CHAPTER IX

MANAGEMENT PATTERN

9.0 Introductory

Banking on western lines started in India from the beginning of the 19th century. The Indian Banking system consists of a well-organised modern sector and unorganised indigenous sector. The organised banking industry in India has evolved along two distinct lines:

(a) The Commercial Banks

(b) The co-operative Banks and Societies

The commercial banking sector covers:

(i) The public sector banking consisting of State Bank and its subsidiaries and the fourteen nationalised banks.

(ii) The private sector banks consisting of Indian and Foreign Scheduled and Non-scheduled banks.

9.1 The Commercial Banks

The commercial banks in India are organised as joint-stock companies. During the Second World War period Indian joint-stock banks developed rapidly but in a haphazard manner. During the war period many new banks were started by small groups of industrialists. However, it is only
after the passing of the Banking Companies Act of 1949 and its subsequent amendments that have fostered healthy joint-stock banking system in India. The Indian joint-stock commercial banks are controlled and regulated by the Reserve Bank of India under the powers vested to it by the Indian Banking Companies Act 1949.

The Banking Companies Act of 1949 was amended in 1950 and in 1956. The 1956 Amendment Act empowers the Reserve Bank to regulate the remuneration and appointment of the bank executives occupying senior posts, to appoint observers to attend Board meetings of the scheduled banks and to obtain information over a wide range. However till 1969 all the joint-stock commercial banks in India were controlled and managed by the industrialists as the private sector banks.

9.2 The Nationalised Banks

The year 1969 is a landmark in the history of Indian Banking. The Banking Companies (Acquisition and Transfer of Undertakings) Act replaced by an Ordinance promulgated on 11th February 1970 brought fourteen major commercial banks with deposits exceeding Rs. 50 crores into public sector with effect from 19th July 1969. The remaining 52 Indian private commercial banks controlled deposits which comprised hardly six per cent of the deposits of the Indian banking system. The fifteen foreign banks commanded
deposits to the tune of Rs. 430 crores on December 31, 1962 which meant nine per cent of the commercial bank deposits in India. Thus, after the take-over of the fourteen major banks comprising the hard core of the private sector banking in India the public sector now controls well over 85 per cent of deposits, advances and investments in India.

One of the main objectives of bank nationalisation has been that of giving a professional bent to the bank management. There is lot of force in this statement that the efficient working of the bank needs a good deal of trained and professional bankers. For the first time in the history of banking, professional expertise is given prominence. There has been an overhaul of Board of Directors and professionalisation of top positions has been achieved. The Chief Executive of the nationalised bank is a professional banker. He is a full time executive. In the new Board of Directors of nationalised banks, representatives of the staff and the bank officers have also been associated in the capacity of the Directors. The new Boards of Directors also include experts from different fields such as agriculture, small-scale industries and handicraft.

For better co-ordination among public sector banks and administrative agencies of the State Governments six regional consultative committees, consisting of repre-
sentatives of the State Governments and Union Territories and the Chairmen of the nationalised banks have been constituted. These Committees review banking development in their respective regions. Similarly, State-level co-ordination committees have also been set up.

It is very interesting however that even after nationalisation, all the fourteen banks have been operating as autonomous institutions.

The then Prime Minister stated in her 19th July 1969 radio broadcast that "as far as possible and certainly for some time to come, we propose to retain the separate identity and the present management of each banks-- In due course structural and other changes may become necessary. These will be made in an orderly fashion and after broad-based consultations and the most detailed expert examination."

This only indicates that the need for structural re-organisation of these banks was there in the mind of the Government.

9.3 The Co-operative Banks

Indian co-operative banking exhibits a federal structure. The primary village societies constitute the base layers of the system. In the middle there are central co-operative unions and central co-operative banks. The main function of the central unions and banks is to provide
finance to the primary societies. At the apex of the system stands the State Co-operative Bank. In almost every State there is one such bank which regulates and integrates the working of the central co-operative banks situated within the State. The main function of the apex banks is to advance money to the central co-operative banks which in turn give loans to the primary societies.

Then at the village level there are co-operative societies formed for a particular purpose like Consumer’s Co-operatives, Marketing Co-operatives etc. In recent times these co-operative societies are becoming popular in cities and towns especially the Housing Co-operatives.

