CHAPTER III

INDIAN ECONOMY AT A GLANCE AND

PROFILING OF EXTANT BRANCH AUTHORIZATION POLICY

In this chapter the researcher profiles the demographic, economic and geographic dimensions of the country as a basis for the analysis of the branch expansion policy in India.

3.1.1. Demographic Profile of India

The demographics1 of India are inclusive of the second most populous country in the world, with over 1.41 billion people (2012 census), more than a sixth of the world's population. Already containing 17.5% of the world's population, India is projected to be the world's most populous country by 2025, surpassing China, its population reaching 1.6 billion by 2050. Its population growth rate is 1.41%, ranking 102nd in the world in 2010.

India has more than 50% of its population below the age of 25 and more than 65% below the age of 35. It is expected that, in 2020, the average age of an Indian will be 29 years, compared to 37 for China and 48 for Japan; and, by 2030, India's dependency ratio should be just over 0.4.

India has more than two thousand ethnic groups, and every major religion is represented, as are four major families of languages (Indo-European, Dravidian, Austro-Asiatic and Tibeto-Burman languages) as well as two language isolates (the Nihali language spoken in parts of Maharashtra and the Burushaski language spoken in parts of Jammu and Kashmir).
Further complexity is lent by the great variation that occurs across this population on social parameters such as income and education. Only the continent of Africa exceeds the linguistic, genetic and cultural diversity of the nation of India.

India occupies 2.4% of the world's land area and supports over 17.5% of the world's population. Per the 2001 census, 72.2% of the population lives in about 638,000 villages and the remaining 27.8% lives in more than 5,100 towns and over 380 urban agglomerations. India’s populations exceed that of the entire continent of Africa by 200 million people.

With 1,210,193,422 residents reported in the 2011 provisional census, India is the world's second-most populous country. Its population grew at 1.76% per annum during 2001–2011, down from 2.13% per annum in the previous decade (1991–2001). The human sex ratio, according to the 2011 census, is 940 females per 1,000 males. The median age was 24.9 in the 2001 census. Medical advances made in the last 50 years as well as increased agricultural productivity brought about by the "Green Revolution" have caused India's population to grow rapidly. India continues to face several public health-related challenges. According to the World Health Organization, 900,000 Indians die each year from drinking contaminated water or breathing polluted air. There are around 50 physicians per 100,000 Indians. The number of Indians living in urban areas has grown by 31.2% between 1991 and 2001. Yet, in 2001, over 70% lived in rural areas. According to the 2001 census, there are 27 million-plus cities in India, with Mumbai, Delhi, Kolkata, Chennai, Bangalore and Hyderabad having the most populous metropolitan areas. The literacy rate in 2011 was 74.04%: 65.46% among females and 82.14% among males. Kerala is the most literate state; Bihar the least. India is home to two major language families: Indo-Aryan (spoken by about 74% of the population) and Dravidian (24%).
Other languages spoken in India come from the Austro-Asiatic and Tibeto-Burman language families. India has no national language. Hindi, with the largest number of speakers, is the official language of the government. English is used extensively in business and administration and has the status of a "subsidiary official language"; it is important in education, especially as a medium of higher education. Each state and union territory has one or more official languages, and the constitution recognizes in particular 21 "scheduled languages".

The Constitution of India recognizes 212 scheduled tribal groups which together constitute about 7.5% of the country's population. The 2001 census reported that Hinduism, with over 800 million adherents (80.5% of the population), was the largest religion in India; it is followed by Islam (13.4%), Christianity (2.3%), Sikhism (1.9%), Buddhism (0.8%), Jainism (0.4%), Judaism, Zoroastrianism, and the Bahá'í Faith. India has the world's largest Hindu, Sikh, Jain, Zoroastrian, and Bahá'í populations, and has the third-largest Muslim population and the largest Muslim population for a non-Muslim majority country. This underlines the scope for introducing Islamic banking concepts in a large scale.

