CHAPTER - 6

MAJOR FINDINGS AND SUMMARY RECOMMENDATIONS
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6.1. MAJOR FINDINGS OF THE STUDY:

While evaluating the performance of Scheduled Commercial Banks (SCBs) in Assam with help of different criteria during the post-reform period, it is very difficult to say that banking sector reform has failed to achieve its desired goals. There is no doubt that banking sector reform has brought a number of changes with far reaching effects in the commercial banking sector. The banking sector reform still remains as an unfinished task both at the national and state levels. Assam has made slow but steady progress in the commercial banking sector despite its various constraints over the reform period (1991-2000). The present study is undertaken mainly to highlight the overall position of SCBs in respect of achieving their major objectives during the post-reform period in a summary form. The major findings of the study are given as follows-

6.1(1) From the study, we find that important structural and organisational changes have taken place in the commercial banking sector in Assam along with the rest of the country due to the introduction of the banking sector reform since 1991. The banking sector reform aimed at restructuring of banks which involved organisational, operational, financial and systematic restructuring. The whole commercial banking structure has been decentralised and they are now operating on the basis of operational efficiency, functional autonomy etc. The structure of the commercial banks has been sub-divided into different tiers such as Head Office, Zonal Office, Regional Office and branches. Besides structural transformation, changes have also taken place in the organisational field by improving the regulatory and supervisory framework of banks. The regulatory and supervisory framework have been strengthened with a view to enhance the efficiency of banks. A structural change has been noticed in the branch licensing policy of banks also. During the post-reform period, the percentage share of semi-urban and urban to the total number of branches has shown increasing trend.
while the percentage share of rural branches has shown a declining trend in Assam.

6.1 (2) Another important finding is that the Credit-Deposit (C/D) ratio in Assam shows a declining trend throughout the reform period (1991-2000). The C/D ratio in Assam has declined from 51.3% as on March 1991 to 32.3% as on December, 2000. The declining C/D ratio in the state indicates that the total outstanding advances extended by the commercial banks has failed to keep pace with the increasing volume of bank deposits. The C/D ratio declines also due to increasing preference towards investments than loans and advances by the SCBs during the period under study. The SCBs increased their volume of investment in Govt and other approved securities in Assam during 1990’s.

6.1 (3) Another important finding is that although the volume of aggregate advances and aggregate deposits have increased during the reform period, but the volume of bank deposits has increased more rapidly than the volume of bank advances in Assam. During the reform period (1991-2000), both the volume of aggregate deposits and advances of SCBs in Assam increased by Rs. 703197 lacs and Rs. 186131 lacs respectively.

6.1 (4) Another important finding regarding C/D ratio in the state is that it always stood low as compared to national average throughout the post-reform period (1991-2000). As on September, 2000, the C/D in Assam is 32.3% while at the national level, it is 57.1%.

6.1 (5) We also find that among the SCBs, the cooperative banks (53.88%) accounted for highest C/D ratio as compared to commercial banks (33.77%) and RRBs (27.05%) in Assam as on September, 2000.

6.1 (6) Assam has also experienced declining investment + credit: deposit (I+C : D) ratio over the period under study (1991-2000), but it always higher than the C/D ratio in the state. In 2000, I+C:D ratio is about 44.4 % while C/D ratio is about 34.0% in Assam.
6.1(7) The extent of non-performing assets (NPAs) of commercial banks has declined gradually in recent years due to increase in operational efficiency of banks in Assam along with the rest of the country. The percentage share of NPAs to total advances declined due to the steps taken by the banks such as setting up of debt-recovery tribunals (DRTs), amendments of Recovery Acts, establishment of Asset Reconstruction Fund, setting up of special recovery branches by each bank.

6.1(8) Further, we find that although several changes have taken place in the commercial banking sector during the post-reform period, but it is urged that they have failed to achieve the desired goals due to the structural and organisational weaknesses. There are some inherent weaknesses in the banking sector such as poor capital base, shortage of efficient staff, low rate of recovery, political interference, weak supervision etc. that hinders their progress. Moreover, there is a lack of proper coordination among different tiers of banks. Besides the bank-specific problems, there are some region-specific problems such as disturbed law and order conditions, illegal migrants, periodical occurrence of floods etc. in Assam which also affect the progress of commercial banking in Assam.

