CHAPTER - I

INTRODUCTION

Economic development of nations largely depends on the growth of infrastructure facilities such as telecommunication, banking, transport, etc. Banking sector plays a crucial role in the economic development as it facilitates trade. It is one of the many institutions that impinges on the economy and affect its growth and development.

Economists have expressed a variety of opinions on the effectiveness of the banking system in promoting economic development. As an economic agent, the bank is expected to be more directly and more positively related to the performance of the economy than most non-economic agents. Therefore, banks are considered to be the mart of the world, and the root to economies and finance of a nation and the barometer of its economic view. They are not only merely dealers in money but also are in fact dealers in the economic development.

Banking Rural-Scenario

Generally, the banks were started in the urban centers to facilitate business. The trend has gradually changed as the rural areas also have become business destiny. Before globalization, only a few public sector banks were started their functioning in rural areas. But, in the post globalization period multinational banks are also opening their branches in nook and corner of rural areas to increase their customer base.

Deregulation of Interest Rates

Interest rates on deposits and lending have been deregulated with banks enjoying greater freedom to determine their rates. The important changes in Interest rates since 1991 - 92 are as follows:

(a) Interest rates on domestic term deposits above one year and on non-residential non-repatriable (NRNR) rupee deposit has been decontrolled.

(b) The prime lending rate of SBI and most other banks on general advances of over `. 2 lakhs has been reduced.

(c) Rates of interest on bank loans above 2 lakhs have been fully decontrolled. The purpose of deregulation of interest rate on high slab of bank advances was to stimulate healthy competition among banks and encourage their operational efficiency.

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Adoption of Prudential Norms

Prudential norms have been started by RBI as part of reformative process. The purpose of prudential system of Classification of assets, recognition of Income and provisioning of bad debts is to ensure that the books of the commercial banks reflect their financial position more accurately and in accordance with internationally accepted accounting practices.

Lowering of Reserve

Requirements in the terms of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR):

SLR—SLR on incremental net demand and time liabilities (DTL) has been reduced from 38.5%) to 25% and SLR has been outstanding net domestic demand and time liabilities were reduced gradually. From 38.5% to 27% in March 1997 and 25% in October 1997. It has been lowered so as to release more resources which can be lent and which the banks can deploy profitably. CRR-It was the intention of RBI to bring down the Cash Reserve Ratio (CRR) from 15% to 14% in May 1993. With change in conditions in money growth during 1995 — 96 and 1996 - 97, RBI gradually reduced CRR from 15% to 10% by March 1997 and 7.5% in May 2001.

Growing Competition

The entry to the private banks and foreign banks is a great record for the banking sector. The significance of the deregulation of the banking sector gave way to new start to private sector banks and increased the competition with the public sector banks. This gave way to give more pressure on public sector banks to act fast and change their business techniques to remain competitive. Public sector banks have begun responding to challenge well; although many of them are yet to gear up to meet the challenges of deregulatory era.

Universal Banking

Another notable challenge that has taken place in the banking environment of the country is introduction of "Universal Banking". It has also helped transforming the financial institutions in country. Today many banks have started following universal banking model, which has opened up new avenues of growth for them. Several banks are now foraying into areas such as credit cards, insurance; DEMAT services, mortgage financing, investment banking, securitization, and mutual funds etc. thereby offering different services to their customers under one roof.

Technology in Banking

Technology has emerged as a key driver of growth for banking sector in India. It has forced old generation, brick and mortar banks to become tech -savvy so as to stay competitive. 21st century banking has become wholly customer - driven and technology - driven. During the last decade, technology has been dramatically transforming banking in India driven by the challenges of competition and rising customer expectations. Due to the shrinking margins, banks have been using technology to reduce cost and enhance efficiency, productivity and customer convenience.