3.2.2. Economic Profile of India

As of 2011, the Indian gross domestic product is nominally worth US$1.848 trillion; it is the tenth-largest economy by market exchange rates according to the World Bank data and is, at US$4.457 trillion, the third-largest by purchasing power parity, or PPP. With its average annual GDP growth rate of 5.8% over the past two decades, and reaching 6.1% during 2011–12, India is one of the world's fastest-growing economies. However, the country ranks 140th in the world in nominal GDP per capita and 129th in GDP per capita at PPP. Until 1991, all Indian governments
followed protectionist policies that were influenced by socialist economists. Widespread state intervention and regulation largely walled the economy off from the outside world. An acute balance of payments crisis in 1991 forced the nation to liberalize its economy; since then it has slowly moved towards a free-market system by emphasizing both foreign trade and direct investment inflows. India's recent economic model is largely capitalist. India has been a member of WTO since 1st January 1995.

Figure 3.1: Glimpses of India: Banks

Source: Data Base on Indian Economy², RBI

The 487.6-million worker Indian labor force is the world's second-largest. The service sector makes up 55.6% of GDP, the industrial sector 26.3% and the agricultural sector 18.1%. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, and potatoes. Major industries include textiles, telecommunications, chemicals, food processing, steel, transport equipment, cement,
mining, petroleum, machinery, and software. In 2006, the share of external trade in India's GDP stood at 24%, up from 6% in 1985. In 2008, India's share of world trade was 1.68%; in 2011, India was the world's tenth-largest importer and the nineteenth-largest exporter. Major exports include petroleum products, textile goods, jewelry, software, engineering goods, chemicals, and leather manufactures. Major imports include crude oil, machinery, gems, fertilizer, and chemicals. Between 2001 and 2011, the contribution of petrochemical and engineering goods to total exports grew from 14% to 42%.

Averaging an economic growth rate of 7.5% during the last few years, India has more than doubled its hourly wage rates during the last decade. Some 431 million Indians have left poverty since 1985; India's middle classes are projected to number around 580 million by 2030. Though ranking 51st in global competitiveness, India ranks 17th in financial market sophistication, 24th in the banking sector, 44th in business sophistication, and 39th in innovation, ahead of several advanced economies. With 7 of the world's top 15 information technology outsourcing companies based in India, the country is viewed as the second-most favorable outsourcing destination after the United States. India's consumer market, currently the world's eleventh-largest, is expected to become fifth-largest by 2030. Its telecommunication industry, the world's fastest-growing, added 227 million subscribers during the period 2010–11. Its automotive industry, the world's second fastest growing, increased domestic sales by 26% during 2009–10, and exports by 36% during 2008–09. Power capacity is 250 gigawatts, of which 8% is renewable. At the end of 2011, Indian IT Industry employed 2.8 million professionals, generated revenues close to US$100 billion equaling 7.5% of Indian GDP and contributed 26% of India's merchandize exports.
Despite impressive economic growth during recent decades, India continues to face socio-economic challenges. India contains the largest concentration of people living below the World Bank's international poverty line of US$1.25 per day, the proportion having decreased from 60% in 1981 to 42% in 2005. Half of the children in India are underweight, and 46% of children under the age of three suffer from malnutrition. The Mid-Day Meal Scheme of the Government attempts to lower these rates. Since 1991, economic inequality between India's states has consistently grown: the per-capita net state domestic product of the richest states in 2007 was 3.2 times that of the poorest. Corruption in India is perceived to have increased significantly, with one report estimating the illegal capital flows since independence to be US$462 billion. Driven by growth, India's nominal GDP per capita has steadily increased from US$329 in 1991, when economic liberalization began, to US$1,265 in 2010, and is estimated to increase to US$2,110 by 2016; however, it has always remained lower than those of other Asian developing countries such as Indonesia, Iran, Malaysia, Philippines, Sri Lanka, and Thailand, and is expected to remain so in the near future.

According to a 2011 PricewaterhouseCoopers report, India's GDP at purchasing power parity could overtake that of the United States by 2045. During the next four decades, Indian GDP is expected to grow at an annualized average of 8%, making it potentially the world's fastest-growing major economy until 2050. The report highlights key growth factors: a young and rapidly growing working-age population; growth in the manufacturing sector due to rising education and engineering skill levels; and sustained growth of the consumer market driven by a rapidly growing middle class. The World Bank cautions that, for India to achieve its economic potential, it must continue to focus on public sector reform, transport infrastructure, agricultural and rural development, removal of labor regulations,
education, energy security, and public health and nutrition. As per a report by Data
monitor, India is expected to occupy sixth place in top 10 wealth markets list by the
end of 2012.