6.1(9) We find that at present there is not a single non-scheduled commercial bank (NSCBs) operating in India as well as in Assam. Therefore, commercial banks refer to only SCBs, i.e. those which are included in the 2nd Schedule of the RBI Act, 1934. Further, among the SCBs, the public sector banks (PSBs) have occupied the highest share (88.89%) as compared to private sector banks (7.40%) in 1999-2000 in Assam.

6.1(10) During the reform period, there has been a rapid growth of different types of non-banking financial institutions (NBFIs) in Assam along with the rest of the country. They offer and charge lower interest rates from borrowers as against the rates offered and charged by the commercial banks.
6.1(11) IDBI's Report on Development Banking reveals that the total volume of assistance sanctioned and disbursed by All-India financial institutions (FIs) in Assam is not at all satisfactory as compared to other states even during the post reform period. The flow of assistance from different financial institutions (FIs) in Assam is extremely inadequate as compared to other states. There are various factors responsible for poor volume of investment by these institutions in Assam such as hostile socio-political situation, disturbed law and order conditions, rising insurgency problem in the state.

6.1(12) The NBFIs must have minimum net-owned funds (NOFs) of Rs. 25 Lacs which can be stipulated by the RBI to Rs 2 crores. Without minimum NOFs of Rs 25/- lacs and rating below 'A', a company cannot be registered as NBFIs under the RBI (Amendment) Act, 1997. They are also required to maintain risk-weighted capital adequacy ratio (CAR) of 12% with effect from 31st March, 1999.

6.1(13) Although the total number of branches of commercial banks has gradually increased both in India and Assam during the post-reform period, but their rate of growth is low as compared to the rate of growth in the pre-reform period. The rate of growth was about 11.32% during (1979-1989) while it was about 5.74% during (1991-2000) in Assam. This is due to change in the branch licensing policy of banks. The commercial banks have followed a systematic programme of branch expansion during the post-reform period.

6.1(14) Although the total number of branches of commercial bank in Assam has increased considerably during the post-reform period from 1167 in December 1991 to 1234 in September 2000 along with the increase in India, but their percentage shares to country's total number of branches have declined from 1.94% in 1991 to 1.84% in 2000 due to slow pace of branch expansion in the state.

6.1(15) Those commercial banks which attain capital adequacy norms and prudential accounting standards, have acquired freedom to open new branches in urban, semi-
urban and rural areas without any prior approval of the RBI under the New Branch Licensing Policy, 1992. The commercial banks have now acquired the freedom in the matter of opening and transferring and closing of branches.

6.1 (16) The progress under the Lead Bank Scheme (LBS) is also quite satisfactory and encouraging. Under the Scheme, the 3 lead banks (the SBI, the UCO and the UBI) have already covered the 23 districts of the State and provides banking facilities to the most interior places of the district by preparing a District Credit Plan (DCP).

6.1 (17) During the post-reform period (1991-2000), a slight increase is noticed in the case of population coverage by each bank branch in Assam. The population coverage by each bank branch has increased from 11,000 in 1991 to 21,000 in 2000 in Assam which is due to slow pace of branch expansion during the post-reform period.

6.1 (18) Another important finding is that there is only one cooperative bank, i.e. Assam Co-operative Apex Bank (ACAB), with total 68 branches in Assam as on September, 2000. It has accounted for the highest C/D ratio (53.08%) in Assam.

6.1 (19) During the post-reform period, most of the banks close their loss-making rural branches and transfer or merge them with the urban branches. The areawise distribution of bank branches reveals that the percentage shares of rural branches to the total number of branches declined while the percentage shares of semi-urban and urban branches increased during the period under study. However, the rural branches are still accounted for the highest number in Assam.

