CHAPTER-II

REVIEW OF LITERATURE

Banking sector occupies a prominent place in the economic development of any nation. The banking sector performs conventional banking activities as deposit and lending functions and they discharge numerous functions. New economic policies have brought changes in the economy in various sectors and banking sector is not an exception. The situation in rural areas that finding bank branches was rare and the rural people had to move to urban areas for banks. Therefore, many people in rural areas did not have banking habits. Currently the trend has changed over and banks have started their branches irrespective of location though there are numerous bank branches are available and to extent rural people are not account holders or not enjoy the facilities offered by the banking institutions.

Keeping in view all this, this chapter presents a review of available literature. This is presented in three parts.

1. Technology and Banking performance.
2. Competition and Banking sector.
3. Banking sector reforms.
4. Financial awareness.
5. Customer Relationship Management in banking sector.

Technology and banking sector

Janki, (2002) analyzed how technology is affecting the bank employee's productivity and there is no doubt that in India particularly public sector banks will need to use technology to improve operating efficiency for delivering better customer services. The focus on technology development would enhance the customer base and also make the bank to be competitive in the field and leads to develop new products, strengthen risk management etc. The author suggested that technology is the only viable tool to achieve the goals.

Rao, (2002) analyzed the impact of new technology on banking sector. The technology is changing the way the business is done and opened new vistas for doing the same work differently in most cost-effective manner. The tele banking and internet-banking are making forays such that branch banking may give to home banking. The author provided some policies to protect their profitability.

Shveeta and Verma, (2002) analyzed the inter-temporal profitability behavior of State Bank of India (SBI) group, other nationalized and foreign banks in India. They empirically estimated factors influencing the profitability of banks. They decided that priority sector advances (in case of public sector banks) and spread and burden (for all categories of banks) were the major and significant factors that influenced the profitability of banks.

Swamy Anantha, (2001) made a comparative analysis of performance of specific bank groups during 1996-2000 and concluded that the share in assets of scheduled commercial banks was declining and foreign banks increasing. Among the factors influencing their relative share, profitability and spread were continuously declining whereas costs were increasing although non-performing assets of public sector banks have declined. The study concluded that overall the performance of public sector banks is not sound.

Verma, (2000) analyzed the impact of Information Technology on public and private sector banks and observed that IT is a threat for public sector banks whereas strength for private sector banks. Private sector banks are fully computerized and providing services through Internet. Especially, ICICI Bank and HDFC Bank are very active on this front and concentrating on Internet and E-commerce to offer their clientele a whole range of products under one roof.

New banks like GTB, BOP, IDBI & UTI bank are not lagging behind while some of them are concentrating on expansion and modernization, some are focusing on mergers and acquisitions for their growth and hence, public sector banks have do a lot on improving their productivity and efficiency.

Das and Maiti, (1998) analyzed the movement of credit -deposit ratios of commercial banks in West Bengal for the period 1972-73 to 1993-94 and compared the results with eight selected states. The study established that the credit-deposit ratios have shown a downward trend for all selected states particularly West Bengal, Gujarat and Uttar Pradesh. Punjab lies below the all India level. The extent of variation of credit-deposit ratio over different time periods and across different regions of a particular state is discernible.

The drawbacks of the study were that it was not capable of explaining the effect on the trend of credit-deposit ratio of the banking sector reform initiated during the early nineties. Second, the study executed on the basis of aggregate state level credit but credit allocation to the sectoral level was an omission.

Another extensive study made by **Bhattacharya and Sivasubramanian (2001, 2005)** highlighted the composition and distribution of bank credit among three different sectors over the period 1971 to 1999. The reduction in the flow of bank credit as proportion to total deposit associated with the declining share of credit to real sectors in the lower interest rate ranges was pronounced. The share of industrial sector credit has increased but the share in agriculture as well as tertiary sector has decreased.

The state- wise per capita bank credit availability for almost all the major states at the decade's level revealed to be unequally distributed. The results show that there has been a steady decline in inter-state differences in credit flow between 1970 and 1990. However, the trend gets reverse direction in the post-reform period suggesting that there has been an increasing regional difference in credit flow in this latter period.

