CHAPTER IV
CONCLUSIONS AND SUGGESTIONS

Banking system has a significant role to play in the rapid growth of the economy through planned efforts. By institutionalising savings and channelling resources in well-determined directions in consonance with the objectives and priorities laid down in the Plans, the banking system can influence the pace and pattern of growth. The banking sector in India has been a major instrument to facilitate and achieve economic growth and development of the country. In other words, banking facilities are indispensable to achieve the expected rate of growth of economy. Having thought and identified the significant part of banking sector in the economic front, the Government of India initiated various measures for effective and healthy growth of the banking system. Modelled on the British banking pattern, the Indian banking sector began to alter with the nationalisation of the Imperial Bank of India, which became the State Bank of India in 1955. It was only in 1967 that the concept of social control became a matter of policy. The philosophy of social control was concretised with the nationalisation of 14 major banks on July 19, 1969.
Six more banks were nationalised on April 15, 1980, further extending the area of the operations of the public sector. The Indian Banks in private sector only 23. An explicit recognition is that the banking is in the nature of a service industry; that its main objective is to subserve the social good of the society.

Prior to nationalisation, the commercial banks were profit-oriented, private-owned and urban-biased which resulted in imbalanced economic growth and development of the country. It was true to the dictum that 'finance follows where enterprise leads'. The rural sectors and weaker sections were deprived of banking services. They are, no doubt, weak but their credit needs for development are strong. Further, the security-oriented policy helped in creation of industrial and business monopolies. Added was mobilising public savings in certain areas and utilising them elsewhere. All the above led to inter-regional, inter-State; and rural-urban imbalances. The working of banking sector was thus, described as 'class banking'.

Balanced development is a pre-requisite in achieving the socio-economic objectives of the country. The Indian banking system, since nationalisation, has undergone a major structural transformation - from the
one designed to serve mainly large and medium industries and large business houses to one which supports widespread growth in all the key sectors of the economy. Commercial banks in the post-nationalisation period have registered a rapid strides and achieved good progress which can be revealed by any publication relating to Banking Statistics in India. Despite all achievements, still there exists rural-urban disparities in the provision of banking facilities. It needs to examine how far the growth of banking since nationalisation has helped to narrow the rural-urban disparities in the provision of banking facilities. In other words, the study sought to examine to what extent the commercial banks have achieved the performance in the rural areas and what degree the concentration of banking has weakened the urban monopoly. A study like this is every encouragement and also the thrust of nationalisation. To examine the rural-urban pattern of banking, the present study is undertaken. It covers the working of banking during the period 1969-1991.

The objectives of public sector banks were to mobilise savings by enlarging the money market; foster the banking habit and deploy credit, especially for the benefit of the weak and under-privileged sections of
the community. At the same time there was a need for
the dispersal of credit in favour of the poorer sections
of population, rural as well as backward areas; and un­
organised sectors with higher growth potential. These
objectives were sought to be attained by the expansion
of bank offices in rural and semi-urban areas, the
mobilisation of savings under tailor made varied deposit
schemes; and the deployment of credit for the purpose
of the development of agriculture, industry, trade,
commerce and other productive activities in rural as
well as in urban areas, including the metropolitan
centres. These objectives of bank nationalisation called
for substantial changes in the scale and scope of banking
in response to the changes that took place in the social,
political and economic environment.

Branch expansion aims at regulating the loca­
tion of bank branches. In the post-nationalisation
period, the branch expansion policy has undergone a
substantial change within the concept of the sound
development of the banking system to the spread of
banking in unbanked and underbanked areas, notably in
semi-urban and rural areas. There has been a phenomenal
expansion in the network of branches since 1969, parti­
cularly in the hitherto underbanked rural areas. The
total number of branches of commercial banks increased from 8,262 in 1969 to 59,645 in 1991, reducing the average population served by each branch from 60,000 to 11,000. During the same period, the share of rural branches went up from 22.2 per cent to 57.80 per cent. Of the total number of 51,383 branches opened during the post-nationalisation period, 32,643 or 63.54 per cent were in rural areas. The average population per branch office in rural and semi-urban areas has come down to 13,000 at the end of the year 1991.

The study reveals that all the banks have been bunching the number of branches during the last month of the year with a view to completing their quantitative targets. The end result is that some branches serve merely as flag posts. The branch expansion programme is unplanned and lacks direction. In many cases, branches have been opened in places which have no economic potential. Again, branch expansion has been resorted to without pre-planning the personnel requirements. This has resulted in a dilution of the quality of leadership and the efficiency of operations and in deterioration in the quality of customers services. The branch expansion policy of commercial banks, therefore, calls for a co-ordinated effort so that the
resultant strains may be organisationally bearable, having regard to trained manpower, particularly the manpower required for managing the rural branches.