9.4 Responsibilities of the Public Sector Banks

Certain responsibilities are thrust upon the public sector undertakings and the fourteen commercial banks which have recently entered this sector can be no exception. In order to shoulder these responsibilities the public enterprises have to solve four main problems. The first task is to ensure that their administrative and management mechanism is sound. In the second place they have to ensure that the schemes assigned to them are not being planned and implemented in isolation thus resulting in duplication and extravagance. Third they have to pioneer their personnel policies in such a way that the quality of customer service improves. Fourth, they have to undertake
large entrepreneurial responsibilities. And they have to build up an effective system of examination and assessing results.

It must be clearly recognised that modern administration is an exercise in the art of management as distinct from regulation. This involves administrative rationalisation which would, on the one hand, modernise the existing organisational machinery and on the other would establish a suitable system of recruitment and promotion free from the abuses of corruption and nepotism and guaranteeing sufficient flexibility they deserve, irrespective of seniority and class status.

At the highest level there are three partners engaged jointly for managing a public sector enterprise—the legislators, the ministers and the civil servants. The success of the partnership will depend upon the proper understanding of their respective role by the partners concerned without basing their relationship on mutual jealousy, suspicion, frustration and approaching each other with discretion.

The urgent necessity in managing the public sector banks is to enlarge the field of decision-taking at each stage of the exercise of authority rather than that of surrendering one's judgement to the superior knowledge and wisdom at seniority level. At present more often, the policy decisions are taken without any allocation of new
responsibility and resources, administrative, financial or others. The decision often tends to descend meteor-like from the sky. Neither specially nor by implication studies are made by the bodies responsible for implementing the decisions.

The nationalised banks have a particular responsibility for pioneering their personnel policy towards better standard of personnel management. Being placed in the position of 'model employer' it is naturally expected of them that they would take a larger and socially-conscious view of the development. The problem of meeting the growing demand of professional managers as persons holding positions of responsibility in an organisation in order to secure results through the work of others in different functional areas, requires an urgent solution. Public sector banks have great responsibility to evolve suitable managerial cadre capable of fostering a spirit of spontaneous and co-operative effort and encouraging initiative and self-discipline. Banks should try to get the necessary talent wherever it is available and whoever possesses it.

The schemes assigned to the public sector banks are being planned and implemented in isolation. Compartmental execution of the various schemes by multiplicity of agencies working in the same field has rendered the task of integration, co-ordination and simplification a formidable one. The co-ordination between the various interested departments,
States and even the institutions themselves deserve an immediate consideration. They cannot be allowed to compete with each other jeopardizing the cause of national development and uniformity.

9.5 Commercial Banking Vs. Co-operative Banking

While the institutions in both the sectors are primarily concerned with collection of deposits and lending, there are important differences in their objectives, organisation and operations. Each commercial bank is an independent organisation with freedom to establish a country-wide branch network. The co-operative credit institutions on the other hand follow a three tier federal pattern with definite demarcation of area of operation of each institution.

The commercial banks were individualistic in their approach and concerned primarily with maximisation of profit for the shareholders. They are therefore guided by consideration of quantum of business and security and hence the activities were mainly concentrated in large cities and metropolitan areas and to profitable avenues provided by the big business.

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activities were mainly concentrated in large cities and metropolitan area and to profitable avenues provided by the big business.

This position is however changing since nationalisation. The co-operative institutions are guided by considerations of group interest and social goals. They are therefore concentrated mainly with small, the neglected sector. They, therefore, operate in villages and small towns providing finance to the small agriculturist, village artisans and even labouring classes, organised in co-operative societies. Now the nationalised banks have also been specifically made responsible to take care of the priority sectors especially of agriculture and small industry.

The responsibility for ensuring that the requirements of the preferred sectors are duly met in all areas, districts have been placed under each nationalised bank under the Lead Bank Scheme. In order to shoulder this responsibility the nationalised banks are opening new branches in rural areas at a very fast rate.

With the commercial banks thus spreading their activities in the rural areas there arose the possibility of duplication of activities and wasteful competition in two types of institutions. Efforts have therefore been initiated for proper co-ordination of their activities through the co-operative credit council and co-ordination
committee at the national, state and district levels.

