CHAPTER 8

CONCLUSIONS AND SUGGESTIONS
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CHAPTER 8
CONCLUSIONS AND SUGGESTIONS

8.1 Introduction:

Balanced regional banking development is a pre-requisite for the economic development of a country. The availability of banking and credit facilities is an essential input for the economic prosperity of the rural masses. A retrospect of the events clearly indicate that the Indian banking sector has come far away from the days of nationalisation. The Narsimham Committee laid the foundation for the reformation of the Indian banking sector. Constituted in 1991; the Committee submitted two reports, in 1992 and 1998 which laid significant thrust on enhancing the viability and the efficiency of the banking sector. Rural banking was a neglected subject before nationalisation of banks. The banking sector of developed countries have witnessed far reaching changes during the 1990s characterised by deregulation, internationalisation and innovation in instruments. Electronic banking is fast replacing the traditional paper-based banking. There has been a dramatic change in the profile of Indian banking, especially after nationalisation. Different schemes are framed to meet the objectives of nationalisation such as Lead Bank Schemes, Service Area Approach, and Priority Sector Lending etc.

A number of studies have been conducted on different aspects of commercial banking development. However, most of them are related to the quantitative study of commercial banking development, whereas some others cover a study of banking sector reforms and its effects on commercial banking development. Very few studies have been conducted on inter-State variations in commercial banking development covering almost all the States/Union Territories of India or based on eight or more indicators of banking development, especially in the liberalisation period. This study seeks to examine the extent of inter-State disparities in banking development based on eight selected banking parameters covering three study periods – 1992, 2000 and 2007.
The specific objectives of this study are as under:

i. To measure the extent of the banking development in India during the liberalization period,

ii. To study and analyze the extent and direction of Inter-State variations in banking development in India during the liberalization period,

iii. To measure the Inter-State variations in banking development in India during liberalization period,

iv. To identify the spatial level of banking development in India during the liberalization period and to find out the high, moderate, low and very low banked State/Union Territory in India during the liberalization period,

v. To find out the level of State/Union Territory in terms of high, moderate, low or very low level.

In this study, an attempt is made to analyse the inter-State disparities in commercial banking development in a majority of 32 States/Union Territories of India for three different periods covering 1992, 2000 and 2007. The level of banking development in different States/Union Territories of India has been measured based on different indicators of banking development, based on bank branch expansion, deposit mobilisation and credit deployment respectively. The level of banking development has been analysed with the help of ‘Z’-Score. Accordingly the selected 32 States/Union territories are grouped into four levels. The extent of disparities and the growth of different variables in the States/Union Territories are studied with the help of mean and standard deviation. In order to find the level of banking development with respect to all the indicators/variables together, so as to get an overall picture of banking development in India; a composite index of banking development is constructed. This is done through the ‘Z’-sum technique, by using the standardised scores of the eight indicators and merging them after assigning appropriate weights to them. For this purpose, the technique of Principal Component Analysis is employed. On the basis of this, the States/Union Territories have been classified into four levels of banking development namely; highly developed, moderately developed, low developed and very low developed level.
8.2 Summary of conclusions regarding bank branches per one lakh of population:

A study of bank branches per one lakh of population reveals that:

1. Goa was at the top and Manipur was the lowest with respect to ‘Z’-Score in 1992. There were 4 States/Union Territories in the high level of banking development, 7 States/Union Territories in the moderate level, 19 and 2 States/Union Territories in the low and the very low level respectively in 1992.

2. In 2000 also, Chandigarh was at the top and Manipur was again at the lowest rank with respect to ‘Z’-Score. There were 3, 8, 20 and 1 States/Union Territories in the high, moderate, low and very low level respectively. This indicated a downward movement from the high to moderate or low level of banking development from 1992 to 2000.

3. Chandigarh again stood first and Manipur the last with respect to banking development based on bank branches per thousand of population in 2007 which shows that the top and the lowest rank was retained by the States/Union Territories in 2000 as in 2007. There were 3, 9, 18 and 2 States/Union Territories in high, moderate, low and very low level of banking development in 2007 with respect to this indicator.

8.3 Summary of conclusions regarding deposits per branch:

The second banking indicator relating to bank deposits i.e. Deposits per branch shows that

1. Delhi was at the top in 1992 and Manipur was at the last with regard to ‘Z’-Score. The distribution of States/Union Territories reveals that 3, 6, 23 and Nil
States/Union Territories were in the high, moderate, low and very low levels of banking development in India respectively in 1992.

