CHAPTER - 1

INTRODUCTION

1.1. STATEMENT OF THE PROBLEM

In Assam, the network of commercial banks constitute as the single most institutional sources of credit to different sectors of the economy since their inception. They are playing an important role in the mobilisation of community's savings and their proper channelisation in order to facilitate rapid economic transformation of the State's economy. They are actively participating in the various socio-economic development programmes sponsored by the Government. Since the nationalisation of major commercial banks in 1969, numerous diversifications and innovations had taken place in the structure and functioning of commercial banking system in the country as a whole and in Assam particular. The commercial banks had made a rapid strides in their functional and geographical coverages in Assam along with the rest of the country. But the quantitative performance of these banks were at the expense of quality. During the post-nationalisation period, the qualitative performance of these banks were not properly assessed, rather they were neglected. The overall performance of commercial banks had been jeopardised due to discricency in the banking system. There had been a growing concern over the persistence inefficiencies of the banking system as a whole. As a result of which the Government of India appointed a Committee under the Chairmanship of M. Narasimham to review the financial system in 1991. The Committee mainly examined the qualitative aspects (efficiency, productivity, profitability) of the banking system and made a wide ranging recommendations for restructuring the financial sector. The Committee put emphasis on operational and organisational flexibility, functional autonomy and
greater degree of professionalism in management with a view to enhancing efficiency, productivity and profitability of the banking system as a whole. Performance of banks must be judged not only on the basis of number of branches, volume of deposits and advances; but on the basis of their organisational and operational efficiency.

But from the study, it is found that although the commercial banks have made rapid strides in respect of volume of deposits and advances, but their performance in qualitative terms is not at all satisfactory and encouraging. Even after the introduction of the reform programmes, some sorts of discrepancy still crept the banking system. No doubt, both the volume of deposits and advances of commercial banks has increased manifold, but they are not sufficient enough to meet the total requirements of the economy in general and the different kinds of borrowers in particular. The loanable funds on which the banks can charge profitable rates of interest have gradually tended to shrink. Moreover, the pattern of credit deployment by banks has effected the profitability of banks. Poor recovery of bank loans has created overdue problem in banks. The extent of Non-performing Assets has declined only marginally in Assam along with the rest of the country. There is a great deal of laxity and slackness on the part of the bank employees in the recovery of bank loans from the borrowers particularly in the rural areas despite the setting up of special Debt Recovery Tribunals. Further, the Credit-Deposit Ratio (C/D ratio) of all Scheduled Commercial Banks (SCBs) in the state is far below the normal ratio of 60% as fixed by the Reserve Bank of India (RBI). The C/D ratio has started to decline steadily since 1991 and has never reached the national average. Moreover, the loans provided by the commercial banks to the priority sector particularly to the agricultural sector in Assam are not sufficient enough when compared with the national average. Further, taking into account the size and growth of population in the state, the present number of bank branches in Assam is extremely inadequate when compared with the other states of the country. Even there are some places in
Assam which still do not have any banking facilities. Thus, there is an uneven expansion of bank branches in Assam. The services to the customers have been slightly improved. Banks in Assam are still far behind other states with respect to modernisation and computerisation. All the bank branches in Assam are not yet fully computerised.

Besides all these, there are some inherent weaknesses and shortcomings in the banking system as a whole which are seriously jeopardising the performance of commercial banks even after the introduction of the reform process. Moreover, the state itself has some problems which effected the functioning of banks. Thus, the various bank-specific and region-specific problems that hinder the development of commercial banking in the state are given below —

(i) The poor capital base of our banks effected the reform process adversely. The dearth of capital has caused hardship in the implementation of various reform measures.

(ii) There is an acute shortage of competent and efficient staff in most of the bank branches in Assam.

(iii) The volume of wasteful expenditure made by banks is more in Assam.

(iv) The loan melas and loan weavers have done the biggest harm to the banking sector.

(v) Moreover, like other states, banking in Assam is also become a den of corruption.

(vi) The bureaucratic handling and political interference into bank loans and advances (directed credit programmes) is another factor responsible for poor performance of commercial banks in Assam.

(vii) Reluctance on the part of the State Government to initiate reform measures in this direction is also a matter of concern.
(viii) Further, the technological base of most of the banks remains on the same level even after the introduction of the reform measures.

(ix) The illiteracy and ignorance on the part of the rural people of Assam also serve as a hindrance to the growth of the commercial banks within the state.