The deposits mobilised by rural branches increased from 3.1 per cent in 1969 to 15.1 per cent in 1991. In absolute terms, the deposits increased by Rs. 30,060 crores from Rs. 145 crores to Rs. 30,205 crores of which more than three-fifths were contributed by the offices opened after June 1969 accounting for 29.8 per cent of the total deposits accretion. There has also been an improvement in the average deposits mobilised by a rural branch from Rs. 7.91 lakhs to Rs. 87.61 lakhs.

In rural centres, nationalised banks accounted for 59.2 per cent of total deposits followed by State Bank of India group; 25.4 per cent, Regional Rural Banks 11.8 per cent and other private banks' share was only 3.7 per cent. The trend of deposit mobilisation in respect of rural branches is accounted for about 207 fold increase and in respect of semi-urban branches, it is about 59 fold increase and in respect of urban and metropolitan branches it is about 37 fold increase in 1991 over 1969. Rural credit which was 1.5 per cent in June 1969 increased to 14.8 per cent by the end of the March 1991. In absolute terms, the rural credit is
increased by Rs. 19,558 crores. There has also been an improvement in the average credit granted by rural branch from Rs. 2.95 lakhs in June 1969 to Rs. 57 lakhs by the end of March 1991. Increasing trend is noticed with reference to deposit mobilisation and credit deployment in rural areas but it is less than the trend in urban centres. In absolute terms, the progress in rural sector of deposits and credit in comparison to rural branches progress is not in proportion. It means that steps are to be needed to educate rural people about their economic promotion and bank objective. Additional income generated and additional employment created programmes in villages through bank finance should be made available to the rural people.

The Indian banking performance has been impressive since the nationalisation in geographical coverage through the means of branch expansion and diversification of business in the form of more deposits mobilisation and more credit deployment. The input of branch expansion could make rapid strides in the output of deposits and credit; and the deposit and credit have been accelerated on the principle of proportion. Further, the performance of banking could notice in reducing the rural-urban disparities. The analysis reveals positive trend in the expansion of banking facilities to rural areas while
negative trend in the urban areas. In respect of deposit mobilisation, the trend in 1969 was continued at the increasing rate in 1991 also the same happened both in the rural and urban areas. It is found that the commercial banks have succeeded in deploying more credit to rural areas in the post-nationalisation period. A major portion of bank credit has been diverted to the priority sectors. The study clearly reveals that the priority sector credit has increased by about 70 times in the post-nationalisation period. The share of agriculture sector in the total bank credit has increased from 7.1 per cent in 1969 to 18.2 per cent in 1991. This is an appreciable step for the development of agriculture which is the mainstay of our economy.

The study points out that, despite constraints like inadequate infrastructure, lack of communication, competition from other financial institutions - the Life Insurance Corporation of India, Unit Trust of India, money lender - the rural branches have contributed substantially to deposit mobilisation and deployment of credit and helped a large section of the economy in the monetised sector.

The next ten years will undoubtedly witness a rapid enlargement of the banking industry, both in
the scale and scope of its operations in response to the socio-political and economic challenges. Its involvement in rural areas will be more pronounced. Since the overall economic and developmental policies are directed towards ensuring a more rapid development of rural sector than in the past, the banking industry will have to open more branches in rural areas, mobilise larger deposits, deploy more in the priority sectors. It may be fully relied upon to perform its allotted role in the fulfilment of the objectives and programmes of the Eighth Plan; and the objectives are to ensure an effective utilisation of human and natural resources by financing agriculture, medium and small-scale industries and labour-intensive occupations of diverse kinds in rural areas. Side by side, traditional industries will have to be assisted in a phased manner. The scale of operations of the banking industry calls for the structural and attitudinal changes to promote an efficient banking service to meet the challenges of the emerging economic environment in 2001 A.D.

From the above discussion of rural-urban pattern of banking analyses, it is concluded that the commercial banks could provide more banking facilities in rural areas resulting pace progress in branch network and deposit
mobilisation. Though an increasing trend is observed with reference to credit distribution in rural areas but it is less than the trend of credit distribution in urban areas. Of course, this may be due to existing potential for more credit in urban areas than rural areas. Infact, banking facilities are still weighed heavily in favour of urban areas contrary, less developed rural areas have been on the discard. While rural-urban disparities in banking development have been narrowed to some extent, a lot remains to be done in this direction. There is ample scope for banks to launch a large scale programme of rural branch expansion in order to mobilise surplus income of rural community and channelise the same into productive uses. Considering the mass branch expansion in rural areas, the need for greater involvement in the economic activities of the villages requires a re-orientation in the outlook of banks towards the rural banking. Whatever progress in terms of competition is achieved by the commercial banks in the rural areas does not highlight the qualitative imprint and does not reflect much relation between the branch network and the resources used in the rural areas. It is needless to say that the banking is still to spread banking habit, cultivate thrift, mobilise savings and accelerate the progress of economic development.