2. In 2000, the deposits per branch showed high levels of banking development in Delhi and the lowest was in Mizoram in 2000 instead of Manipur as in 1992. There were a total number of 3, 6, 23 and Nil States/Union Territories in India at the high, moderate, low and very low levels of banking development.

3. In 2007, Delhi and Mizoram were at the top and the bottom rank respectively in 2007 and there were 3, 3, 26 and Nil States/Union Territories at the high, moderate, low and very low level respectively.

8.4 Summary of conclusions regarding per capita deposits:

A study of this banking indicator 'per capita deposits' is concluded as follows:

1. The per capita deposits was observed to be at the high level in 3 States/Union Territories, moderate level in 4 States/Union Territories, Low level in 25 States/Union Territories with none of the States/Union Territories having a very low level in 1992. Chandigarh was at the highest position and Himachal Pradesh was at the lowest position in this respect.

2. In 2000, the position was same as in 1992 as Chandigarh and Himachal Pradesh retained the highest and the lowest rank respectively for per capita deposits. The distribution of States/Union Territories was also the same in 2000 as in 1992 as there were 3, 4, 25 and Nil States/Union Territories in the high, moderate, low and very low level respectively.

3. In 2007, there was a slight change in the position as Delhi stood at the top, instead of Chandigarh which stood first in 1992 and 2000. The lowest rank that was retained by Himachal Pradesh in 1992 and 2000, was now taken over by Manipur in 2007. There were 3, 3, 26 and Nil States/Union Territories in high, moderate, low and very low level respectively in 2007 indicating a negative trend in 2007 as compared to 2000; as there was a shift of one
State/Union Territory from the moderate to low level of banking development based on per capita deposits.

8.5 Summary of conclusions regarding deposits as a percentage of SDP:

With regard to this indicator related to deposit mobilisation, it can be concluded that:

1. This indicator was observed to be the highest in Chandigarh and the lowest in the Union Territory of Lakshadweep in 1992. There were 3, 7, 18 and 4 States/Union Territories in the high, moderate, low and the very low level of banking development respectively.

2. In 2000, Delhi replaced Chandigarh at the top rank whereas the lowest rank was retained by Lakshadweep with respect to the ‘Z’-Score of deposits as a percentage of SDP. The distribution of States/Union Territories revealed that there were 3, 6, 19 and 4 States/Union Territories at the high, moderate, low and very low level respectively. This depicts a downward trend as there was a shift of one State/Union Territory from moderate to low level in 2000 as compared to 1992.

3. In 2007, the same States/Union Territories were at the top and the bottom position as in 2000. Delhi was at the top and Lakshadweep at the bottom. 4, 5, 20 and 3 States/Union Territories witnessed a high, moderate, low and very low level respectively in 2007. Some States/Union Territories moved upwards from the moderate or low level to the high level and some moved from the very low level to the low or moderate or even high level of banking development from 2000 to 2007.

8.6 Summary of conclusions regarding credits per branch:

This banking parameter namely ‘credit per branch’ which relates to credit deployment was studied in chapter 5 of this study and it was concluded that:
1. The credit per branch shows the highest development in Delhi as it was placed at the first rank in 1992 and Lakshadweep was at the lowest rank. There were 4,8,19 and 1 State(s)/Union Territory at the high, moderate, low and very low level respectively in 1992.

2. The position remained unchanged in 2000 with regard to credit per branch, as Delhi was again at the top and Lakshadweep again at the lowest rank as in 1992; with 5,2 25 and Nil States. Union Territories experiencing a high, moderate, low and very low level respectively. This indicates uneven shifting of the States/Union Territories as there was a positive movement of one State/Union Territory from moderate, low or very low level to the high level and also negative movements of more States than one from the moderate to the low level. However, there was one State/Union Territory in the very low level in 1992 and none of them in that level in 2000, indicating a positive movement again from very low to the higher levels of banking development in 2000 as compared to 1992.

3. In 2007 also the same situation was experienced as Delhi retained the top position and Lakshadweep the lowest. There were 3,7,22 and Nil States/Union Territories in the high level, moderate level, low level and very low level respectively in terms of credit per branch. This shows a positive movement as a few States/Union Territories moved from the low to the moderate levels and also a negative movement at the same time, as 2 States/Union Territories moved from the high level to the moderate level of banking development in 2007 as compared to 2000.