Technology - intensive delivery channels like, net banking, ATMs, tele - banking, mobile banking, etc. have created a continuous winning situation by extending great convenience and multiple options for customers while providing tremendous cost advantages to banks. The positive impact of technology infusion is clearly visible now in almost all areas of banking operations especially in retail and payment systems in country.

Risk Management

The concept of risk management has been given paramount importance in the context of Indian banking right from the inception. The banking regulator, RBI has issued from time to time guidelines oh management of risks in banks. Commercial banks in India are required to have adequate systems for risk management.

These systems include requirement of constitution of a separate risk management department, which is entrusted with responsibility of identifying, monitoring and managing the different types of risk. Further during the recent years, RBI has expressed its intention to shift to Risk Based Supervision (RBS) wherein the focus of its supervisory attention on banks is in accordance with risk each bank poses to itself as well as to system.

The inception of RBS is internal auditing, focus on risk, strengthening MIS and set – up compliance units. Besides, banks would also require addressing the human resources issues such as manpower planning, deployment of staff, selection and training them in risk management and risk audit.

Capital Adequacy Norms

There has been a sea change in capital position of most banks since the days when there was pressure on government to recapitalize some of the banks. Besides improved performance and good market conditions, many banks have gone to equity markets to raise capital and now almost all banks have capital above the minimum prescribed by RBI. RBI fixed capital adequacy norms at 8% in April 1992. By March end 1996, all public sector banks had attained capital to risk weighted assets ratio of 8%. The minimum CAR as per RBI norms is 9% at present.

Statement of the problem

Banking is the backbone of economic activity of any economy. Without banking sector, the fruit of the economic development will be a dream and no economic activity will take place. Banking sector not only facilitates trade but also help the economic to run faster as creating multiple employment opportunities by expanding branches in rural and urban areas and offering novel services. It is true that rural people don’t enjoy the benefits of banking services as enjoyed by urban customers. There are many reasons for poor banking habits of rural people.

Earlier days, the financial institutions were reluctant to establish their branches in rural area as they find them financially unviable. But the trend has changed over due to competition. The open economy policies have paved the way for intensive competition in all sectors of the economy. Due to competition, the banking institutions aim to add up their customer base and therefore they started or expanded their branches in rural areas. The rural people are poor and predominately agriculturist and they have poor savings capacity and creditworthiness. The people in rural areas are illiterate and unaware of many modern banking services. This fact further ignites the need for the research on banking habits in the state at micro level and to find out the reasons for poor banking. Banking is important in one’s life to have a social protection to him/herself and to the dependents in their absence.

Further banking sector is growing leaps and bounds in the states and the rural sector is still untapped for both savings and for investment. It is necessary to know the level of awareness on banking and its services, reasons for poor usage of banking services and to get suggestions to improve the banking service usage patterns among the rural mass.

This can help to identify the bottlenecks in the effective banking practices deployment in the rural areas. The core idea of the present research is to focus and help in improving the banking habits among the rural mass. This can pave a better path for the success of the rural mass in improving the standard of life at micro level and helps an economy to have a balanced regional development. In this scenario, the present study attempts to examine the reasons for poor banking habits among the rural people.

Scope and limitations of the study

The study covers various aspects of functioning of banks and also identifies the bottlenecks of growth of banking in rural areas. The study also test the conditions of banking sector in the liberalization period. The study covers all most all villages in Thiruvallur District and 406 samples have been drawn from various villages in Thiruvallur District.

The study is confined only to one district in the state of Tamil Nadu and only few village panchayats were covered and the result arrived from the study may not be applicable to macro level. The study was conducted during the entry period of banks in rural areas. The results expressed are based on perceptions of the individual customers and fully cannot represent the existing situation. Due to lack of time and money the researcher has taken only few village panchayats for the study from Thiruvallur district, in Tamil Nadu. The researcher has used only primary data to measure the perception of the respondents, and the data collected using a structured questionnaire, hence the results may vary from time to time and place to place. The impact of government schemes in banking habits of the rural mass is not taken into consideration.