6.1 (20) Among the seven states of the North-Eastern region, Assam accounted for the highest share (about 65.35%) of the N.E.'s total number of branches as on March, 1999 which indicates growing importance of banking industry in the State of Assam. It also occupied the first place in the matter of deposit mobilisation, deployment of credit in the North-Eastern region over the period (1991-2000) under study.

6.1 (21) The volume of aggregate deposits mobilised by commercial banks in Assam has increased from Rs. 217836 lacs in March 1991 to Rs. 921033 lacs in December 2000. In addition to this, the volume of per-capita bank deposits and deposits per branch of commercial banks also increased considerably during the period (1991-
2000) in Assam. The per-capita bank deposits increased to Rs. 3236/- in March 2000 while deposits per-branch increased to Rs. 74397 lacs in 2000 in Assam.

6.1 (22) Another important finding is that the proportion of time deposits/ fixed deposits to total deposits is higher than the current and savings deposits throughout the reform period (1991-2000). As on March 1998, the fixed deposits accounted 49.3% while current and savings deposits accounted 15.5% and 35.2% in Assam which clearly indicates increasing preference towards fixed deposits. The popularity of fixed deposits has increased due to higher interest rates offered on such deposits.

6.1 (23) Bank-wise analysis reveals that the SBI is the largest commercial bank with its total 203 number of branches in the State. It has mobilised the highest amount of deposits (Rs. 290964.52 lacs) and also deployed the highest amount of advances (Rs 88151.69 lacs) as on September, 2000. A new private sector bank i.e. Grindlays Bank (GND) was opened in the state as a scheduled commercial bank (SCB) during the post-reform period. It has only one branch in Assam.

6.1 (24) Similarly, district-wise analysis reveals that the volume of both deposits and advances increased considerably in all the 23 districts over the period (1991-2000). Among the 23 districts in Assam, the Kamrup district has mobilised the highest amount of deposits (Rs. 294904 lacs) and has also deployed the highest amount of credit (Rs 130379 lacs) as on December, 2000 and placed as ranked 1 (R1). In terms of branch expansion also the Kamrup district has occupied the first place (170).

6.1 (25) The volume of aggregate advances deployed by SCBs in Assam has increased from Rs. 111713 lacs in March 1991 to Rs. 297844 lacs in December, 2000. In addition to this, the volume of per-capita bank advances and advances per-office of commercial banks in Assam also increased considerably during the period (1991-2000). The per-capita bank advances increased to Rs. 1019/- while advances per-office increased to Rs. 240 lacs/- in 2000 in Assam.

6.1 (26) Another important feature is that the commercial banks have reduced the interest rates on deposits with a view to maintain the profitability of banks during the post-reform period.
6.1 (27) The lending policy of banks has also shown a diversified trend. During the
post-reform period the percentage shares of advances deployed in urban areas was
much higher than the percentage shares of advances deployed in rural area in Assam.
As on December 2000, the percentage share of advances deployed in urban areas was
about 49.84% which was much higher than the percentage share of advances de­
ployed in rural areas (25.73%) in Assam. The commercial banks have also reduced
their proportion of lending to priority sector in Assam along with the rest of the country.
The priority sector advances (PSAs) of SCBs as a whole has declined from 50.5% in
1991 to 47.04% in 2000 in Assam. The commercial banks have reduced their advances
towards rural areas and priority sectors as they considered them as unprofitable and
insecure because such loans are not repaid and recovered timely which leads to the
accumulation of huge overdues in banks.

6.1 (28) The volume of financial assistance provided by the SCBs under different
Government sponsored schemes such as PMRY, SGSY, IRDP etc. in Assam is very
poor as compared to other States of India. A very small number of targetted beneficia­
tries have been benefitted through various schemes. In most of the cases, loans granted
under different schemes are not recovered by the banks which create problem of
overdues in banks.

