits registered around twelve-fold increase. On the contrary, deposits per branch witnessed only about four times increase during the period under study.

A high priority assigned to agriculture and rural development increased credit deployment in rural areas gigantically. It registered more than eighteen-fold increase during the period under context. As a result per capita credit increased by more than seventeen times and credit per rural branch rose by about five and a half times during the period under study. In most of
the cases, the states which exhibited high per capita credit, deployed high credit per branch as well and vice-versa.

Since 1981 commercial banks in rural areas attained credit-deposit ratio above 60 per cent.

Though disparities with respect to most of the indicators narrowed down during the period under study, yet there was not much of a shifting of states from one category to another. The only noticeable exceptions were Tripura and Bihar. Tripura which ranked nineteenth in 1975 rose to ninth position in 1987 primarily on account of improved credit per branch and credit-deposit ratio. On the contrary, Bihar which ranked tenth in 1975 came down to nineteenth rank in 1987 mainly on account of poor deposits and credit per branch and reduced credit-deposit ratio.

On the basis of composite index of rural banking development Himachal Pradesh and Punjab throughout and Haryana and Karnataka in most of the years figured in the group of highly-banked states. Himachal Pradesh ranked so high primarily due to large number of rural branches, high per capita rural deposits and deposits per branch. Punjab, apart from these above indicators, excelled in per capita rural credit also to rank high. Haryana, mainly on account of high per capita rural deposits and credit figured in this group. Karnataka ranked so mainly on account of high per capita credit and credit per branch. Gujarat and Tamil Nadu ranked as moderately-banked states with respect to rural banking development. Kerala which
ranked as a highly-banked state in 1975, came to be ranked as a low-banked state since 1983 onwards mainly on account of reduced number of branches, per capita rural deposits and credit. Assam, Manipur, Meghalaya, Nagaland, Tripura, Madhya Pradesh and West Bengal ranked as very low-banked states in most of the years, due to very poor performance with respect to most of the indicators of rural banking development. In most of the cases it was seen that states having a strong agriculture base ranked high with respect to different banking parameters in rural areas. And the states having predominantly tribal belts fared poorly in rural banking development.

In the semi-urban areas branches, deposits and credit increased at a fast rate. However, higher priority to the rural areas, acted as a constraint on banking development in the semi-urban areas. Because of rapid branch expansion programme population served per semi-urban branch reduced by about 25 per cent in 1987 as compared to that in 1975.

Total deposits mobilised in semi-urban areas increased by about eight times and as such per capita deposits also increased by more than five times during the period under study. On the other hand deposits per semi-urban branch increased by more than four times during the reference period.

Credit deployment in semi-urban areas increased by about nine times during the study period. Consequently, per capita credit witnessed more than seven-fold increase during the period under study. Himachal Pradesh, Haryana and Kerala exhibited very high per capita credit. On the contrary, West Bengal,
Manipur, Assam and Andhra Pradesh exhibited very poor per capita credit. Credit per branch also witnessed a more than five-fold increase in semi-urban areas. Punjab, Haryana, Andhra Pradesh, Gujarat and Karnataka ranked very high with respect to this indicator whereas most of the North Eastern states registered very low credit per branch.

The commercial banks in semi-urban areas throughout failed to achieve the target of 60 per cent credit-deposit ratio. Three states in 1975 and six states in 1987 showed credit-deposit ratio above 60 per cent.

The disparities with respect to some of the indicators of semi-urban banking services reduced among the states during the study period yet their magnitude continued to remain alarming.