Citing persistent inflation pressures, weak public finances, limited progress on
fiscal consolidation and ineffectiveness of the government, rating agency Fitch
revised India's Outlook to Negative from Stable on 18 June 2012. Another credit
rating agency S&P had warned previously that a slowing GDP growth and political
roadblocks to economic policy-making could put India at the risk of losing its
investment grade rating. However, Moody, another reputed credit rating agency didn’t
revise its outlook on India keeping it stable but termed the national government as the
"single biggest drag" on the business activity.

3.2.3. Geographical Profile of India

India comprises the bulk of the Indian subcontinent and lies atop the minor
Indian tectonic plate, which in turn belongs to the Indo-Australian Plate. India's
defining geological processes commenced 75 million years ago when the Indian
subcontinent, then part of the southern supercontinent Gondwana, began a north-
eastward drift across the then-unformed Indian Ocean that lasted fifty million years.
The subcontinent's subsequent collision with and subduction under the Eurasian Plate,
bore aloft the planet's highest mountains, the Himalayas.

They abut India in the north and the north-east. In the former seabed
immediately south of the emerging Himalayas, plate movement created a vast trough
that has gradually filled with river-borne sediment; it now forms the Indo-Gangetic
Plain. To the west lies the Thar Desert, which is cut off by the Aravalli Range.
The original Indian plate survives as peninsular India, which is the oldest and geologically most stable part of India; it extends as far north as the Satpura and Vindhya ranges in central India. These parallel chains run from the Arabian Sea coast in Gujarat in the west to the coal-rich Chota Nagpur Plateau in Jharkhand in the east. To the south, the remaining peninsular landmass, the Deccan Plateau, is flanked on the west and east by coastal ranges known as the Western and Eastern Ghats; the plateau contains the nation's oldest rock formations, some of them over one billion years old. Constituted in such fashion, India lies to the north of the equator between 6° 44' and 35° 30' north latitude and 68° 7' and 97° 25' east longitude.

India's coastline measures 7,517 kilometres (4,700 mi) in length; of this distance, 5,423 kilometres (3,400 mi) belong to peninsular India and 2,094 kilometres (1,300 mi) to the Andaman, Nicobar, and Lakshadweep island chains. According to the Indian naval hydrographic charts, the mainland coastline consists of the following: 43% sandy beaches; 11% rocky shores, including cliffs; and 46% mudflats or marshy shores.

Major Himalayan-origin rivers that substantially flow through India include the Ganges and the Brahmaputra, both of which drain into the Bay of Bengal. Important tributaries of the Ganges include the Yamuna and the Kosi; the latter's extremely low gradient often leads to severe floods and course changes. Major peninsular rivers, whose steeper gradients prevent their waters from flooding, include the Godavari, the Mahanadi, the Kaveri, and the Krishna, which also drain into the Bay of Bengal; and the Narmada and the Tapti, which drain into the Arabian Sea. Coastal features include the marshy Rann of Kutch of western India and the alluvial Sundarbans delta of eastern India; the latter is shared with Bangladesh.
India has two archipelagos: the Lakshadweep, coral atolls off India's south-western coast; and the Andaman and Nicobar Islands, a volcanic chain in the Andaman Sea. The Indian climate is strongly influenced by the Himalayas and the Thar Desert, both of which drive the economically and culturally pivotal summer and winter monsoons. The Himalayas prevent cold Central Asian katabatic winds from blowing in, keeping the bulk of the Indian subcontinent warmer than most locations at similar latitudes. The Thar Desert plays a crucial role in attracting the moisture-laden south-west summer monsoon winds that, between June and October, provide the majority of India's rainfall. Four major climatic groupings predominate in India: tropical wet, tropical dry, subtropical humid, and montane.

3.2. Branch Authorization Policy: A Review

Banks are the nerve center of Indian economy as they play a vital role in the promotion of economic growth. It has a social responsibility too to cater to the needs of every one in the country as everybody is equal as evidenced by the ‘one man one vote’ principles of the Indian democracy.

There was a time when an account holder in a bank considered himself to be a privileged person. But now the banks feel privileged when their number of account holders escalates. That means more and more people are enjoying banking services. Still the question remains whether all of those who need banking services are enjoying. The answer to the question is not definitely ‘yes’. The bank services must reach every one the tiller, the weaver and the mason.