6.1 (29) Another important finding is that there has been a rapid growth in the number
of staff at various levels, i.e, officers, clerks and subordinates in Assam along with the
rest of the country over the post-reform period (1991-2000). The total number of offic­
ers, clerks and subordinates increased to 4507, 7418 and 3848 as on March 2000 in
Assam. Their share to national average also increased during the period (1991-2000).
Thus, the employment generated by commercial banks in Assam is quite satisfactory.

6.1 (30) Another important finding is that during the period under study (1991-2000),
commercial banks have given much emphasis on risk management (RM) and for this
purpose, they follow a comprehensive RM guidelines issued by the RBI with effect from
April 1, 1999. For managing risk the commercial banks introduced Asset-liability man­
agement (ALM) system, risk-based supervisions and rating system.
6.1 (31) The commercial banks have made significant progress in maintaining stipulated capital adequacy ratio (which was 8% in 1992 and increased to 9% in 2000 and then again to 10% in 2002) with a view to strengthen their capital base. The strong banks have already attained the required CAR both in India as well as in Assam. But it has created some problems to weak banks with poor capital base.

6.1 (32) With a view to increase the loanable funds with the banks, the RBI reduced the rate of CRR and SLR as a percentage to net demand and time liabilities (NDTL). The rate of CRR has been reduced to 9% and SLR to 25% as on November, 1999.

6.1 (33) The SCBs in Assam are still suffering from the problem of mounting overdues. The volume of overdues in Assam is increasing every year with the increase in the volume of advances. The volume of overdues has increased from Rs. 24794 lacs in March 1993 to Rs. 36269 lacs in March 1998. This is due to poor recovery performance of banks. The percentage of recovery of bank loans in Assam is very low as compared to the percentage of overdues.

6.1 (34) Another important finding is that the SCBs are not taking proper steps against the defaulting borrowers due to political interference which indirectly encourage such borrowers to continue their practice of non-repayment of loans. This is one of the major cause of concern today.

6.1 (35) Along with the rest of the country, the commercial banks in Assam have made rapid progress in the field of modernisation and computerisation in recent years. The commercial banks as a whole are now successfully upgrading their operations with computers, ATM services, with a view to provide value based services to customers. There is a complete branch automation today.

6.1 (36) We find from observation that the quality of customer service in banks has been improved due to several measures adopted by banks both in India as well as in Assam during the post-reform period (1999-2000). The upgradation of banking services enabled the banks to provide better customer service during the period under study.

6.1 (37) In the field of rural banking, the performance of commercial banks in the
country as a whole and Assam in particular is not at all satisfactory. Over the period, the number of rural branches of commercial banks declined considerably from 842 in 1991 to 821 in 2000 in Assam. Similarly both the volume of deposits mobilised and volume of credits deployed in rural areas declined significantly as compared to urban areas in Assam. However, the commercial banks are still providing a good amount of financial assistance to the rural poor, educated unemployed and misguided youths, deprived women, backward classes etc. under different Government sponsored schemes such as SGSY, PRY, IRDP, RGVN. The local NGOs are taking a lead role in the formation of self-help groups (SHGs) and in linking them with the banks.

6.1 (38) The commercial banks has made rapid progress in qualitative terms during the reform period which is evident from increase in efficiency, productivity and profitability of banks.

6.1 (39) From our study, we find that most of the SCBs (the UCO, UNB, PNB etc.) are not maintaining data relevant to productivity and profitability for the State of Assam. Rather they maintain the data for the entire North-East zone. As a result, it becomes difficult to assess or evaluate the working performance of SCBs as a whole for the state of Assam during the post-reform period (1991-2000).

6.1 (40) We find that the commercial banks have made a steady progress in the field of productivity and profitability over the period under study (1991-2000) both in India as well as in Assam due to increase in operational and organisational efficiency of banks.