The commercial banks had so far shown shyness in undertaking financing the retail and risky business of agriculture. Hence, they do not possess the knowledge and experience in agricultural financing and also do not have staff with the right inclination and aptitude for working among the villagers and internal areas. But they have large financial resources and an effective line of command under the unitary pattern, from the head office at the top to the branches at the bottom.

The co-operatives on the other hand, working at different levels are basically independent democratic institutions though they are linked with each other in the federal structure. The line of authority therefore is comparatively weak in the case of the co-operative banks. By and large, from the financial point of view also, the co-operative banks are considered weaker than the commercial banks. But all these shortcomings are compensated by the intimate knowledge of agricultural business and ideal procedures of the crop loan system that they have evolved through trial and error and experimentation over decades.

The co-ordination therefore is essential as advocated by the Banking Commission to get the most of the advantages of the two types of institutions. The Commission has admitted that the commercial banks will take time to develop
appropriate systems and procedures of decentralised operations and agricultural financing and therefore the co-operative machinery will have to be relied upon particularly at the village level.

9.6 Co-operative Banking and Public Sector Banking

From the point of view of the optimum utilisation of their resources, the best way of co-ordination appears to be the pooling together of financial resources of the nationalised banks and the widespread organisation of co-operative credit structure. This implies that the resource position of the co-operatives should be strengthened by the nationalised banks. This would be best done by nationalised banks lending to the State Co-operative Banks either in the form of refinance or by way of term deposits. Alternately direct financing of agriculture and allied activities by the nationalised banks could be profitably restricted to the requirements of agricultural development and creation of infra-structure either on a project basis or on an area basis. The nationalised banks should concentrate more in less developed areas. Direct financing for current production needs should be left to the care of the co-operatives which have developed an elaborate system of loan disbursement—according to the requirements with respect to time as well as composition and its linked recovery out of sale proceeds through
the marketing co-operatives, thus ensuring the proper utilisation and timely repayment. In few States the nationalised banks have started financing the agricultural credit societies. Although the experiment might appear unsuccessful such an arrangement might be conducive to the long term objective of the development of a decentralised co-operative structure. The Banking Commission has also prescribed the rural subsidiary bank only as a transitional nature measure and has maintained that the ultimate aim should be to ensure an orderly growth of efficient and strong co-operative societies undertaking manifold activities and providing various banking and other services.

The Banking Commission considers that deposit mobilisation in the rural areas will continue to be the responsibility of co-operative banks in spite of the fact that they have no successful record in this line. There should be non-financing multipurpose agency functioning as purely advisory body, providing advice and guidance to small industrial units regarding the availability of raw materials, other resources and institutional sources of finance and technical matters. The State Government should take the main initiative in setting up the multi-service agencies which should serve both the commercial and co-operative banks. Commercial banks could however render help in this regard and they should be encouraged
to provide consultancy and other technical service wherever they can. For agricultural credit there should be a suitably co-ordinated and supervised credit structures. As far as possible a borrower should get his entire credit from one single institutional agency.

Thus recently when the commercial banks have entered the rural areas and started financing agriculture and cottage industries, which were till recently an exclusive preserve of the co-operatives they must arrive at some working arrangements with the co-operatives. Further, since the co-operatives are not in a position to cover the entire credit needs of agriculture they should welcome the help from the commercial banks which are sharing some of their burden. There is lot of scope for both co-operative and commercial banks to work together so that the widespread organisation of co-operatives can be strengthened with the managerial expertise and financial resources of the commercial banks.

9.7 Private Sector Banks since Nationalisation

While a lot is heard about the achievements of the nationalised banks since nationalisation very little is heard of the performance and progress of the scheduled commercial banks is private sector. At the time of nationalisation there were as many as forty-four scheduled commercial banks which escaped the axe of nationalisation,
because their deposits were below Rs. 50 crores.

What is remarkable about the private sector scheduled commercial banks is that despite being under no statutory obligation they operated within straight jacket of the objectives of bank nationalisation. They have been reorienting their operations and policies so as to fit in the national obligations. The private sector scheduled commercial banks have made every efforts to mobilise more deposits, to open new branches particularly in rural and semi-urban areas and to extend credit facilities particularly to the priority sectors and weaker sections of the community.

At the end of December, 1975 there were three private sectors scheduled commercial banks which have deposits over Rs. 50 crores, which was the norm set by the Government for the take over of banks as on July 19, 1969.