(x) The periodical devastation caused by floods in some parts of the state results in wastage of bank loans.

(xi) In recent years, the rising problem of insurgency and disturbed law and order conditions in the state also hamper the proper functioning of the banks.

Thus, the reform process which aimed at restructuring the banking sector fails to achieve the desired results due to the operation of various factors in the state's economy. It is still continued to be a part of the unfinished agenda of the Government.

Moreover, the various reform measures have some serious implications on the economy like termination of state control over the end-use of credit, rise of monopolists, real-estate speculators, large-scale closure of bank branches, rise of cost-push in the economy etc.

1.2 OBJECTIVES OF THE STUDY

The study is undertaken mainly with the following objectives -

(i) To analyse the role and performance of Scheduled Commercial Banks (SCBs) operating in Assam during the post reform period.

(ii) To enquire into the structural changes that are taking place in almost all the Scheduled Commercial Banks (SCBs) having particular emphasis on size, dispersion and area of operation.

(iii) To examine the policy implications of various reform measures on the functioning of...
the Banks.
(iv) To evaluate the various constraints that hinders the development of Scheduled Commercial Banks (SCBs) operating in Assam and then to suggest some measures which will make the banks more efficient, productive and competitive.

1.3 HYPOTHESIS OF THE STUDY

Although there is an overall expansion of Scheduled Commercial Banks (SCBs) (both geographical and functional) in Assam, but they have not able to make any significant progress on account of some inherent weaknesses and shortcomings of the banking system as a whole during the post-reform period (1991-2000). The following hypothesis has been taken up for our study-

(i) Massive institutional diversifications have taken place in the branch licensing policy of commercial banks during the post-reform period.

(ii) There has been a steady decline of credit - deposit ratio (C/D ratio) of all scheduled commercial banks (SCBs).

(iii) The extent of Non - Performing Assets (NPAs) has declined to a considerable extent on account of increase in operational efficiency of banks.

(iv) The banking system in Assam has not made any significant improvement during the post-reform period due to structural and organisational weaknesses.

1.4 DATA SOURCES

The major part of the research work is based on secondary data which have been collected from various publications of the RBI, SBI and the Government of Assam. The relevant data have been collected from the following publications - RBI Bulletin, Report on Trend and Progress of Banking in India (RBI), Report on Currency and Finance (RBI), SLBC's Reports and Agenda Notes (SBI), Annual Reports of some selected banks, Economic Survey of Assam and Statistical Handbook of Assam (Directorate of
Besides these, relevant books and journals published by the Government and other agencies or persons are also taken into consideration for required information.

The data so collected cover almost all the major aspects of the Scheduled Commercial Banks (SCBs) like the total number of existing branches of SCBs, total volume of deposits and advances, Credit-deposit ratio, population per-branch etc. in Assam.

1.5 METHODOLOGY OF THE STUDY

The proposed research work has been analysed with the help of secondary data, collected from various organisations or institutions which are located in the state such as the Regional Office of the RBI, Head Office of the SBI, various Zonal and Regional Offices of the commercial banks, North-Eastern Institute of Bank Management (NEIBM), Office of the Directorate of Economics and Statistics (Government of Assam).

Banking statistics relating to Assam have been collected from various publications of the RBI, SBI and other respective banks, Government of Assam.

An earnest attempt has been made in Chapter - 4 to evaluate the performance of all Scheduled Commercial Banks (SCBs) functioning in Assam with the help of different criteria such as branch expansion, deposit mobilisation, credit deployment, credit-deposit ratio, extent of non-performing assets (NPAs), Human Resource Management (HRM), risk-management (RM), capital adequacy ratio (CAR), customer service, rural banking, information technology (IT), over the period under study (1991-2000).

Further, during the course of our study, following statistical tools have been used for different purposes -

**Growth Rate (GR)**: Growth rate simply gives us the percentage of increase in the
current year \( (y_1) \) over the previous year \( (y_0) \) data. Symbolically, it can be expressed as -
\[
GR = \frac{y_1}{y_0} \times 100
\]
where \( y_1 \) = current year value and \( y_0 \) = previous value.