6.2 RECOMMENDATIONS SUGGESTED:

Although there is an overall progress of commercial banks as a whole both in India and Assam due to the introduction of various measures, but their qualitative performance in terms of profitability, productivity, efficiency etc. is still not at all satisfactory and encouraging. They show, a mixed results regarding their performance. The banking sector reform is still continued to be a part of the unfinished agenda of the Government. It has now entered into the most crucial stage. The present scenario is based with in-
creasing complexities and competition. The success of the reform process depends on the removal of both internal and external impediments. However, the commercial banks have made some improvements in several fronts. They are now operating on the basis of prudential norms of income recognition, asset classification, provisioning for NPAs and capital adequacy, rapid modernisation and computerisation, provision of value based services to customers, risk management etc. They are now entering into the new areas of services to improve their operational efficiency. The reform process is still continuing. The first phase of the reform process (1991) is concentrated on factors like pre-emption, interest rate structures, prudential norms and supervisory oversight while the next phase (1998) laid stress on the improvement of the organisational effectiveness of banks.

For improving the viability of banks, following few suggestions are provided which are applicable to commercial banks as a whole both in India as well as in Assam-6.2 (1) Regarding declining profitability, banks are suggested to make profit planning which is based on fund management, work management and cost management techniques. While evolving a programme for profitability improvement, attention has been given to costs of staffing pattern, operational work flow, well-developed management information system, social obligation accounting, decentralised supervision and cost-benefit analysis.

6.2 (2) Banks are also suggested to create a database of NPAs at the corporate level to provide stratified data for planning and monitoring NPAs, NPAs should be stratified by age, credit facilities, types, zones and then the corporate office must take necessary steps to prioritise the types of NPAs to be considered for recovery.

6.2 (3) The various bank branches also suggested to maintain database of credit worthy borrowers/beneficiaries with them. The data base should be based on experience and track record of beneficiaries and professional competence. Also young professionals with proven track-record need to be appointed by the banks in their different branches. Further, contract management responsibility system must be introduced for higher efficiency and transparency. This will encourage better credit management and
enhance recovery rates.

6.2 (4) The commercial banks are also suggested to simplify their procedures relating to lending, depositing so that the illiterate and poor people can find it more easy to deal with banks than the moneylenders, landlords.

6.2 (5) An effective banker must keep a constant contact with his customers and keep them informed about the policy changes, management changes and so forth. If the contact is regular and sincere, the customer will feel comfortable and loyal to the bank.

6.2 (6) The commercial banks are also required to broaden the legal system which will facilitate the task of recovery of loans of these banks. Legal reforms must be taken to deal with the problems of insolvency, breach of contract, default and enforcement of security.

6.2 (7) The commercial banks must apply total quality management (TQM) strategies with a view to ensuring quality in services. It should be build on the principles of customer focus, quality, involvement of all personnel. TQM helps to reduce internal competition, foster team work, improve decision-making process and reduce costs.

6.2 (8) The commercial banks are also suggested to institute good leadership which will bring all round development of the system. Only a good leadership can guide a bank to achieve their desired goals.

6.2 (9) The bank management should provide proper training facilities to their staff in different fields like credit analysis, credit evaluation, credit management etc. with a view to make the banking system more pragmatic. Training should also be provided to its staff to handle the latest technologies (like ATM, internet) in banks. It helps to develop human resource in banks.

6.2 (10) The commercial banks must speed up their process of modernisation and computerisation. The banks should fully modernised their branches including rural branches and try to provide computer facilities as far as possible to all its branches.

6.2 (11) All the bank employees are also required to operate as a team to improve customer service and also to avoid unreasonable internal competition among bank employees.
6.2 (12) Vigorous recovery drives for reduction of NPAs must be undertaken by the banks. The district, block and local level authorities must help the bank personnel in recovering loans. Special recovery officers must be deputed or posted at the branches having comparatively larger volume of bad and doubtful debts.

6.2 (13) Banks should fix the price for various services properly. Otherwise, it may affect the profitability of banks. Sometimes, banks provide certain services free of cost or at nominal prices based on the concept of relationship banking. Such unremunerative services should be avoided by the banks to enhance their profitability.

6.2 (14) For effective and continuous monitoring, and control of costs (especially non-interest costs, i.e., transaction costs and establishment costs) a standing committee should be constituted at each branch with equal representation. The Branch Manager of each branch must make a monthly review of the cost condition of each branch.