8.7 Summary of conclusions regarding per capita credits:

The sixth indicator namely per capita credits are studied and it was observed that:

1. Per capita credits have shown the highest development in Chandigarh as it stood first and Himachal Pradesh at the last in 1992. 2,7,23 and Nil States/Union Territories were observed in the high, moderate, low and very low level of banking development.
2. In 2000, Chandigarh and Himachal Pradesh were again placed at the top and the lowest rank respectively. The number of States/Union Territories in the high, moderate, low and very low level was 3, 3, 26 and Nil respectively as regards per capita credits. This shows a positive as well as negative movement as some States/Union Territories moved from the moderate level or low level to the high level and at the same time some States/Union Territories moved from the moderate to the low level, with none of the States/Union Territories at a very low level in 2000 as in 1992.

3. In 2007, Delhi was at the topmost position but there was a change in the lowest position as it was taken over by Bihar instead of Himachal Pradesh indicating an upward movement of Himachal Pradesh from 2000 to 2007. There were 2, 6, 24 and Nil States/Union Territories in the category of high, moderate, low and very low level of banking development respectively with regard to the ‘Z’-Score of per capita credits.

8.8 Summary of conclusions regarding CD ratio:

A summary of the study of CD ratio is made as under:

1. With respect to the seventh indicator CD ratio, a change in the trend was observed. In 1992, Dadra & Nagar Haveli stood first and Lakshadweep at the last. Both the top and the lowest position were taken by a Union Territory each. There were 2, 12, 14 and 4 States/Union Territories at the high, moderate, low and very low level respectively.

2. The same Union Territories namely Dadra & Nagar Haveli and Lakshadweep retained the top and the lowest rank respectively in 2000 as in 1992. 5, 7, 16 and 4 States/Union Territories were placed in the high level, moderate level, low level and very low level respectively in 2000. This depicts an upward trend as there were more States/Union Territories in the high level and less States/Union Territories in the moderate level in 2000 as compared to 1992; however at the same time the number of States/Union Territories in the low level increased from 14 to 16 in 2000 from 1992, indicating a downward
movement; the number of States/Union Territories in the very low level remaining the same during these two periods of the study.

3. In 2007, Tamil Nadu overtook Dadra & Nagar Haveli at the top position, whereas Lakshadweep retained the lowest rank with respect to CD ratio. 7,8,13 and 4 States/Union Territories were in the high, moderate, low and very low levels of banking development respectively. This clearly depicted an upward movement as there were more States/Union Territories in the high and moderate levels of banking development and the States/Union Territories at the low level were decreasing in 2007 in comparison to 2000. The same number of States/Union Territories was observed in the very low level in 2007 as in 2000. It shows an overall improvement in banking development based on CD ratio in India.

8.9 Summary of conclusions regarding ID ratio:

A study of the eighth and the last banking parameter considered in this research shows that:

1. It was observed that Manipur was at the top and Pondicherry at the lowest rank in 1992. 3, 8, 12 and 9 States/Union Territories were in the high, moderate, low and very low levels of banking development for ID ratio in 1992.

2. In 2000, Nagaland was at the top and Pondicherry again at the lowest ranks with respect to the ‘Z’-Score of ID ratio. The number of States/Union Territories in the high, moderate, low and very low levels of banking development was 4, 8, 11 and 9 respectively indicating a slight change in the distribution of States/Union Territories in 2000 as compared to 1992.

3. In 2007, Nagaland again stood first and Bihar the last. Pondicherry was taken over by Bihar at the last 32nd rank in 2007 as compared to 1992 and 2000. There were 4, 6, 12 and 10 States/Union Territories at the different levels of banking development i.e. high level, moderate level, low level and the very
low level respectively in 2007. There was a negative movement of some States/Union Territories from the moderate level to the low level and to the very low level of banking development from 2000 to 2007. It was observed with respect to this indicator namely ID ratio that there were the largest number of States/Union Territories in the very low level of banking development for all the years under study, as compared to the other indicators.

8.10 **Summary of conclusions regarding composite index of banking development:**

In relation to the overall picture of banking development, taking into consideration the composite index of banking development, the following observations were made:

1. In 1992, Chandigarh was at the top and Manipur was at the lowest rank. The distribution of States/Union Territories revealed a quite different trend as compared to the other indicators, as there were 9, 4, 5 and 14 States/Union Territories in the high level, moderate level, low level and very low level respectively. The highest number of States/Union Territories was found at the very low level of banking development with respect to the composite index.