**Coefficient of variation (C.V.):** C.V. has been used to analyse the growth variations of deposits and advances of Scheduled Commercial Banks (SCBs) as a whole in Assam over the period (1991-2000). This can be expressed as,
\[
C.V. = \frac{\text{Standard deviation}}{\text{Mean}} \times 100
\]

**Chi-square test \( (x^2 \text{ test}) \):** This statistical tool has been used to test the hypothesis of the study. The chi-square test can be worked out as follows -
\[
x^2 = \sum \frac{(O - E)^2}{E}
\]
where \( x^2 \) denotes chi-square value 'O' refers to observed frequencies and 'E' refers to expected frequencies. The calculated value, of \( x^2 \) is shown as \( |x^2| \) which is compared with the table value of \( x^2 \) for a given degree of freedom 'V' pronounced as (nu) specially at 5 percent level of significance shown as \( x^2_{0.05} \). The degree of freedom 'V' is calculated by using the following formula,
\[
V = (r - 1) (c - 1)
\]
where 'r' refers to number of rows and 'c' refers to number of columns.

Statistical tools and techniques, wherever necessary are being used to arrive at the objective conclusions.

**1.6 SIGNIFICANCE OF THE STUDY**

Over the past few years, especially after the introduction of the financial sector reforms along with the economic reforms of liberalisation and globalisation in 1991, the commercial banking system as a whole has undergone a significant change in the very concept, perception and outlook. Banking industry is now in the process of adjusting itself to the new era of deregulation, operational freedom and functional autonomy. In relevant to the present scenario, the study reveals the changed role played by the
commercial banks in the development and upliftment of the backward economy like Assam. There is an unlimited scope for the expansion of banking services in the state. But the banks will have to overcome the inhibiting factors and this can be done with the help of the state Government and the local authorities. The total functional autonomy requires freeing of the banks from the clutches of the Government control. As a matter of policy, the Central Government has already allowed setting up of banks in the private sector, but in Assam this step is not yet fully implemented.

The study mainly reveals the importance of commercial banks in the economic development of Assam. The network of commercial banks are serving as the single most institutional sources of credit to different sectors of the economy. After the introduction of the reform process also, they are playing a leading role in the mobilisation of community's savings and their proper channelisation. The study also helps us to know about the promotional role performed by the commercial banks in the state, i.e., how banks are participating in the various nation-building activities by providing value-based services and bringing socio-economic changes of far reaching consequences. As social organisation, banks are now trying to bring up the families of the poorer sections above the poverty line.

The study also tries to examine the impact of on-going financial sector reforms on the activities of banks in Assam. The institutional set up of the commercial bank branches operating in Assam has also undergone rapid changes along with the rest of the country. New schemes are being formulated and existing ones are modified.

The on-going reform process in the banking sector is no doubt, a bold step to make the banks financially stronger and viable. In this context, Assam needs special attention in view of its some distinct characteristics of the backwardness and the
commercial banks are required to undertake more responsibility for accelerating the pace of economic development in the state in future.

1.7 FORMAT OF THE STUDY

CHAPTER - 1: Introduction.
CHAPTER - 2: Review of literature.
CHAPTER - 3: Development of commercial banking in Assam.
CHAPTER - 4: Performance of commercial banks in Assam during the post reform period.
CHAPTER - 5: Assessment of the banking sector reform in Assam.
CHAPTER - 6: Major findings and summery recommendations.

There are altogether six chapters in the study where attempts have been made to analyse systematically the major changes and developments that are taking place in the banking sector due to the introduction of the reform process in the financial sector and also to bring out their implications on the working of the economy of Assam.

CHAPTER - 1: In the first chapter, an introduction of the study has been made which includes statement of the problem, objectives, hypothesis, methodology and significance of the study.

CHAPTER - 2: In this chapter, a review of literature so far available in connection with the commercial banks is made with a view to examine the relevance of the present study.

CHAPTER - 3: This chapter makes an attempt to go into the details of origin and development of commercial banking in Assam.

Besides, this chapter also highlights the present structural set up of commercial banks in Assam.
Further, this chapter also examines the development and functions of other Non-Banking Financial Institutions (NBFIs) in Assam.

**CHAPTER - 4**: In this chapter, an attempt has been made to evaluate the performance of commercial banks with the help of some indicators like branch expansion, deposit mobilisation, deployment of credit, C/D ratio, NPAs etc. in Assam during the post reform period.

**CHAPTER - 5**: A critical assessment of the banking sector reform in Assam has been made in this chapter.

**CHAPTER - 6**: In chapter - 6, summery of the findings and suggestions are incorporated. Here, we draw conclusions of our above study.