The Nationalization of banks in India in 1970 is a landmark event in the history of banks in India. It was at this time the seeds of the concept of Financial Inclusion were sown. The banks that were catering to the needs of a class were made to open the doors to the masses. It was expected to transform ‘Class Banking’ in to
‘Mass Banking’. It necessarily called for opening new branches in new areas to cater to new categories of people. They included the agriculturist, artisan, laborer and the common man.

The Reserve Bank of India, the statutory authority is empowered to give permission to open new branches. In addition it plays a triple role, (supervisory, advisory and corrective), in the establishment, of bank branches. Under Sec 23 of the Banking Regulation Act of 1949 it is enjoined on the banks to seek permission from RBI to open new branches, to close down existing ones or even for shifting a branch from one place to another.

The RBI while considering Branch Expansion Plan kept in view the need to strike a balance in opening branches between the rural and semi-urban centers on the one hand and the Urban Centers on the other. Consequently in Feb 1970 the RBI decided to adopt a rule of 1:2 between banked and unbanked Centers in the case of banks that had more than 60% of their offices in Rural and Semi-urban Centers and in the case of other banks the ratio was to be 1:3.

In September 1971, this rule was relaxed so that more branches in Metropolitan and port towns might be opened. Under the revised norms, a bank having 60% or more of its offices in rural and semi-urban areas will be eligible to open one branch each in urban and metropolitan/port town for every two offices opened in rural and semi-urban centers. For other banks it would be for every three offices in rural and semi-urban centers.

In Jan 1977 the RBI adopted a rule under which a bank opening a branch in unbanked rural centers will get an entitlement to open one branch in a metropolitan or port town and one office in a banked center. The RBI was, however, considerate to
banks asking for an entitlement (Formula) of a banked center in lieu of an entitlement to metropolitan/port town.

After this, as stated by Aravind Panagiriya\(^6\) (2005), the ratio climbed up to 10 in 1980, fluctuated between 5 and 10 from 1980 to 1985 and then fluctuated even more wildly. During 1977-90 with the exception of 1986 when the ratio fell to 0.2, it remained above the prescribed limit throughout. Of course, the ratio collapsed in 1991 and rose above 1 only once (to 1:4 in 1994) during the period from 1992 to 2005.

The expansion of rural branches was meant to bring credit facilities to the rural areas and this was also considered as part of a government’s wide-ranging anti-poverty program. A key anti-poverty program known as the Integrated Rural Development Program (IRDP now renamed as Swarnajayanti Gram Swarozgar Yojana (SGSY) from April 1999) which had been pilot-tested in 1978-79, was extended to all blocks of the country in Oct 1980. The program aimed at increasing the asset base of the rural poor through the instrumentality of subsidized credit.

The government probably realized that the (1+1):4 rule prevalent after 1977 could only guarantee the rural-urban mix of the bank branches but not their rapid expansion. Further, it was also comprehended that if rural branches became unprofitable, it would affect the incentive to expand even urban branches and may ultimately turn the banks away from opening new branches altogether. Hence to obviate this result, the government also launched along with the IRDP another Program called the Branch Licensing Policy (BLP). The object of this Program was to bring the population per branch in each district to a specified number and this was introduced in a phased manner. In the first BLP between Jan 1979 to Dec 1981, the
population was fixed at 20,000 per branch. For the next two programs between 1982 and March 1985 and between April 1985 and March 1990 respectively the target was lowered to 17000 per branch.

Implementation of this Program involved states to identify deficit Districts and then prepare a detailed district wise program of branch expansion for each state in consultation with RBI.

Later in 1989, the government introduced a new Service Area Approach (SAA) aimed at consolidation of banking. The SAA assigned each block of 15 to 25 villages to a bank. Adding this requirement to the population target raised the number of branches to be opened under the third BLP from 5360 to 6814. Reserve Bank of India, the statutory authority is empowered Under Section 23 of the Banking Regulation Act of 1949 to lay down Branch Authorization Policy (BAP). It has been issuing circulars from time to time to meet the emerging conditions and needs in this regard.