2. In 2000, the composite index showed the highest rank in Chandigarh again and the lowest in Manipur which was the same as that in 1992. There were 6,3,5 and 18 States/Union Territories in the high level, moderate level, low level and very low level respectively in 2000. This reveals a disturbing trend as it can be clearly seen that the States/Union Territories moved downward from the high level and moderate level to the very low level and the number of States/Union Territories in the low level was the same in 2000 as in 1992. This is in contrast to the other indicators wherein there was the largest number of States/Union Territories in the low level of banking development.

3. Finally, in 2007, Delhi stood at the top and Nagaland at the last rank. This reveals a change in the trend from 2000 to 2007. There were 7, 3, 7 and 15 States/Union Territories in the high, moderate, low and very low level
respectively. This depicted a positive movement upward from the very low level to the low level and high level from 2000 to 2007, as the number of States/Union Territories in the moderate level remained the same in 2007 as in 2000. There was the same number of States/Union Territories in the high level and low level which is also unusual as compared to all the other indicators.

8.11 Specific Findings:

The specific findings of this study are listed as under:

1. With respect to the number of bank branches, there has been an absolute increase in all the States/Union Territories of India in 1992-2000 except in Nagaland and also in 2000-2007, there has been a phenomenal rise in the number of bank branches in all the States/Union Territories except Manipur.

2. With regard to the banking indicator ‘bank branches per one lakh of population’, it was observed to be also rising from 1992 to 2000 in all the States/Union Territories of India, except Arunachal Pradesh, wherein it was constant and in Nagaland, it was declining. In 2007, as compared to 2000 this indicator, however witnesses a decline in a majority of the States/Union Territories of India except Bihar, Madhya Pradesh, Dadra & Nagar Haveli, Goa and Kerala where it was rising. In 1992, there were 14 States/Union Territories having its bank branches per one lakh of population above the all-India average. In 2000, the number of States/Union Territories having this indicator above the all-India average was 11 and in 2007 it was 13. This shows first a negative trend from 1992 to 2000 and a positive growth from 2000 to 2007. In 1992, with respect to bank branches per thousand of population, there were 14 States/Union Territories above the all-India average and the other 18 States/Union Territories were below this average.

3. The bank deposits in absolute terms experienced a positive accelerated growth in all the 32 States/Union Territories of India under study and the growth was multi-fold from 1992 to 2000 and from 2000 to 2007.
4. The second banking indicator namely ‘deposits per branch’ experienced a positive growth from 1992 to 2000 and also from 2000 to 2007, however the growth was low compared to the growth in deposits in absolute terms as the bank branches had shown a limited growth.

5. There were only 9 States/Union Territories that were above the all-India average deposits per branch and the remaining majority of 23 States/Union Territories were below the all-India average in 1992. In 2000, also the same number of States/Union Territories were seen to be above the all-India average and also below the all-India average as they were also 9 and 23 in number. The same was the case in 2007. This shows no progress at the individual States/Union Territories’ level of development in deposits per branch.

6. The fourth indicator namely per capita deposits have witnessed an upward movement from 1992 to 2000 and the growth was even more from 2000 to 2007. It was positive in all the 32 States/Union Territories of India.

7. There were 7 States/Union Territories that were above the all-India average level in 1992 and 25 States/Union Territories below that level. In 2000, 8 States/Union Territories were above the all-India average per capita deposits and 24 States/Union Territories were below that level. This shows a progressive movement of one State/Union Territory from 1992 to 2000. In 2007, there was again a negative growth of one State/Union Territory as compared to 2000, as there were 7 States/Union Territories above the all-India average and 25 States/Union Territories.

8. The next indicator related to deposits namely ‘deposits as a percentage of SDP’ witnessed a positive growth in 20 States/Union Territories in 2000 as compared to 1992 and the other 12 States/Union Territories had seen a decline in this indicator. In 2007, as compared to 2000, there was a positive growth in all the States/Union Territories except Nagaland which shows a decline. The Union Territories of Dadra & Nagar Haveli, Daman & Diu and Lakshadweep had a negligible amount of this variable.
9. The numbers of States/Union Territories above the all-India average and below the all-India average in 1992, with respect to ‘deposits as a percentage of SDP’ were 7 and 25 respectively. In 2000, this number was 12 and 20 respectively which indicates a positive growth from 1992 to 2000 in 5 States/Union Territories. In 2007, this number stood at 10 and 22 respectively, which shows a negative growth from 2000 to 2007 of 2 States/Union Territories.