The study by **Misra, (2003)** concentrated on whether the allocative efficiency of the Indian banking system has improved for the period 1981-2001. The study has covered a broad spectrum of 23 states focusing on the real sectors. The study has shown that the allocative efficiency of the banking industry has improved during the post-reform period (1993-2001) for the majority of states. The study revealed that the service sector improves faster than that of agriculture and industrial sectors. The inequality among the states in terms of their share in overall credit has been wider too.

Bhattacharya and Bhowmik, (2005) analyzed the pattern of credits and deposits of commercial banks for the state of West Bengal and associated districts under it. The findings have shown that the credit-deposit ratio for West Bengal has been falling sharply relative to the all India level. The average credit-deposit ratios in the state for all the population groups, urban, rural and semi-urban are lower than the corresponding ratios in an all India level. The disparity became among the districts of the state so far as credit delivery is concerned which is more than that of the all India pattern. The study also identified the fact that there is a growing concentration of banking activities in top centres and regions.

A lot of literature is available on analyzing the inter-state or inter-regional disparity with respect to income distribution, distribution of infrastructure development and distribution of wage rates. The work done by **Dasgupta et al (2000)** is a special article on Growth and Interstate disparity in India.

Subramanian, (1999) has also pointed out about the convergence of income across states of India. He suggested that considering a particular year for base period for b convergence analysis may be misleading the whole analysis; instead he demanded the consideration of average values of the first three to five years as the base values.

Ghosh, Marjit and Neogi (1998) have carried out the work Economic Growth and Regional Divergence in India for the period 1960 to 1995. They have found that the Indian states have been diverging from each other over the last 35 years.

In another study, **Marjit and Mitra, (1996)** observed that state-wise divergence in India may be owing to the inequality persisting in Trade Openness Index of different regions of the country. The study by **Ghosh and De, (1998)** has shown the fact that the divergence occurs among the states because of disparity in distribution and allocation in the infrastructure development, but **Dasgupta et al,** rejects the conclusion.

In another study **Bhowmik, (2006)** carried out disparity of different districts of West Bengal with respect to the distribution of daily wage rate of male agricultural labourers.

Studies related to Regional Rural Banks in economic upliftment of weaker sections have been conducted by eminent economists at micro as well as macro level. Their main findings have been discussed in the following paragraphs.

Reserve Bank of India Report, (1998) stated that "our review of the performance of the RRBs has convinced us that "within a short span of two years, the RRBS have demonstrated their capability to serve the purpose for which they were established. They have established their image as a new type of institution catering to the credit needs of the class of borrowers to whom institutional credit was hitherto not available."

Wadhwa, (1980) makes an analysis of the working of RRBs in India with two case studies in 1980. The major portion of the field work for the study was undertaken in May 1977 immediately after the establishment of the new institution of the RRBs in 1975.

National Commission on Agriculture, (Volume XII) has stated that over large parts of the country smaller farmers have been handicapped in having access to co-operative credit both for current inputs and viable investment.

The Economic Times, (1992) reported that the authorized capital of each RRBs is placed at rupees one crore and the issued capital of rupees twenty five lakh. The issued capital would be subscribed by the government of India, the sponsoring bank and the concerned state government in the proportion of 50 percent, 35 percent and 15 percent respectively.

Verde and Singh, (1982) analyzed the overall profitability performance of selected 40 RRBs which as on December 1978 were at least 2 years old. The study compared the relative position of average RRBs between 1978 and December 1980. They found the decline in manpower and other expenses were largely responsible for improvement in their profitability ratio.

Khusro Committee Report stated that RRBs will have no significant place in the country's rural credit system in future and thus they should be merged with the sponsoring banks.

Working Group on RRBs, (1986) came out with the conclusion that RRBs are eminently suitable for financing the weaker sections and is playing a supplementary role in rural credit system. The poor financial viability according to the group is built into the present arrangement due to the various external and internal factors.

For enhancing the viability of these banks, the group recommended an increase in paid up and authorized share capital up to Rupees one crore and five crore respectively. Also the group disagreed with the idea of financing the big farmers as suggested by earlier committee and instead recommended the financing of agencies or bodies (SC \ ST boards, Panchayat and other local bodies) engaged in rural development process.

Seventh Plan, (1985 – 90) stated that the programme of asset endowment under IRDP was designed to develop self employment ventures in a variety of activities, weaving handicrafts etc. in the secondary sector and service and business activities in the tertiary sector with a view to diversifying the occupational structure.