The private sector scheduled commercial banks have been expanding their network of branches equally fast as their public sector counterparts. They added 1115 new branches to their total of 1319 offices. At the end of June 1969 the total branches of the private sector banks were 1319 taking the figure of 2434 as at the end of 1972 and 3566 as at the end of 1975. Out of 2200 branches opened during 1969 to 1975, the private sector banks took care to see that the largest number were opened in the rural and semi-urban areas. The area-wise analysis of branches
open is:

- 42.8% in rural area.
- 23.5% in semi-urban area.
- 12.4% in urban area.
- 9.3% in metropolitan and port town area.

The private sector scheduled commercial banks are not also lagging behind in respect of deposits and advances to priority sectors. The deposits of the scheduled commercial banks increased from Rs. 4664 crores in June 1969 to Rs. 7264 crores at the end of June 1975 and Rs. 15056 crores at the end of June 1976. The advances of the scheduled commercial banks increased from Rs. 3599 crores in June 1969 to Rs. 11464 in June 1976.

9.8 Commercial Banks Vs Public Sector Banks

It is generally admitted that service in private sector scheduled commercial banks is of a very high order. The management of the private sector scheduled commercial banks have shown a sense of rare dynamism to funnel in the peoples' savings. These banks now offer a large number of attractive deposit schemes to motivate people to save in banks. They are also in a happy position because all these banks are regional banks with tremendous local influence. The personal touch which is maintained with their clients by the local managers and right up their hierarchy to the top management is the another
factor which helps these banks to attract more business.

These banks have not merely opened branches and mobilised more deposits but they have equally and simultaneously been extending credit facilities, over and above large borrowers to the borrowers of small means. Most of these banks have taken initiative on their own to adopt village for a total programme of economic development of the area.

9.9 **Women Banke**

In very recent times banks have emerged as not only the preserver of under privileged class interest but banks have also become the server of the interests of women folk. The day-to-day requirements of women too - especially in the urban and metropolitan centres are looked after by women banking. So far banking in India has been mainly a male function in the sense that there was not a single bank fully managed by women. Whatever be the historical reasons for this state of affairs, but the banks have now realised the value of women banking and took steps to popularise banking habits among them, by opening what is known as "Mahila Banke".

In modern times although man is in many cases the bread earner, in most homes the hard work falls on women, so that she emerges as the saver of the family. In fact the women of today are called upon to play important roles
not only in society but also at home and in each and every field. With a better spread of banking habits among women the saving potential of the household sector could be tapped more easily.

In addition to this credit needs of women are also increasing fastly in modern times. They need credit for household appliances and also the number of self-employed women like doctors, engineers and other businesses has increased sharply who need finances for their business. Also there are traditional artisans to whom only a meagre share of credit was given so far.

Realising all these new changes in modern times, an idea came forward to establish 'women banks' - banks managed by women and for women. This idea took two forms in practice:-

(1) A bank to be registered as an independent organisation to be administered and managed by women for satisfying the credit requirements of women borrowers with the help of deposits collected from women depositors. It may be registered under the Banking Companies Act or under the Co-operative Societies Act. The women banks so far registered come under the co-operative sector. After the establishment of the 'Indira Sahakari Bank' at Bombay on 16th October 1972 the number of women banks were registered at different places.

(2) A branch of existing bank to be administered by
women employees to collect deposits from and meet credit requirements of women clients. Some of the commercial banks - especially the nationalised banks have opened such women branches in certain localities.

This section refers to the first type - banks registered as an independent organisation managed by and for women. The second type is not taken for consideration as they cannot be called as separate women banks. They are merely the branches of the existing banks and have to function just as any other branch. Like any other branch, the women branch has to function strictly according to the policy decisions taken by the bank management and the branch manager of women branch is required to function in the same way as any other branch manager. The only difference between the women branch and the other branches is that while the former is expected to cater to the needs of women in that locality, the other branches are for the society as a whole. The women branch manager is given the same training as is given to the other branch managers.

In our country in four states only the women banks have come up. In Maharashatra there are fourteen such banks and in Gujarat, Karnataka and Goa, one each such bank is established. Out of these only two banks are having branches. Actual and observational data was collected from six banks. Actual data was collected by visiting the concerned bank and taking their annual reports from their establishment.
upto the end of 1977-78. Observational data are collected by interviewing the Chairman, Managing Director, employees, depositors and clients of the banks.