The Master Circular dated September 8th, 2005 issued by RBI assumes importance as it supersedes all earlier instructions relating to branch authorization and introduces new guidelines with the objective of liberalizing and rationalizing the policy for opening of branches by Indian Banks in India. The policy laid down herein is expected to be in consonance with the medium term corporate strategy of banks and public interest. In branch authorization the predominant factor is ‘public interest’. This is what the circular says:

(ii) (a). “The RBI will, while considering applications for opening new branches give weightage to the nature and scope of banking facilities provided by banks to common persons, particularly in under banked/unbanked areas, actual credit flow to the priority sector, pricing of products and overall efforts for promoting
financial inclusion, including introduction of appropriate new products and the enhanced use of technology (ICT) for delivering of banking services.

(b). Such an assessment will include policy on common balance requirements (like waiver of penal charges for non maintenance of minimum balance or non requirement of maintenance of minimum balance, deregulation of savings bank deposit interest rates, plans to keep branches open on Sundays) and whether depositors have access to minimum banking or “no frills” (nomenclature has been recently changed by RBI to decently name it as Basic/Vanilla Savings Bank Account) banking services, commitment to the basic banking activity and quality of customer service.

The circular dispensed with the system of grating authorization for opening individual branches from time to time and introduced a system of giving aggregated approvals on an annual basis (for instance on an average a minimum of 25% of new bank branches should have been mandated to be opened in Tier V and VI).

In a commemorative lecture delivered by Shri V. Leeladhar\(^7\), (2005) Deputy Governor, Central Bank of India (RBI) in Dec, 2005, on “Taking Banking Services to the Common Man – Financial Inclusion” observes as follows:

“Despite making significant improvements in all the areas relating to financial Viability, Profitability and Competitiveness, there are concerns that banks have not been able to include vast segment of population, especially the underprivileged sections of the society, into the fold of basic banking services.” (Tapping the business potential at the Bottom of Pyramid – crediting social benefit schemes like Mahatma Gandhi Rural Employment Guarantee Act through Electronic Transfer Benefit)

In the course of lecture while explaining ‘financial inclusion’ as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low
income groups he observes that as banking services are in the nature of public good, it is essential that availability, of banking and payment services to the entire population without discrimination (class banking to mass banking – irrespective of business potential) is the prime objective of the public policy.

In conclusion he advises the banks to redesign their business strategies to incorporate specific plans to promote financial inclusions of low income group treating it both as a business opportunity as well as a corporate social responsibility and dispels the apprehension that taking banking to the sections constituting “the bottom of the pyramid” may not be profitable by reminding them of the fact that even the relatively low margins on high volumes can be a very profitable proposition. (Mobile phone service provider/operators – recharge coupon as low as Rs.10 in denominations).

Under the extant branch authorization policy in vogue since September w005 banks were encouraged to pen branches in under banked/unbanked districts and rural areas. But there were demands from various quarters that RBI should free branch licensing. The debate further intensified after various committees like the Committee on Financial Inclusion (Dr Rangarajan Committee) and Committee on Financial Sector Reforms (Dr Raghuram Rajan Committee) submitted their recommendations. While the committee on Financial Inclusion recommended that greater emphasis should be given to opening branches in financially excluded and under banked districts, the committee on Financial Sector Reforms advocated abolishing of branch licensing, altogether. Consequently RBI constituted a working group to review the existing branch authorization policy and the Group submitted the report.
Based on the recommendations of the working group the RBI issued a Circular dated 01-12-2009 to liberalize the extant branch authorization policy for domestic scheduled commercial banks (other than Regional Rural Banks-RRBs) as under:

a). that the said banks need not take permission from RBI for opening branches in Tier 3 to Tier 6 Centers (with population in up to 49999 as per Census 2001 but subject to reporting;

b). that the said banks can open branches rural, semi-urban and urban centers in North Eastern States (Seven Sister States) and Sikkim without permission from RBI, in each case, subject to reporting;

c). that opening of branches by the said banks in Tier 1 and Tier 2 centers (with population of 50,000 and above as per 2001 census) will continue to be with prior permission of RBI, except in the case of North Eastern States and Sikkim where the general permission would cover Semi-Urban and Urban centers also; that further, authorization would depend, inter alia, upon various aspects, including a requirement that banks may plan their branch expansion in such a manner, that at least one third of total number of branches opened in a financial year in Tier 3 to Tier 6 centers are in under banked districts(Average Population Per Office is greater than 12000 ) of under banked states as also upon a critical assessment of the bank’s performance in financial inclusion, priority sector\(^8\) lending (Mandated at 40% with an increased ambit of housing loan, educational, infra etc- even for Foreign banks, earlier it was 32%), customer service etc.

d). that banks are free to convert their general banking branches into specialized banking branches subject to the condition that the bank continues to serve the existing customers of the general banking services.
While liberalizing the Branch Authorization Policy the RBI reserves to itself the option to withhold the general permission on a case-to-case basis, taking into account all relevant factors. It was subsequently found that on average scheduled commercial banks opened about 20 percent of the total number of new branches in rural centers (Tier 5 and Tier 6) during the course of two years, as stated in Paragraph 97 of the Monetary Policy Statement, 2011-12.