10. The credit/advances of banks in absolute terms also witnessed a positive growth in all the States/Union Territories of India in 1992, 2000 and also 2007. The growth was observed to be multi-fold in all the States/Union Territories.

11. The fifth indicator relating to credit deployment namely ‘credit per branch’ shows a positive growth in all the States/Union Territories of India as both the credits and branches both experienced a positive growth in absolute terms.

12. There were 12 States/Union Territories above the all-India average and 20 States/Union Territories below this level in 1992. In 2000, there were 7 and 25 States/Union Territories above and below the all-India average respectively. In 2007, this number was 11 and 21 respectively which shows a positive movement of 4 States/Union Territories.

13. The sixth indicator namely ‘per capita credits’ has also seen a positive growth in all the 32 States/Union Territories from 1992 to 2000 and from 2000 to 2007.

14. There were only 9 States/Union Territories above the all-India average per capita credits in 1992, and the other 23 States/Union Territories below the all-India average; whereas in 2000 this number was 6 and 26 respectively. This shows a negative movement from 1992 to 2000. In 2007, there were 8 States/Union Territories above the all-India average and 24 States/Union Territories below that level which shows a progressive movement from 2000 to 2007.
15. The seventh banking indicator CD ratio, a different trend was observed. In 2000, as compared to 1992, this ratio was declining in all the States/Union Territories of India except in 4 States/Union Territories where it was increasing. The reverse was observed in 2000 as compared to 1992 as there was a positive growth in this ratio in all the States/Union Territories except in 3 Stats/Union Territories wherein it was declining.

16. There were 14 States/Union Territories that had a CD ratio above the all-India average in 1992 and 12 States/Union Territories in 2000 that had a CD ratio above the all-India average. In 2007, 15 States/Union Territories were observed above this level, which depicts a negative growth first from 1992 to 2000 and thereafter a positive growth from 2000 to 2007.

17. The last banking indicator ID ratio witnessed a decline in 27 States/Union Territories in 2000 as compared to 1992, which were majority in number. In 2007, as compared to 2000 there was a decline in this ratio in 25 States/Union Territories and in 7 States/Union Territories there was a rise. This indicates a positive movement from 2000 to 2007.

18. The States/Union Territories that were above the all-India average ID ratio in 1992 were 15, in 2000 they were 12 and in 2007 they were 15 in number.

19. With respect to the composite index, it was seen that there were only 14 States/Union Territories that experienced a positive growth from 1992 to 2000, whereas only 11 States/Union Territories registered an increase.

20. In 1992, there were 19 States/Union Territories that had its index above the all-India average index. In 2000 this number stood at 9 and in 2007 it was 10. This clearly shows a declining trend in the growth of the composite index in some of the States/Union Territories.
8.12 General Findings:

The general findings of this study are as follows:

1. Considering the evidence available in this study, it can be said that there has been a remarkable improvement in bank branch expansion in terms of bank branches per one lakh of population in almost all the States/Union Territories of India for all the periods under study, with a few exceptions. The most common and significant factor determining the location of a bank office is the scope of business in its locality and consequently there will be a tendency to have more banking centres in commercially developed areas and in major towns/cities which are otherwise industrially and economically advanced such as Maharashtra, Delhi, Chandigarh etc. The underdeveloped States/Union territories in terms of industrial and economic development continued to remain backward with regard to banking development. Further, the increase in the number of bank branches signifies deterioration in the quality of banking services. The movement from ‘class banking’ to ‘mass banking’ had its obvious negative effects on the quality of the banking services as there was a greater stress on quantity not quality.

2. The banks, at present, do not have adequate staff to work in the rural areas. If the rural and semi-urban branches do not have adequate staff, then the success of other programmes undertaken by the governmental and regulatory authorities would be meaningless. Working in a rural area is surmounted with numerous difficulties, both professional and personal. There is an unwillingness on the part of the employees of a bank to work in the rural areas.