Out of the six banks under consideration two were established in the year 1972 and the remaining four in 1974. These six banks also include the bank from Gujarat State.

Tables XXIII to XXVI show the deposits mobilised and loans granted by these Banks.

**Table XXIII**

<table>
<thead>
<tr>
<th>Bank</th>
<th>1972-73</th>
<th>1974-75</th>
<th>1976-77</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (1972)</td>
<td>Rs. 6.17</td>
<td>Rs. 24.37</td>
<td>Rs. 23.01</td>
</tr>
<tr>
<td>B (1972)</td>
<td>Rs. 5.79</td>
<td>Rs. 18.70</td>
<td>Rs. 20.09</td>
</tr>
</tbody>
</table>

**Table XXIV.** Deposits of the Banks established in 1974

As at the end of 30th June (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Banks</th>
<th>1974</th>
<th>1975</th>
<th>1976</th>
<th>% change 1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>Rs. 0.23</td>
<td>Rs. 1.75</td>
<td>Rs. 4.23</td>
<td>Rs. 11.74</td>
</tr>
<tr>
<td>D</td>
<td>Rs. 1.12</td>
<td>Rs. 1.74</td>
<td>Rs. 5.70</td>
<td>Rs. 8.63</td>
</tr>
<tr>
<td>E</td>
<td>Rs. 0.94</td>
<td>Rs. 6.80</td>
<td>Rs. 15.63</td>
<td>Rs. 30.25</td>
</tr>
<tr>
<td>F</td>
<td>Rs. 2.25</td>
<td>Rs. 12.30</td>
<td>Rs. 19.10</td>
<td>Rs. 21.34</td>
</tr>
</tbody>
</table>

From the above tables it will be clear that only two banks - F and F have been to some extent successful in
mobilising women savings.

Table XIV. Advances (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Bank</th>
<th>1972-73</th>
<th>1974-75</th>
<th>1976-77</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Rs. 6.34</td>
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</tr>
<tr>
<td>B</td>
<td>Rs. 6.35</td>
<td>Rs. 15.10</td>
<td>Rs. 18.25</td>
</tr>
</tbody>
</table>

Table XXVI (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Bank</th>
<th>1974</th>
<th>1975</th>
<th>1976</th>
<th>% change 1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>Rs. 0.13</td>
<td>Rs. 1.68</td>
<td>Rs. 3.67</td>
<td>Rs. 6.29</td>
</tr>
<tr>
<td>D</td>
<td>Rs. 1.87</td>
<td>Rs. 2.80</td>
<td>Rs. 4.89</td>
<td>Rs. 6.48</td>
</tr>
<tr>
<td>E</td>
<td>Rs. 0.06</td>
<td>Rs. 0.96</td>
<td>Rs. 9.60</td>
<td>Rs. 13.80</td>
</tr>
<tr>
<td>F</td>
<td>Rs. 3.59</td>
<td>Rs. 15.09</td>
<td>Rs. 17.44</td>
<td>Rs. 18.97</td>
</tr>
</tbody>
</table>

The advances given by these banks consist of (1) Fire purchase, (2) Clean, (3) Secured loan, (4) Small business, (5) Gold security.

All the advances are either for short term or medium term. No bank has yet given a long term advance. Some banks have given loans for marriages and other such functions also. However of the total advances given by all the banks the share of loan against gold security and loans for household appliances.
As far as the profitability is concerned, the
women banks are not in a position to earn sizeable profits.
Some banks established after 1974 are still incurring
losses. Other banks since last two-three years, have
started earning profits but the amount is negligible.

9.9.2 Management Pattern

Women Banks are managed by women and for women. The
management pattern of these banks is similar to any other
cooporative bank and the banking operations similar to
any other banking institution. The only point is that
being new in this field the women are facing number of
difficulties while managing these banks. Mostly the direc-
tors of these banks are social workers and most of them
are not adequately qualified. They are not well-versed in
banking. This has compelled all the banks to appoint an
adviser - generally a retired person from co-operative banks
to guide and counsel.

Also there is the problem of getting adequate staff
for day-to-day work. In all the banks all the staff con-
sists of women except the manager - who is generally a
retired person from the co-operative organisation. Out
of the above banks, three banks, only A, D and F have
appointed a woman as a manager.
9.9.3 Evaluation of the working

For the evaluation of the women banks a discussion on the following points is necessary.