Further in paragraph 98 of the said statement expressed the need to step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly and meet the targets set out for providing banking services in all villages with population over 2000. It further stated that keeping in view the goal of bringing banking services to identify 72,800 villages with population above 2000 by March 2012. And thereafter progressively to all villages over a period of time, there was a need for opening of more brick and mortar branches, besides the use of Business Correspondents. Hence, domestic SCBs were been mandated to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural (Tier-5 and Tier-6) centers.

Against the backdrop of this monetary policy statement, the RBI issued a circular dated 15/07/2001 where under it advised that while preparing their Annual Branch Expansion Plan, they should allocate at least 25% of the total number of branches proposed to be opened during a year in unbanked rural centers, where there were no brick and mortar structure of any scheduled commercial bank for customer based banking transactions. Consequently it stated that it was not mandatory to open at least one third of the total number of branches proposed to be opened in Tier-3 and Tier-6 centers in under-banked districts of under-banked states. For the convenience of the bankers to devise
their financial inclusion plan, the RBI has published the list of Under Banked Districts and Under Banked States; it is shown in Table 3.1 & 3.2

**TABLE 3.1: List of Under Banked Districts (UBD)**

<table>
<thead>
<tr>
<th>S.No</th>
<th>State/UT</th>
<th>Number of UBD*</th>
<th>S. No</th>
<th>State/UT</th>
<th>Number of UBD*</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Andhra Pradesh</td>
<td>13</td>
<td>15.</td>
<td>Manipur</td>
<td>08</td>
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<tr>
<td>02.</td>
<td>Arunachal Pradesh</td>
<td>08</td>
<td>16.</td>
<td>Meghalaya</td>
<td>03</td>
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<tr>
<td>03.</td>
<td>Assam</td>
<td>21</td>
<td>17.</td>
<td>Mizoram</td>
<td>02</td>
</tr>
<tr>
<td>04.</td>
<td>Bihar</td>
<td>36</td>
<td>18.</td>
<td>Nagaland</td>
<td>08</td>
</tr>
<tr>
<td>05.</td>
<td>Chattisgarh</td>
<td>16</td>
<td>19.</td>
<td>Orissa</td>
<td>24</td>
</tr>
<tr>
<td>06.</td>
<td>Dadra&amp; Nagger Haveli</td>
<td>01</td>
<td>20.</td>
<td>Pondicherry</td>
<td>01</td>
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<tr>
<td>07.</td>
<td>Gujarat</td>
<td>12</td>
<td>21.</td>
<td>Punjab</td>
<td>01</td>
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<tr>
<td>08.</td>
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<td>22.</td>
<td>Rajasthan</td>
<td>25</td>
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<td>11.</td>
<td>Karnataka</td>
<td>06</td>
<td>25.</td>
<td>Tripura</td>
<td>04</td>
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<td>12.</td>
<td>Kerala</td>
<td>01</td>
<td>26.</td>
<td>Uttar Pradesh</td>
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<tr>
<td>13.</td>
<td>Madhya Pradesh</td>
<td>41</td>
<td>27.</td>
<td>West Bengal</td>
<td>16</td>
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<td>14.</td>
<td>Maharashtra</td>
<td>26</td>
<td>Total</td>
<td>375</td>
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*Source: Master Circular on Branch Authorization Policy dated 02/07/2012*

*Based on 2001 Population census*
### TABLE 3.2: List of Under Banked Districts in Under Banked States