Agriculture Credit Review Committee, (1989) stated that the financial viability of a large number of Regional Rural Banks has seriously been eroded and as such their ability to provide credit to target groups has been impaired. The weaknesses of RRBS are endemic and non-viability is built into their structure.

Reserve Bank of India Report, (1989-90) has stated that the RRBs have fared well in achieving the objectives of providing access to the weaker sections of the society to institutional credit but the recovery position on the whole is not satisfactory.

Parliamentary committee put the view that all the farmers and crops should be covered within National Agriculture Insurance scheme and at the same time Gram Panchayat should be approved as unit of insurance. The Committee also recommended low insurance premium for Commercial Horticulture and Crops. Farmer's forum should be given participation in selecting projects of State Rural Basic Infrastructure. Besides reduction in interest rate and making loan process easier are other recommendations of the committee.

All India Rural Credit Survey (Vol-II) Committee, provides active support through the state government and the Reserve Bank of India to create a growing cooperative credit structure based on a three tier system consisting of an apex body at the state level (State Cooperative Bank) an intermediary layer of District Central Co-Operative Bank (DCCB) or simply (CCB).

Khusro Committee has recommended that there should be only two categories of lending rates for agriculture sector. Firstly there should be a concessional rate exclusively for small and marginal farmers at 1.5 percent above the highest rate of interest on deposits allowed by scheduled commercial banks. Secondly there should be a higher rate of interest applicable to the rest of the agricultural borrowers which should be free from regulations but should be subject to ceiling rate of 15.5 percent.

Agriculture Credit Review Committee made two recommendations. Firstly, a common legal framework covering cooperative and commercial banks for recovering of dues for the country as a whole should be formulated. Secondly, the Government should set up State level tribunals for adjudication and separate departments for execution of awards.

Agricultural and Rural Debt Relief Scheme, (1990) the scheme provided debt relief up to Rs.10, 000 to the borrowers of public sector banks and RRBs. The borrowers include those engaged in agricultural and allied activities and artisans engaged in any activity of rural development relating to cottage and village industries, handicrafts weaving etc.

Khusro, observed that the weaknesses of RRBs were endemic and non-viability was built into their structure. The RRBs have accumulated huge losses and in a few cases, the losses have eroded even a part of their deposits. There is, thus, a strong case for winding up such an insolvent institution. Besides, the RRBs are not able to serve the interests of the largest groups in the manner expected of them.

Experimental Insurance Scheme, (1997-98) introduced an experimental crop insurance scheme. The scheme could be implemented only in 14 districts of 5 states and about 5 lakhs farmers were covered for a sum of Rs.172 crore.

National Agricultural Insurance Scheme, (1999s-2000) replaced the old Comprehensive Crop Insurance Scheme (CCIS).

Narasimham Committee, (1999-2000) recommended that the RRBs should be made economically viable, but they should continue to grant loans to target groups as usual.

Studies on technical efficiency of banks

Gradowski, (1994) derived several efficiency measures based on experience of US banks and found that deregulation has the biggest impact on efficiency of weak banks by forcing them to change the asset-liability composition to a sustainable standard.

Burguess and Pande, (2003) explains that lack of access to finance is often seen as a key reason why poor people still remain poor. In this paper it uses data on the Indian rural branch expansion program to provide important evidence on this case. In between

1977 and 1990 the Indian Central Bank compulsorily announced that commercial banks can open a branch in a location with one or more bank branches only if it opens four in places with no bank branches.

It is shown that in between 1977 and 1990 this rule caused banks to open relatively more rural branches in Indian state with lower initial financial development. Reverse is true outside this period and we exploit this fact to identify the impact of opening a rural bank on output and poverty . The estimates suggest that the Indian rural branch expansion program significantly lowered rural poverty and increased non-agricultural output.

Ram Mohan and Ray, (2004) compared the performance of state-owned enterprises with those of private sector firms in respect of technical efficiency. The comparison was made in eight different sectors over the period o1991-92 to 1998-99. They found that there is no conclusive evidence of superior performance on the part of the private sector. Their findings suggested that the procedures, policies and incentives handed down from the corporate level could not fully neutralize the influence of the local work culture in the different regions.

Mishra and Jain, (2007) studied various dimensions of customer satisfaction in nationalized and private sector banks. The research concludes that satisfaction of customers is an invaluable asset for modern organizations, providing unmatched competitive edge, which helps in building a long term relationship.