(1) Deposit Mobilization: Still the women banks are lagging behind in tapping the women savings. Out of the above 5 banks, 3 banks -- A, B and F, are in big cities. Still over 5 years their deposits have not shown the desired increase.

An interesting point is that of the deposits mobilised so far by these banks nearly all are women depositors. Many things attract the women depositors to help their savings with these banks. First of all the working hours of these banks are suitable for women. Nearly all the banks are morning-evening which gives time to the women from their households and other duties to go to the bank and deposit their savings. Secondly, they feel that if they keep their savings with the bank, the bank will give them loans for purchasing household appliances. This is the attraction for women for depositing their savings with the women banks. Thirdly, in our country, majority of the women are illiterate. They do not know the banking transactions. Till the establishment of women banks the number of women going to the banks for depositing money or withdrawing it or taking loans was negligible. Now with the establishment of women banks, even though women are not knowing anything about the banking transactions,
they go to the banks as they can frankly explain their
difficulties to the women staff rather than to the male
staff.

Also all the banks have appointed special staff to go
to the doors of the prospective depositors to collect
deposits from them. This has also helped the banks to
mobilise maximum women depositors.

(2) Loans and Advances: Even though out of the total
deposits collected by these banks nearly all are women
deposits. That is not the case with the loans and advances,
especially with the loans given to small businesses. Many
times the loan is taken in the name of a woman showing
that she is actually carrying on the business. But the
loan is utilised by her husband or other relative who is
actually carrying on business. Even though on the paper
it seems that there are no male borrower, indirectly the
loan is utilised by them.

These banks are giving only short and medium term
loans. Generally the loans are taken for household appli-
cances. Loans against gold security are also common for
these banks. Also loans by small businesses by women are
common - particularly the Bhajiwalas take loans from women
banks.

The important point which attracts the women borrowers
is that these banks being still very small in size they
can get quickly the required loan. Another point is that
they are burdened by the banking procedures to be completed for getting loans as in the case of other banks. These banks still smaller in size can pay personal attention to the difficulties faced by the women borrowers and help them in solving those difficulties.

However, the main problem faced by all the banks is that of overdues. At the end of June 30, 1979, total credit granted by the women banks in Maharashtra is Rs. 110.60 lakhs. Out of this Rs. 25 lakhs is outstanding. This comes to 21.7%. Out of all the women banks in Maharashtra the overdues of one bank are less than 5%, three banks have 5 to 10%, two banks have 10% to 20%, and overdues of the five banks are more than 20%.

All these banks are new and hence the percentage given above is risky. The overdues of three banks are more than 25%. Taking these facts into account the banks should revise their credit policy while granting loan. The following facts should be taken into account:

1. The purpose of credit
2. The need for credit
3. The repayment capacity
4. The scrutiny of securities offered

Further, the banks should give the borrower the plan for repayment at the time of granting loans and must see to it that the repayment is made according to the plan.

5. In our country some fields were traditionally
reserved for men only. Banking was one of them. Uptil now women were working as employees in the banks. But with the establishment of women banks they have also entered in the management field which was supposed to be reserved for men only. In modern times also, in some cultures in our country women are using 'Purdah' or 'Gosha'. Particularly for these women, women banking has become a blessing.

However, the major difficulty is regarding the qualified and trained staff. As all these banks are still new they cannot afford high pay-scales as in other banks. The result is that the best talent cannot be attracted to these banks. The staff turnover is also high. The management takes women as employees at a stage when they are not knowing anything about banking. They try to train them by job rotation or other methods. When they get trained, they find a better job and leave the banks.

Thus all the banks are facing acute shortage of qualified and trained staff.

9.9.1 Suggestions

Banking is a special field and in modern times it has become more specialised. In order that these banks are managed effectively and efficiently, first of all the Directors of these banks and the manager must be trained in modern banking. In this regard the Reserve Bank of
India and the Apex Co-operative Banks should come forward to provide the training to the directors and managers. Even the National Institute of Bank Management should come forward for solving the difficulties faced by these banks.

In modern times it is very necessary to enter into various fields like small and village industries, traditional artisans, self-employed women, etc. for granting credit and at the same time the banks must try to attract as many deposits as possible to face the competition in this field.