3. The amount of deposits of a bank is determined by the amount of credit deployed by them by way of loans/advances and investments. There is a huge potential for deposits growth in the rural areas, wherein the banking habits need to be developed to a larger extent. The rural savings are untapped. The growth in deposits depends on a number of factors like income, branch expansion, interest rates, bank credits, etc. One of the important step taken to
enlarge the deposits of a bank was the establishment of Deposit Insurance Corporation in 1961.

4. Banks are not mere creators but also regulators of credit. A structural transformation has occurred in the deployment of bank credit, as is also depicted by the analysis done in this study. In this regard, one of the main areas of concern is the quality of credit portfolio of banks, as they carry a substantial amount of overdue advances. The quantity of funds that a bank can lend at commercial rates is restricted due to the increasing Statutory Liquidity Ratio and the Cash Reserve requirements. Even after meeting these requirements, the banks do not have freedom to deploy their funds in a profitable manner as they are expected to meet the other national plan and priorities such as priority sector lending and other such objectives.

5. Bank credit has a tendency to flow more to the developed States/Union Territories. There is also a practice of granting large amount of credits to large borrowers who are mostly concentrated in the economically and industrially developed States/Union Territories. A large part of the credits created in the society is the created by banks. Politically directed credits and legally waiving the loans to agriculture has affected the moral standards and faith of the general public.

6. A low CD ratio indicates that the deposits collected in a State/Union Territory is not fully disbursed in that State/Union Territory but diverted to other States/Union Territories. Both deposits and credits in the far-flung and rural areas have continued to be lower. The deposits mobilised from the rural and semi-urban areas were utilised in the urban areas. The low CD ratio is mainly due to the low level of deposits in those States/Union Territories. However, under the new capital adequacy norms, it is not credit deployment per se, but the quality of credit that is of greater relevance to the banks. The decline in the CD ratio after the banking reforms in 1992 can be attributed to the high Governmental borrowing and the stringent prudential norms.
7. The investment of a bank is largely influenced by the reserve requirements of the RBI in the form of SLR, based on which the investments in Government and other approved securities as per RBI norms. The growth in the investments of commercial banks is very limited as it is done only to the extent necessary to meet the SLR requirements. The ID ratio has therefore shown a slow growth despite the large growth in deposits. The composition of a commercial bank’s investment is largely influenced by legal requirements. The objectives of the SLR requirements are obviously to raise the resources of the Government. The composition of investments should be in line with the social objectives. The public sector banks were not return conscious and there were no formally laid down policy in this regard. The growth in investments was very limited and was also concentrated only in a few States/Union Territories.

8. The excessive stress on social banking has diminished the professional skills of the bank managers.

8.13 Suggestions:

The following suggestions based on the results of this study are made:

1. There is a need to identify the backward and low developed States/Union Territories in banking development and to take certain policy measures in order to reduce the disparities in different aspects of banking development in those States/Union Territories.

2. In the matter of opening of new bank offices, they should be located in the backward States/Union Territories such as the north-eastern States/Union Territories and other undeveloped States/Union Territories like Bihar, Orissa, Lakshadweep and Himachal Pradesh. By opening new branches in these States/Union Territories, there will be also a rise in the deposits mobilised from these States/Territories. One of the objectives of social banking and the bank nationalisation process is the greater credit dispensation to the poor and the downtrodden sections of the society so as to improve their living
conditions. This needs to be also taken into consideration. Credit disbursement also needs to be done without undue delay. Needless to say, that the proper and effective utilisation of credit also needs to be given significance and should be ensured by a close and effective supervision. It is also imperative that political interference should not be allowed to come in the way of loan sanction or disbursement. Banks are commercial in nature, hence their cost of credit disbursement should be less than that of deposit mobilisation so as to save them from losses.

3. The process of phenomenal geographical expansion of banking is needed to be implemented in line with the new branch licensing policy which emphasised the need to fill up the spatial disparities in the rural areas and at the same time, advocating the opening of urban and metropolitan bank branches only on the consideration of potentiality and viability. Notwithstanding the remarkable progress made by the commercial bank in massive branch expansion in the rural areas, it is not advisable to spread their branch network to each and every village and in every nook and corner of a State/region; in terms of efficiency. Certain States/Union Territories require top priority in improving the banking presence there.