On the basis of composite scores of semi-urban banking development, Haryana, Himachal Pradesh, Punjab and Kerala always ranked as highly-banked states. They excelled in almost all the indicators and ranked so. Gujarat throughout ranked as a moderately-banked state except 1975. Tripura which ranked as a highly-banked state in 1975, slid down in the group of low-banked states by 1987 mainly due to relative deterioration with respect to almost all the indicators. Meghalaya which ranked as a moderately-banked state initially, slipped down in the group of low-banked states primarily because of poor per capita deposits and credit and low credit per branch. On the other hand, Nagaland which ranked as a very low-banked state during the period between 1975 and 1979, improved and figured in the
group of highly-banked states by 1987. Nagaland managed to rank so mainly on account of improved per capita deposits and credit and credit/deposits per branch. Maharashtra, Jammu & Kashmir, Assam, Bihar, Orissa, Uttar Pradesh, Andhra Pradesh and Karnataka ranked as very low-banked states in most of the years on account of poor performance with respect to almost all the indicators.

Prior to nationalisation a major share of branches, deposits and credit of commercial banks was concentrated in urban-metropolitan regions. However, after nationalisation the share of these areas in different parameters of banking services came down.

Population served per branch registered a very small decline in the urban-metropolitan areas as compared to rural and semi-urban areas. Broadly speaking, the states which had large number of branches in 1975, registered a small increase in branches and vice-versa.

Deposit mobilisation in urban-metropolitan areas increased by nearly eight times. Consequently, per capita deposits and deposits per branch increased by more than four times during the period under study.

Credit deployment in urban-metropolitan areas witnessed a more than six-fold increase during the reference period. As a result per capita credit and credit per branch witnessed about 3.5 fold increase.
It was observed that the states which had highly concentrated business/industrial centres ranked very high with respect to deposits and credit indicators in urban-metropolitan banking. The national average of these indicators was so heavily influenced by the high values of these indicators in the industrial states that the remaining states continued to remain as below average states with respect to deposit and credit indicators.

In contrast to rural and semi-urban areas, credit-deposit ratio came down in urban-metropolitan areas over the period of time.

The disparities among the states with respect to most of the indicators reduced in 1987, but not to a desired extent.

Assam, Maharashtra, Tamil Nadu throughout figured as highly-banked states, West Bengal which ranked as a highly-banked state during the period 1975-79, came down to the category of moderately-banked states for the subsequent years mainly on account of small number of branches in relation to population and low credit-deposit ratio. Punjab which initially ranked as a low-banked state, improved and ranked as a moderately-banked state since 1981 mainly on account of improved performance with respect to per capita deposits. However, Jammu & Kashmir, Kerala, Rajasthan, Tripura, Orissa, Madhya Pradesh, Uttar Pradesh, Andhra Pradesh, Karnataka ranked as low banked states throughout. Manipur remained at the bottom with respect to urban-metropolitan banking development throughout the study period.
At the all-India level, bank branches increased by more than two and a half times during the period under study. A population group-wise break-up of the branches revealed that branch expansion was the fastest in rural areas, followed by semi-urban and urban-metropolitan areas. Percentage share of rural branches in total branches increased both at the all-India level and in different states, except for Kerala. On the contrary, the share of semi-urban and urban-metropolitan branches reduced at the all-India level.

Planned attempts to augment banking in the relatively unbanked areas have gone a long way in mobilising savings. Total deposit mobilisation witnessed more than eight times growth during the period. A break-up of deposit mobilisation at the all-India level revealed that it increased at the fastest rate in rural areas followed by semi-urban and urban-metropolitan areas. The percentage share of rural deposits in total deposits increased from 9.24 in 1975 to 16.08 in 1987. On the contrary, the percentage share of semi-urban and urban-metropolitan areas in total deposits came down at the all-India level. Per capita deposits at the all-India level increased by about seven-times during the study period. On the other hand because of increased deposit mobilisation, deposits per branch went up by more than three times.

Credit deployment by the commercial banks at the all-India level witnessed more than seven-fold increase during the period under study. Whereas the percentage share of rural credit in total credit increased by about two and half times, in case of
semi-urban areas only a marginal increase was noticed. But the share of urban-metropolitan credit came down at the all-India level. At the aggregative level per capita credit and credit per branch increased respectively by more than seven and three times during the period under study.

It was noticed that in most of the cases, the states which ranked high with respect to different deposit and credit indicators in urban-metropolitan areas, ranked so at the all-India level also.

Credit-deposit ratio at the all-India level remained less than 60 per cent throughout the period under study except in 1985.

At an aggregative level although the disparity among the states has declined during the period under study, yet there exist huge disparities with respect to some of the indicators. Relative ranks of the states did not undergo much of a change except for Nagaland and Bihar.

Maharashtra, West Bengal, Tamil Nadu, and Punjab always figures in the group of highly-banked states at the aggregative level. Maharashtra, West Bengal and Tamil Nadu managed to rank in this group mainly because of their good performance with respect to urban-metropolitan banking development. Punjab managed so because of developed banking infrastructure in all the areas, i.e. rural, semi-urban and urban-metropolitan. However, Gujarat was also ranked as a highly-banked state throughout the period under study except for the years 1983 to 87.
Haryana and Kerala always ranked as moderately-banked states. Although Haryana faired poorly in urban-metropolitan banking development, yet because of its good performance with respect to rural and semi-urban banking development it managed to figure as a moderately-banked state. Kerala because of its good performance with respect to semi-urban banking development ranked as a moderately-banked state at the all-India level. Karnataka was also ranked as a moderately-banked state throughout the period except for three years, when it figured in the group of highly-banked states. Himachal Pradesh, Jammu & Kashmir, Rajasthan, Andhra Pradesh and Uttar Pradesh ranked as low-banked states in most of the years under study at the aggregative level. Though Himachal Pradesh ranked as a highly-banked state with respect to rural and semi-urban banking development, yet because of absence of urban-metropolitan areas it held a low rank at the aggregative level. On the other extreme, Assam, Manipur, Tripura and Madhya Pradesh throughout ranked as very-low banked states.

Zero order correlation matrix revealed that for all the population groups and at the all-India level. Branch expansion had a significant positive correlation with per capita deposit and per capita credit. This implies that the commercial banking policy has succeeded in inculcating banking habits in the masses and has converted commercial banking into mass banking. Per capita deposits also exhibited significant correlation with per capita credit and deposits per branch in most of the years.
under study. With the increase in per capita credit, the credit per branch also rose significantly. The increase in per capita credit improved credit-deposit ratio as well in most of the years.

Factor analysis revealed that banking development in rural, semi-urban, urban-metropolitan and at the all-India level is bidimensional. The first dimension concerns with population and the second with branch expansion. Per capita deposits and per capita credit revealed a high degree of positive correlation with $F_1$ in all the years. The indicators which had insignificant factor loading in $F_1$, turned out to be significant in $F_2$.

The indicator-wise important conclusions which emerge from the present work are discussed below:

Population served per branch continued to be the highest in rural areas followed by the urban-metropolitan and semi-urban areas for the entire period under reference. Yet the difference between the population served per branch among different population groups came down. In the year 1975, population served per rural branch was nearly ten times more than that served in semi-urban areas and about eight times more than that served in urban-metropolitan areas. In 1987, the population served per rural branch was only three times more than that served per semi-urban branch and only two times more than that served per urban-metropolitan branch.
The per capita deposits, throughout remained maximum in urban-metropolitan areas followed by semi-urban and rural areas. In 1975 per capita rural deposits were nearly thirty times less than those in the semi-urban areas and about forty-six times less than those in the urban-metropolitan areas respectively. As a result of the intensive deposit mobilisation drive in the rural areas, this difference was reduced significantly and in the year 1987, per capita rural deposits were only fourteen times less than those in the semi-urban areas and seventeen times less than those in the urban-metropolitan areas respectively. Disparities with respect to per capita deposits were less in semi-urban and urban-metropolitan areas as compared to rural areas in most of the years under study. However, this disparity remained very alarming in all the population groups throughout the period under study.

Deposits per branch were also the highest in urban-metropolitan areas, followed by semi-urban and rural areas. Both in the years 1975 and 1987 deposits per rural branch, stood four and eight times less as compared to semi-urban and urban-metropolitan areas respectively. Disparities with respect to this indicator were throughout, more in the rural areas, than in semi-urban and urban-metropolitan areas. The only exception was the year 1975, when disparities were marginally more in semi-urban areas than in rural and urban-metropolitan areas.

Per capita credit was also throughout maximum in urban-metropolitan areas followed by semi-urban and rural areas. In 1975, per capita rural credit was nearly twenty-eight times less
than that in the semi-urban areas and ninety times less than that in the urban-metropolitan areas respectively. In 1987, this difference narrowed down significantly and per capita rural credit was only about twelve and eighteen times less than that in the semi-urban and urban-metropolitan areas respectively. Disparities with regard to this indicator were throughout very high in all the population groups.

In 1975 credit per rural branch was nearly three and twelve times less in rural areas than that in the semi-urban and urban-metropolitan areas respectively.

In 1987, though the relative positions of rural branches did not change vis-a-vis their semi-urban counterpart, yet the former improved significantly in relation to the urban-metropolitan branches. Disparities with respect to this indicator were throughout maximum in urban-metropolitan areas followed by rural and semi-urban areas.

Credit-deposit ratio was throughout less in semi-urban areas as compared to rural and urban-metropolitan areas. Variations in case of this indicator were throughout more in rural areas as compared to semi-urban and urban-metropolitan areas.

The analysis revealed that in case of rural areas disparities came down with respect to five indicators. It was only with respect to deposits per branch that disparities rose further. In case of semi-urban and urban-metropolitan areas disparities came down with respect to four indicators. In
semi-urban areas, co-efficient of variation rose further with respect to population served per branch and per capita credit. In urban-metropolitan areas, apart from per capita credit, it rose in per capita deposits also. As indicated by high value of co-efficient of variation, huge disparities existed with respect to per capita deposits and credit in all the population groups.

The compound growth rates of deposits and credit for rural, semi-urban and urban-metropolitan branches, revealed that the banking facilities have been extended more rapidly in rural than in the other areas. Though the share of rural areas in total branches, deposits and credit has increased during the period under study, yet it falls far short of the desired level. The rural areas with about 77 per cent of the total population had only 57 per cent of bank branches in 1987. Still more disappointing is the fact that the share of the rural areas in total deposits and credit stood at as little as 16 per cent only.

Semi-urban areas with about 7 per cent of the total population had 20 per cent of the total bank branches and from this small fraction of the population, banks mobilised about 23 per cent of their total deposits, and in turn deployed nearly 19 per cent of total credit. Not only this, on the other extreme urban-metropolitan areas with 15.5 per cent of the total population had 22 per cent of the total branches. Even after more than two decades of nationalisation 60 per cent of total deposits continue to be mobilised from this small segment of
population. What is more alarming is that 64 per cent of credit is deployed in this small segment of population. A small reduction in credit deployment in urban-metropolitan areas can go a long way in reducing the regional disparities.

Taken together the population in semi-urban and urban-metropolitan areas accounts for nearly 23 per cent of total population and it still commands about 42 per cent of the total branches and 83 per cent of total deposits and credit. As such the progress registered in rural banking services cannot be considered to be commensurate with the task of rural development.

To be precise, the unprecedented macro banking growth in different areas has brought down the regional disparities with respect to most of the indicators in different population groups and at an aggregate level. However, in some of the indicators either only a marginal fall has taken place or even after a decline, high degree of regional disparity still persists. In case of most of the indicators already well-banked areas registered a lower growth rate as compared to unbanked/backward states. The developed states continued to enjoy a substantial edge over others and hence maintained their leading positions in 1987 also. The developed states with a strong base and well established position in 1975 had better leverage and gravitational advantage, even though the growth of banking in less developed areas was quite phenomenal. This is the result of the former states establishing a strong linkage between development in agriculture, industry, transport, etc. with banking and latter states not able to do in an effective manner.
8.2 Suggestions