<table>
<thead>
<tr>
<th>S. No</th>
<th>State/UT</th>
<th>Number of UBD *</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Arunachal Pradesh</td>
<td>08</td>
</tr>
<tr>
<td>02.</td>
<td>Assam</td>
<td>21</td>
</tr>
<tr>
<td>03.</td>
<td>Bihar</td>
<td>36</td>
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<td>04.</td>
<td>Chattisgarh</td>
<td>16</td>
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<tr>
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<td>Dadra &amp; Nagar Haveli</td>
<td>01</td>
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<td>Jharkhand</td>
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<td>Manipur</td>
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<td>10.</td>
<td>Mizoram</td>
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<td>11.</td>
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<tr>
<td>13.</td>
<td>Rajasthan</td>
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<tr>
<td>14.</td>
<td>Tripura</td>
<td>04</td>
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<tr>
<td>15.</td>
<td>Uttar Pradesh</td>
<td>63</td>
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<td>16.</td>
<td>Jammu &amp; Kashmir</td>
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<tr>
<td>17.</td>
<td>West Bengal</td>
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<td></td>
<td>Total</td>
<td>296</td>
</tr>
</tbody>
</table>

*Source: Master Circular on Branch Authorization Policy dated 02/07/2012
*Based on 2001 Population census*

The circular further stated that as there was a continuing need for opening more branches in under-banked districts of under-banked states for ensuring more uniform spatial distribution, banks would be provided incentive for opening such
branches. If the opening of 25 percent branches as contemplated above is complied with the RBI will give authorization for opening a branch in a Tier-1 center as incentive.

The above said initiatives have, in fact, led to increased pace in the number of branches opened in Tier-3 to Tier-6 centers. But in Tier-2 centers branch expansion did not take place at the desired pace. Hence to augment branch expansion in these centers RBI proposed to permit domestic scheduled commercial banks (other than RRBs) to open branches in Tier-2 centers without taking permission from it, but subject to reporting. Accordingly, under circular dated November 29, 2011 allowed the domestic scheduled commercial banks to open branches in Tier-2 centers (with population 50,000 to 99,999 as per Census 2001) without getting permission from RBI. Further the incentive given in the form of authorization for an additional branch in a Tier-1 center for each branch proposed to be opened in Tier-3 to Tier-6 is extended to Tier-2 centers also. Accordingly, for each branch proposed to be opened in Tier-2 to tier-6 centers of under-banked districts of under-banked states, authorization will be given for opening an additional branch in Tier-1 centers.

Against this scenario comes the Master Circular on Branch Authorization dated 02/07/2012 issued by RBI under Sec. 23 of Banking Regulation Act, 1949. This circular, as earlier ones, is meant to provide a framework of rules/ regulations/ procedures to be followed by all commercial banks (other than RRBs) including local area banks for opening of new branches and shifting of existing branches.

The circular gives an inclusive definition of a ‘branch’ as covering a full fledged branch, including a specialized branch, a satellite or mobile office, an extension counter, an offsite ATM, administrative office, controlling office, service
branch (bank office or processing centers) and credit card centers. A call center is excluded from the definition.

The object is similar as stated in earlier circulars but, enumerates additional elements to be included in the policy framework for opening new branches.

1. First, it takes up public interest dimensions of the policy framework and provides as hereunder;
   a. Weightage is to be given for the banking facilities provided by banks to common persons, particularly in under-banked areas, actual credit flow to the priority sector, pricing of products and overall efforts for promoting financial inclusion.
   b. The policy of the bank on minimum balance requirements, depositors access to minimum or ‘no frills’ banking services, commitment to basic banking activity, that is acceptance of deposits and provisions of credit and quality of consumer service is to be considered.
   c. The need to induce enhanced competition in the banking sector at various locations will be assessed.
   d. As a regulatory measure the RBI is entitled to oversee whether the regulations have been complied with in letter and spirit, to observe the activities of the banking group and the nature of relationship of the bank with its subsidiaries, affiliates and associates and to assess quality of corporate governance, proper risk management systems and internal control mechanisms.