Large percentage of overdues is another acute problem faced by these banks. To reduce it two steps can be suggested:

(a) While granting the loan every care should be taken.

(b) Strict supervision over the utilisation of loan given is essential.

Only two banks have so far appointed special inspection staff. After the loan is taken the bank must see to it that the loan is utilised by the women to whom it is given and it is utilised for the purpose for which it is given. At the same time of granting loan the banks should give repayment plan to the concerned borrower and close watch must be kept on whether that borrower is repaying the loan according to the plan. If the borrower becomes a defaulter the bank should send their inspection staff to
that borrower for recovery. Unless drastic steps are taken the banks will not be able to minimise the percentage of overdues.

However, there are the difficulties which any bank faces in its initial stages. Maximum efforts should be made by the Bank Managements, the Reserve Bank of India and the Apex Co-operative Banks to overcome these difficulties and make them Banks successful which is a need of modern times.

9.10 Regional Rural Banks

Even though after nationalisation the commercial banks have started extending credit to the priority sectors and opening branches at rural centres it was found that all these measures could do precious little in providing credit to the needy rural community. The main reason has been want of appropriate credit policy suited to the rural sector by the commercial banks. It was therefore decided to set up fifty Regional Rural Banks in different regions of the country each catering for a population of two million. There are 13 Regional Rural Banks functioning in different parts of the country by the end of 1908. These banks are expected to succeed where the commercial and the co-operative banks have failed. Structurally the Centre, State and the sponsoring Commercial Banks will share the equity in the ratio 50:15:35 respectively.
The bank personnel must necessarily have a rural background and will be entitled to a scale of pay prevailing in respective States. The banks will be located in relatively backward and tribal areas or where the commercial banks are not very active.

With the emergence of these Regional Rural Banks on the rural scene, the problem of avoiding competition of overlapping amongst the various institutions operating in the rural areas has assumed added urgency. Areas should be specifically allocated to the financing agencies on the basis of clusters of villages or allocation of the co-operative societies operating in the area. The Regional Rural Banks can conduct their operation in two or more adjoining districts where commercial banks and co-operative banks may already be functioning. Allocation of areas as between the commercial banks and the co-operative banks is itself a problem. The emergence of third institution in the shape of Regional Rural Bank would make the problem more aggravated in as much as the three institutional agencies must avoid duplicating and/or cutting into efforts of the other two. The co-operative societies will have to be promoted and strengthened to act as effective intermediaries for disbursement of credit on behalf of the commercial banks. The allocation of the societies among the three agencies needs to be undertaken in a purposive manner and that this is a matter to be tackled urgently.
needs to be appreciated. The problem of overlapping has already arisen in the area of operation of some of the Regional Rural Banks being served by the branches of commercial banks. The problem becomes more acute when the commercial banks branch has been opened only for agricultural lending. As on 31st August 1977 they had opened 987 branches, mobilised deposits of Rs. 20.5 crores involving 5.4 lakh accounts. Since their inception, they had disbursed credit of Rs. 27.4 crores involving 9.1 lakh accounts. Small and marginal farmers, landless labourers were given Rs. 15.9 crores and the rural artisans got Rs. 3.3 crores.

The public sector commercial bank is lending to agriculturists at the interest rates far lower than those charged by Regional Rural Banks. They have thus become competitors to the rural banks which they themselves have sponsored and to the co-operative banks. When the rural banks were set up it was made clear that their interest rates should not be different from those of the co-operative banks. The rate fixed for fourteen per cent which was considerably lower than that charged by the moneylenders. The idea was that rural banks should supplement co-operative banks and not supplant them. However, it was not anticipated that the public sector banks would compete with rural banks by charging lower rates of interest. The competition from this more viable sectors would certainly undermine the confidence of the rural banks and defeat the very purpose
There is yet another direction in which rural banks are handicapped. It was understood when rural banks were set up that in the areas where co-operative credit structure was weak, the co-operative societies in these areas would be ceded to the rural banks. But this understanding is not being honoured by the State Governments. This is evidently due to the fact that co-operative banking being a State subject and commercial banking being controlled by the Centre, State Governments are unwilling to give up their control, even partially, over the co-operative banking institutions. This situation needs to be properly corrected early if the rural banks are to make any significant impact in the rural areas.