6.2 (15) Banks must identify their loss-making branches and must analyse the causes of their weaknesses. Then instead of closing them, they should be merged with the branches of strong banks. Further, taking advantage of the relaxation in branch licensing policy, the bank should open specialised branches in several parts of the state.

6.2 (16) There is also a need to change the attitude of the bank employees towards work. The bank employees must be motivated towards the value of work by providing them better opportunities like promotions, transfers, rewards etc. which help to enhance the productivity.

6.2 (17) Banks should not ignore their social responsibilities in the context of the ongoing reform process. They should maintain a proper balance between the goals of social responsibility and profitability.

6.2 (18) Moreover, the RBI should set up a separate committee for the North-Eastern region as a whole to study the problems of banks and other financial institutions (FIs) which experience low recovery and low C/D ratio and the committee must suggest suitable measures to overcome them so that they can face competitions at the national level.

6.2 (19) Further, the State Government must increase their involvement in development
of banking in Assam through its various policies. The state Government must make efforts to establish peace in the region, provide required infrastructure, education and training to entrepreneurs, marketing support, create conducive environment for recovery.

6.2 (20) The commercial banks must keep a balance between the rate of growth of volumes of deposits and advances with a view to maintain a desired C/D ratio.

6.2 (21) The RBI must control the haphazard growth of NBFIs, in the state so that they cannot stand in the way of commercial banking. Since most of the NBFIs (mainly those who are unregistered) are indulged in fraudulent practices so drastic steps should be taken to control of them for smooth conduct of banking operations.

6.2 (22) The commercial banks must increase the rates of interest offered on deposits with a view to encourage people to deposit money in banks. Lower interest rates on deposits discourage people to deposit in banks and encourage to deposit in other NBFIs which offer higher interest rates.

6.2 (23) In the context of the rising unemployment problem in the state, steps should be taken to reopen Banking Service Recruitment Board (BSRB) with a view to recruit local unemployed youths.

6.2 (24) Regarding risk management, the commercial banks as a whole must follow the comprehensive RM guidelines (effective from 1999) issued by the RBI for their own interest.

6.2 (25) Further, to improve their financial viability the commercial banks must maintain the required capital adequacy norms prescribed by the RBI for the country as a whole and Assam in particular.

6.2 (26) Finally, commercial banks are suggested to follow the new supervisory rating system, i.e., the "CAMELS" as prescribed by the Basle Committee (1999) on Banking sector. The RBI has already instructed the banks to operate in conformity with this system. The 'CAMELS' stands for Capital Adequacy, Asset Quality, Management, Earn-
Thus, during the post-reform period, the commercial banks have made slow but steady progress in Assam along with the rest of the country. Some significant changes have taken place in commercial banking sector as a whole due to change in their policy perspectives both in India as well as in Assam. They are now become more profit conscious, overlooking their social responsibilities. The commercial banks are now operating on the basis of prudential norms of income recognition, asset classification, provisioning for NPAs and capital adequacy. After the introduction of banking sector reform, the very concept of commercial banks has changed. The commercial banks are now passing through the 2nd phases of banking sector revolution. The progress profile presents a satisfactory banking scenario. The overall performance especially the qualitative performance of commercial banks in Assam is quite satisfactory as compared to other states of the country. The efficiency, productivity and profitability of banks have gradually improved. The banking sector reform has successfully transform the potentiality into reality through its various policy measures.

The commercial banks are successfully resolve some of their internal issues which hinder their progress through various suitable strategies under the guidance of the RBI. But for resolving some external issues, they require the cooperation of the State Government and local people and organisations. The successful and smooth functioning of commercial banks also depend on some external factors such as establishment of peace in the region, creation of the required infrastructure, creation of data base for the smooth conduct of banking, education and training to entrepreneurs, marketing support, creation of conducive environment for recovery etc. Thus, State Government must increase their involvement in development of banking in the State. With this hope, we are looking forward to witness better commercial banking in the state in the coming years under the guidance and supervision of the RBI.