2. Next, coming to the procedural aspects these are the provisions:
   a. The existing system of granting authorization for opening individual branches from time to time has been dispensed with and a new system of giving aggregated approvals on an annual basis has been introduced.
b. The banks are not required to approach the Regional office concerned of RBI for “license” for opening branches.

c. Domestic Scheduled Commercial banks can open branches without permission from the RBI:
   a. When they are opened in Tier 2 to Tier 6 centers, in rural, semi urban and urban centers in North Eastern states and Sikkim.
   b. When mobile branches are opened in Tier 3 to Tier 6 centers and in rural, semi-urban and urban centers in North Eastern States and Sikkim. But they are subject to reporting.
   c. The concept of Mobile branches has been mooted for rural areas and consequently the general permission granted for operating mobile branches in Tier 3 to Tier 6 has not been extended to Tier 2 Centers.

d. Opening of branches in Tier 1 centers (with population of 100000 and above as per 2001 census) will require prior permission of RBI except in the case of North Eastern States and Sikkim, where the general permission would cover semi-urban and urban centers also.

e. Scheduled Commercial Banks should allocate at least 25% of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 & Tier 6) centers, where there is no brick and mortar structure of any scheduled commercial banks for customer based banking transactions.

f. As 25% of branches proposed in a year are required to be opened in unbanked rural centers, now it is not mandatory to open one-third of the total number of proposed branches in Tier-2 to Tier-6 centers in under-banked districts of under-banked states.
g. In view of the continuing need for opening more branches in under-banked districts of under-banked states incentive would be given for opening such branches. For every branch opened in excess of 25% as stated above, authorization will be given for opening a branch in Tier-1 center.

Authorization for opening branches in Tier-1 centers should not generally exceed the total number of branches proposed to be opened in Tier-2 to Tier-6 centers as well as in the rural, semi-urban, and urban centers in the north-eastern states and Sikkim. While issuing such authorization, RBI will factor in whether at least 25% of total number of branches to be opened during a year is proposed to be opened in unbanked rural centers. Further opening of branches in Tier-1 centers would depend upon a critical assessment of banks performance in financial inclusion, priority sector lending, customer service, etc.

RBI would have the option to withhold the general permission now being granted, on a case to case basis, taking into account all relevant factors.

The circular also makes provision for setting up of off-site/mobile ATMs without permission from RBI but subject to any direction which it may issue.

Similarly, for opening mobile branches in Tier-2 to Tier-6 centers, as also in rural, semi-urban and urban centers in north-eastern states and Sikkim permission from RBI is not necessary but only reporting is contemplated.

Where the banks do not find it viable to open branches in rural areas, they may open satellite offices. It should have a fixed premise and should be controlled and operated from a base branch.

In addition to the above mentioned off-site/mobile ATMs, mobile branches with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, scheduled commercial banks, including Regional Rural Banks
and Local Area Banks have been permitted to use the services of intermediaries in providing financial and banking services through the use of; Business Facilitator/Business Correspondent model as per the guidelines issued in this regard.

As a further step to enhance the financial inclusion, banks have been permitted to establish outlets in rural centers from which BCs may operate. These bankers may be in the form of low-cost simple brick and mortar structures. They will have function under the control of base branch.

It is also contemplated to have an intermediate brick and mortar structure (ultra small branch) within the present base branch and BCs location so as to provide support to a cluster of BC units at a reasonable distance. Ultra small branch is important to provide services through the ICT based model.

Banks are also permitted to prepare schemes for offering Door-Step Banking facilities to their customers (including individuals, corporate PSUs, government department, etc.)

Thus Bank Authorization Policy strives to ensure maximum financial inclusion.

Against this backdrop comes a lecture delivered by Dr. D. Subba Rao, Governor of RBI on the occasion of the Indian Overseas Banks Platinum Jubilee celebration on July 4, 2012. In the course of the lecture he says, ‘even as branch authorization has been substantially liberalized, several challenges remain. The biggest challenge, as always in India, is in the numbers. In 1969, when banks were nationalized, there were 8321 branches with an average population per bank office of about 64,000. That has improved to 97,180 branches with an APPBO of about 13,000 by March 2012. But in a country with over six lakh villages, these numbers while both impressive and commendable serve to the highlight what remains to be done.
The first index of financial inclusion prepared by the Indian Council for Research on International Economic Relations (ICRIER) to determine the extent of reach of banking services in 100 countries of the world, India has been placed at the 50th spot, below China, Kenya and Morocco.

He further says “unless banks are convinced that reaching out the common man is not just a forced regulatory imperative but a potential business opportunity, the numbers will remain without life. The Reserve Bank of India looks forward to competition among banks to develop business models for such small, low-stuff, and low cost branches.

To conclude, the demographic, economic and geographical profiles of India offers tremendous business potentials for banks. Achieving cent percent financial inclusion is the focal point of the branch expansion policy of the RBI.
REFERENCES