More than two decades of bank nationalisation have witnessed a tremendous progress in achieving the socio-economic objectives of India's economic policy. The massive expansion in banking services in the rural, semi-urban and low-banked areas was made possible due to nationalisation alone, which would have remained distant dream had the banking industry remained in the private sector. Major shift in the banking policy led to identification of potential areas for deposit mobilisation and credit deployment against the backdrop of socio-economic needs. This policy not only emphasised on reduction in disparities amongst different regions but also accorded priority to the rural sector which accounts for a substantial proportion of poverty-ridden masses. The objectives of banking policy have been translated into reality in operational terms to a considerable extent. Obviously the gains of bank nationalisation can be further consolidated only if no major reversal takes place in the present status of commercial banks. A reserval from nationalisation may, no doubt, yield some short term economic benefits. However, its social cost is likely to be far greater.

The recently introduced 'service area approach' appears to be a step in the right direction in reducing the regional disparities in as much as this approach takes care of the regional development needs even at village level. As to how far the banking services adapt themselves to the local developmental requirements needs to be monitored closely. Reasonable
flexibility should be allowed in matters of credit deployment in backward regions.

The branch expansion policy and programmes have evoked mixed responses from researchers and bankers. While some consider it an important step towards reduction in inequalities in the banking services, others regard it as the primary cause of economic inefficiency. Undoubtedly, the branch expansion programme has considerably contributed to a balanced socio-economic development, yet the policy of opening new branches suffers from certain snags. For example, the norm of opening three rural branches being a pre-condition for every urban branch is quite ambiguous as no specific criterion for the choice of location in rural areas is prescribed. Consequently the opening of new branches is governed by extraneous considerations rather than the socio-economic needs.

Over the years, though the bank deposits have shown a phenomenal increase, it is not commensurate with the rate of increase in money supply. This could be probably due to large scale investments in corporate equities (because of the equity cult), mutual funds, many new schemes of Unit Trust of India and Life Insurance Corporation, having tax incentives. Such a constraint on the growth of investible resources will adversely affect the profitability of commercial banks. To cope up with such growing competition, the commercial banks should diversify their activities to augment their profitability. They should go in for active participation in activities such as under-
writing, leasing, mutual funds, consultancy and floating of new issues in domestic and foreign markets.

Some banks have already initiated these activities. Already the introduction of mutual funds have adversely affected the pace of deposit mobilisation of commercial banks which in turn has reduced the availability of funds for priority sector lending to the weaker sections of the society. Hence adequate measures should be taken to make the deposits of commercial banks more attractive and lucrative failing which they will be unable to discharge the social responsibility cast upon them and the disparities might widen instead of getting narrowed down.

Banks are confronted with a number of problems with respect to credit deployment also. The problems of poor recovery rate, huge, over-dues and low-potential loom large on their heads. Disbursement of loans on political considerations under various schemes such as IRDP, SEEUY, SEPUP loans, priority sector loans, DRI loans pose a big threat to the efficient management of resources in the economy. Apart from this the loan waiving mainly a vote catching gimmick for the politicians has acted as a big drain on the banks resources. Restraint needs to be exercised by those in power to ensure that the credit system does not creaks under the weight of their whims and fancies but should serve the genuine needs of the society at large. In order to improve the recovery rate in the rural sector it would be desirable to have a proper co-ordination between banking system and crop insurance agencies.
Credit deployment of commercial banks can be made more effective by inculcating banking awareness and banking habits among the rural masses through the mass media. This can be done by educating the people about the schemes available, the limit of loan that can be availed of under a particular scheme and its repayment procedure etc.

The present criterion of classifying different regions into rural, semi-urban and urban-metropolitan areas itself suffers from a serious limitation. Treating areas with a population of 10,000 or less as rural areas results in the inclusion of even small towns in this category and as such the concessional credit facilities which are originally (basically) intended for the upliftment of the rural masses are in fact availed of by the people living in small towns also. The same holds good in case of semi-urban areas as well. Thus it would be desirable to have a more realistic criterion for classification of population even if the number of categories increases.

It also seems desirable to have concessional credit schemes for tribal, draught prone and hilly areas as these regions deserve special attention for their speedy development.