4. Social Lending has also acquired importance in the post-nationalisation period. Banks need to transfer the excess funds from the areas where it is in excess, to the areas wherein it is deficient and can be effectively utilised. One of the significant concerns of the banking sector in the matter of credit disbursement is that of the sectoral deployment of credit to the priority sector to the extent of minimum 40 percent of the total bank credit and also the territorial deployment by having a minimum CD ratio of 60 percent in all the States/Union Territories. In order to achieve these objectives in all the States/Union Territories, the banks have to put in extra efforts through proper planning and control. The credits have become sticky, especially in the rural areas where there is a need to develop repayment habits amongst the borrowers.
5. With regard to the task of credit administration and management, it must be handled efficiently. In the matter of credit deployment, the commercial banks are also required to ensure certain measures for the effective use of their funds. There is a need to control the quantum of non-performing assets and keep it to the minimal as they affect the profitability of banks. The over dues which were increasing have to be controlled. Inadequacy of staff, lack of infrastructural facilities, misuse of the loans, lack of adequate collateral security and poor working conditions in the backward and rural areas are some of the problems coming in the way of effective credit management.

6. There is a need to develop effective schemes for deposit mobilisation and put them into practice and at the same time, to make the deposits with the bank more attractive. For this, the profit motive should go hand in hand with the social motive of commercial banks.

7. There is also a need for improvement in the banking services to the customers. At the same time, for the successful implementation of credit schemes and other plans, there is a need for proper training of the staff of the bank. This is a pre-requisite for improving the banking standards in underdeveloped areas. Unfortunately, in most of the banks, the focus of attention is around only two primary activities of deposit mobilisation and credit deployment.

8. It is essential that commercial banks assign the function of funds management to competent and highly professional officers who know the market well and can improve their yield on funds. They need to improve their credit management, the quality of their assets and recovery of their dues.

9. One of the policy measures which will be useful to improve the profitability of the public sector banks would be to privatised these banks. Another option is to allow the entry of large private sector banks in the banking system so as to infuse a spirit of competition among the public sector banks and private sector banks.
8.14 Conclusions:

Most of the studies in relation to banking development have shown that the banks in India have not been able to achieve its social and economic objectives set by the country. The large-scale expansion of bank branches had an adverse effect of yield and profitability and also led to problems of reporting and control. The bank branch expansion has been unsatisfactory. Many branches are found to be unviable. There is a need for qualitative improvement along with quantitative growth in bank branches. The process of liberalisation brought in the 1990s, gave more freedom to the banks to open and close branches and bring other changes. The process of liberalisation and deregulation introduced in our country were characterised by significant developments as the corporate sector started venturing directly into the capital markets, thereby reducing the role of commercial banks in their traditional role of financial intermediaries.

There is a lack of co-ordination between the banks and other financial institutions with respect to the joint authorisation of credit and the assessment procedures in connection with the grant of credit. The term lending institutions carry out their own assessment procedures which the banks do not accept, though it is carried out by qualified and experienced staff of these institutions. Further, the banks that are situated in the far-flung areas such as the north-eastern regions are not effective in the branch expansion process in the unbanked and the under-banked areas.

Though, there has been an unprecedented growth in the branch expansion in almost all the States/Union Territories, nevertheless, the gap between the developed and the under-banked States/Union Territories still exists to a large extent. Despite the nationalisation of banking and other reforms undertaken, the urban-orientation of the banking system still persists. There was a concentration of bank deposits and credits in a few urban metropolitan centres. Commercial banks have shown a trend of diversifying the funds from the rural to the urban, from the economically less advanced to the more advanced States/Union Territories due to higher returns. A
favourable position is revealed in economically advanced States/Union Territories in terms of majority of the banking indicators in this study as compared to the economically less advanced States/Union Territories. Though there has been a mushroom growth in the deposits of commercial banks in the last two decades, the growth has not been proportionate to the growth in the money supply as it could be due to lack of wide-spread banking practices amongst the businessmen and household. This resulted either into idle funds remaining with them or being diversified through investment in sources other than bank deposits. This study will be useful as a basis for laying guidelines for evolving meaningful and effective regional policies for India. There is so much diversity among the different States/Union Territories of India that it is not possible to suggest and implement a single measure applicable to all the States/Union Territories at all times. However, the general suggestions recommended in this study will be useful in formulating a meaningful regional policy in India, especially in those States/Union Territories which are backward in terms of banking development. In some areas, unit banks should be developed so as to satisfy the local needs, which will also reduce the burden on big banks. Banking system, being a part of the economy, an unhealthy banking system would indicate that the economy is not in a sound shape, hence it is imperative to give due attention to this sphere of the nation.
References: