CHAPTER - IX

FINDINGS AND SUGGESTIONS

The RRBs, as district level banking organisations, are of recent institutional innovation in the sphere of rural credit institutional set-up in the country. They have been started in India to act as catalysts for socio-economic transformation of hitherto neglected and down-trodden rural ethos.

Prior to mid 1970s, the structure of rural credit institutions in India was characterised by the presence of co-operative banks on the one hand and the commercial banks on the other hand. The co-operative banks appeared in the country at the beginning of 20th century mainly for the purpose of freeing the rural masses from the clutches of usurious money lenders. But, the co-operatives could not occupy any major role in mitigating the miseries of rural masses mainly because of their inbuilt deficiencies such as absence of pre-sanction appraisal and post-sanction follow-up, poor managerial ability, inadequate financial resources, etc. Hence the Government of India felt the need for strengthening rural credit structure. To achieve this, it converted the Imperial Bank of India into State Bank of India in 1955, for the purpose of giving rural orientation to commercial banking in India. Till this period, the commercial banks were traditional in their style and outlook and were not attuned to rural lending. The
concept of social banking was introduced in 1967 with the introduction of social control over banks and subsequent nationalisation of 14 major commercial banks in 1969 for the purpose of making bank lending to be in tune with the changing socio-economic priorities as fixed by the Government from time to time. Therefrom, several administrative measures were introduced in order to make the rural credit delivery by these two credit institutions in rural areas more effective. But, the institutional credit structure constituted by co-operatives and commercial banks continued to suffer from certain operational and financial problems. Though the co-operatives were well suited to the rural areas with their local bias, yet they were lacking dynamism in their credit operations. Similarly, the commercial banks with their high operational cost and urban bias were not suited to meet the credit requirements of millions of rural masses. Hence, there was an urgent need for the development of an alternative arrangement for the delivery of rural credit. Therefore, the Government of India appointed a Working Group under the Chairmanship of Shri. M. Narasimham to reveal the flow of institutional credit particularly to the weaker sections of the rural community. This Group, after identifying the deficiencies in the working of both co-operatives and commercial banks, concluded that the regional and functional credit gap in the rural credit could not be met within a reasonable time either by re-organising or
by re-structuring these two institutions. At times, it also recognised certain commendable qualities in both co-operatives and commercial banks which could be combined in a new type of rural credit institution. Therefore, the Working Group recommended the setting up of state-owned, regionally-based and rural-oriented banks called "Regional Rural Banks" (RRBs). Government of India accepted the recommendations of the Working Group and promulgated the RRBs Act in 1975 and the first five RRBs were established on October 2, 1975. Thus, the RRBs are set up in India for the purpose of developing rural economy by providing credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans, small entrepreneurs, etc. They are expected to generate employment opportunities in rural areas and to purvey credit at cheaper cost.

However, the RRBs, inspite of magnificent functional diversification and geographical expansion through wide network of branches in the last one and half decades, have been confronted with deep-rooted operational and financial diseases which would affect their operational efficiency and financial soundness. Against this background, a need was felt by the researcher to diagnose the working of RRBs.
The present study "Analysis of Productivity in Banks with special reference to the Bijapur Grameena Bank in Karnataka" is a micro level study which aims at analysing the productivity of rural-oriented commercial bank. It is a modest attempt of analysing the efficiency and effectiveness of different functional areas of a rural bank i.e., Bijapur Grameena Bank.

I. Findings of the Study:

The major findings of the study are as follows:

A. Bijapur Grameena Bank's market share in bank business:

The market share of the Bijapur Grameena Bank (in terms of total banking business) in relation to all the banks in the district has been increasing steadily over the period of time mainly because of higher rate of annual growth in the banking business of the Bijapur Grameena Bank than in all the banks in the district.

However, this gradual increasing trend in the market share of the Bijapur Grameena Bank does not support the fact that it is effective in terms of market share in relation to entire banking system in the district, because its share accounts only 8 per cent in spite of the fact that, of all the
20 commercial banks functioning in the district, it is the only bank which has the highest number of branches (i.e., 84) working under its supervision and control. This reflects Bijapur Grameena Bank's meagre share in the banking business in the district and ineffective role of its branches.

B. Branch Expansion:

1. The Bijapur Grameena Bank's market share in terms of branch expansion (in relation to all the banks in the district) has been decreasing mainly because of nil growth rate in the branches of Bijapur Grameena Bank and marginal increase in the growth rate of branches of all the banks in the district.

   But, when its market share in terms of branch expansion is evaluated on the basis of its total branches and the total branches of any other bank in the district, Bijapur Grameena Bank commands a lion's share in the total branches working in the district.

2. Bijapur Grameena Bank's market share in terms of branch expansion in relation to all the RRBs in the State has witnessed a declining trend due to increase in the number of total branches of the RRBs in the State and lack of similar increase in the number of Bijapur Grameena Bank's branches.
3. The relative share of the Bijapur Grameena Bank in rural and semi-urban branch network of the banking system in the district has witnessed a downward trend reflecting thereby that it is losing its leadership cherisma in rural banking as it has remained with the same number of branches throughout the period under study.

4. Bijapur Grameena Bank has been acting as an innovator in the field of rural banking as it has lion's share in the total number of single branches at remote rural centres in relation to all the banks in the district. But, when its role in branch expansion at remote rural centres is examined over the period under study, it may be inferred that its innovative role in the field of rural banking has remained stagnant.

5. Bijapur Grameena Bank's performance in branch management has not been effective as the number of loss incurring branches in the total branches of the Bijapur Grameena Bank has increased over the period. Similarly, its role in managing rural branches has not been effective as the ratio of loss making rural branches to total rural branches has increased over the period mainly because of its inability to arrest the operational cost of the rural branches.
C. Deposit Mobilisation:

1. Bijapur Grameena Bank's market share in terms of deposit mobilisation in relation to all the banks in the district has increased over the period due to higher rate of growth in the deposits of the Bijapur Grameena Bank than in the deposits of all the banks in the district. Hence, it can be inferred that it has been playing an effective role in mobilising deposits in the district.

Similarly, its market share in terms of deposit mobilisation in relation to all the RRBs in the State has increased over the period due to the higher rate of growth in its deposits than in the deposits of all the RRBs in the State. Hence, it can also be inferred that it is playing an effective role in mobilising deposits in the State.

2. The Bijapur Grameena Bank's deposit mobilisation performance at rural places has been effective as the deposits from rural and unbanked areas constituting more than 90 per cent of its total deposits.

3. Deposit mobilisation policy of the Bijapur Grameena Bank is high interest cost-oriented as there is a lion's share of fixed deposits in total deposits. This implies
higher levels of financial risk on the part of the Bijapur Grameena Bank and adverse impact on profitability in the event of operational ineffectiveness.

4. There has been an increasing trend in the incidence of deposits per account due to an increase in the amount of deposits rather than an increase in the number of deposit accounts. This speaks of the relatively effective role of the Bijapur Grameena Bank in satisfying the existing customers, and at times, its ineffective role in attracting more and more new customers.

5. An analysis of the deposit mobilisation schemes introduced by the Bijapur Grameena Bank reveals that it has been able to introduce different schemes to suit the desires of different savers. However, when its performance in terms of introduction of new and new schemes year by year is evaluated, it can be inferred that it has failed in introducing new schemes over the period under study because it is continuing with the same number of schemes as in 1986.

D. Credit Management:

1. Bijapur Grameena Bank's market share in terms of credit expansion in relation to all the banks in the district has remained more or less at the same level.
But, when its role in credit expansion over the period under study is examined, it can be noticed that there has been slackness in the credit business of the Bijapur Grameena Bank.

2. Agricultural credit forms a lion's share in the total credit provided by the Bijapur Grameena Bank for all the years under study. Therefore, it's credit policy is low-interest income-oriented. Hence, operating profitability can be improved only by efficient and effective credit planning and control.

3. Viewed from the angle of number and nature of beneficiaries covered under both agricultural and non-agricultural credit, the Bijapur Grameena Bank's credit policy has been in tune with national priorities as fixed by the Government from time to time. But, this type of soci-economic oriented credit policy results in an improvement in operating profitability only when it is coupled with efficient recovery management.

4. Average credit per account has increased over the period due to increase in the credit business rather than in the number of credit accounts. This speaks of ineffectiveness of the Bijapur Grameena Bank in opening more and more credit accounts or inefficiency of recovery management.
5. Compared with the level of C.D. ratio at 200 per cent as suggested by the Working Group on RRBs (1986) the C.D. ratio of the Bijapur Grameena Bank was found to be less than 200 per cent for all the years under study. This speaks of poor credit creation capabilities of the Bijapur Grameena Bank.

6. Credit expansion of the Bijapur Grameena Bank has been predominantly influenced by the facility of re-finance from the higher financing agencies (i.e., borrowed funds) but not by its ability to create more credit with the help of deposits mobilised. This affects the spread and thereby the operating profitability.

7. After meeting the statutory liquidity obligations (i.e., 28 per cent), the percentage share of the deposits used for credit expansion by the Bijapur Grameena Bank has been very less. Available funds procured at high cost have not been utilised properly for earning income through credit expansion. This affects the operating profitability adversely.

8. Viewed from the angle of bank's ability to meet the credit requirements of rural masses, the share of rural credit in the total credit provided accounts for more than 95 per cent for all the years. Thus, the Bijapur Grameena Bank
has been orienting its lending policy in favour of rural masses. But such a rural oriented concessional credit policy may result in heavy operational losses if the recovery performance turns out to be ineffective.

9. The market share index relating to recovery performance of the Bijapur Grameena Bank was more than 1 throughout the period under study. This indicates effective recovery performance in relation to all the banks in the district.

But, over a period of time, there has been decline in the quotient indicating that Bijapur Grameena Bank's recovery performance over the period has not been effective.

10. Sector-wise recovery performance analysis reveals that Bijapur Grameena Bank was effective in relation to the banking system in respect of credit to all sectors, viz., agriculture, small-scale and village industries and tertiary sector.

11. Bijapur Grameena Bank's overall performance (measured in terms of ratio of achievement to target), under AAP in relation to all the banks in the district has been relatively effective.
But, it's overall performance under the said plans over the period under study has witnessed a set back as indicated by declining trend in the achievement ratio of the Bijapur Grameena Bank.

12. When compared with the sectoral performance under AAP of all the banks in the district, Bijapur Grameena Bank's performance has been relatively effective.

But, its performance under AAP in respect of credit to agriculture, industry and tertiary sector has been relatively ineffective as indicated by declining trend in the achievement ratio of the Bijapur Grameena Bank.

E. Operational Efficiency and Profitability:

1. Bijapur Grameena Bank's operating profitability has been very poor over the period because of its ineffectiveness in controlling the burden cost. It could not cover its operating cost for all the years except the last year of the study.

2. There has been a gradual spurt in spread over the period due to higher percentage of increase in interest income than in interest expenses.
3. Burden cost has not been cost effective over the period of study as indicated by an increasing trend in the magnitude of burden cost responsiveness.

4. Analysis of burden cost indicates a lion's share of manpower expenses. Manpower cost and other expenses were not cost effective over the period as indicated by an increasing trend in the degree of cost responsiveness of these two components. This reflects poor productivity of human resources in Bijapur Grameena Bank.

5. Ancillary income of the Bijapur Grameena Bank has not been sensitive to the changes in the volume of bank business. This reflects ineffective role of the Bijapur Grameena Bank in providing good customer services.

6. The profitability of working funds of the Bijapur Grameena Bank was very very poor as indicated by the negative percentage of net profit on working funds mainly because of poor operating cost effectiveness.

7. Poor operating cost effectiveness was due to higher percentage increase in operating cost than in operating earnings over the period under study. The former was due to higher level of financial risk on account of preponderance
of borrowed funds in total credit, poor cost-effectiveness of manpower expenses and other expenses; whereas the latter was due to only marginal increase in interest and ancillary income, higher proportion of idle cash in total working funds due to ineffective cash management and declining trend in the magnitude of funds available for productive investment due to heavy amount of accumulated operating losses.

II. Suggestions:

On the basis of the above findings, the following measures may be suggested for the development and improvement of RRBs in future:

1. **Profit Planning and Cost Control Measures**:

Bank's profitability is largely influenced by spread and burden cost. But, in view of regulated interest rate (paid on deposits and received on advances) structure, operating profitability cannot be improved much by interest spread alone. Hence, bank's profitability can be improved only through conscious and innovative search for profitable avenues of bank business promotion and customer services on the one hand and labour productivity improvement techniques and controlling the upsurge in other operating costs. Therefore, bank's operating profitability can be improved only by
controlling manpower cost, other operating cost and by increasing ancillary income through the expansion of ancillary services of the bank.

2. Labour Productivity Improvement Measures:

Manpower cost has tended to swell considerably during the recent years. If the Bijapur Grameena Bank continues to be indifferent to exercise of improving labour productivity, its profitability still becomes alarming. Hence, in this connection, the following productivity improvement-oriented measures may be introduced:

i. Introduction of performance budgeting,

ii. Perfect linkage between work-traits and worker's qualifications,

iii. Periodic performance appraisal,

iv. Efficiency audit in respect of deposit mobilisation, recovery performance, etc.,

v. Promotion linked with performance,

vi. Training the bank personnel in the sphere of behavioural management,

vii. Proper motivational measures,

viii. Adopting the philosophy of management by participation while taking decisions relating to the introduction of a particular deposit mobilisation policy, recovery drive, etc., and

ix. Setting up of a separate human resource development cell for the purpose of developing skills so as to make them fit for changing work patterns.
3. **Promotion of Customer Services by Product Development and Product Diversification Strategies**

The product mix of the bank mainly consists of deposits, credit and ancillary services. No doubt, there is rigid monetary control on deposit and credit business by the RBI. But, there is no dearth for introducing innovative schemes like merchant banking, leasing, consulting services, investment counselling, factoring, tax planning, savings planning, etc., which would result in a sizeable increase in bank business and thereby in the magnitude of ancillary income.

4. **Market Development Strategy for Mobilising More Rural Savings**

Rural areas offer better potentialities for deposit mobilisation. Environment is ever changing. New savings schemes are being introduced by other banks, corporate business units, Central Government, and State Governments. There has been continuous change in the savings habits, capacity to save and expectations about return on investment. Therefore, the Bijapur Grameena Bank should not be complacent in serving the existing customers alone. There is an urgency to tap the rural savings of even other people who are unexposed to banking system.
5. **Managerial Audit for Controlling Other Administrative Cost:**

Poor cost-effectiveness of other operating cost is also responsible for sagging profitability of the bank. Hence, to increase its effectiveness, managerial audit system may be introduced. Cost-benefit analysis of the managerial actions and policies may be made from time to time. This results in bank's organisational effectiveness.

6. **Trade-off Between Risk and Return:**

Implementation of social objectives by way of priority sector lending at concessional rate of interest has weighed heavily on bank's profitability. Major portion of the funds mobilised at higher cost are being used for providing priority sector credit at lower rates. This naturally erodes bank's profitability. Social growth and development need not be and should not be at the cost of banking development. Vote catching strategy of the Government machinery should not be sought to be implemented through the banks in the form of concessional credit. Socio-economic welfare of borrower-beneficiaries depends upon how much and how timely the credit is given for genuine purpose by the banks and how that credit is productively utilised by the borrowers. Social welfare cannot be said to be achieved just by routing the directions by
the Government to the banks to provide concessional credit without screening genuine requirements of the borrowers. Hence, for improving its operating profitability and maintaining operational viability the cardinal principle of financial management i.e., risk-return trade-off should govern the structure and size of the credit portfolio management by the bank. This ensures financial soundness of the bank also.

7. Socio-Economic Impact-Oriented (i.e., Quality-Oriented) rather than Target-Reaching-Oriented (i.e., Quantity-Oriented) Performance Evaluation under Annual Action Plans:

RRB's effectiveness in social banking performance is evaluated in terms of its ability to reach the target i.e., credit limit fixed for disbursement during a time segment but not in terms of the socio-economic impact of the credit provided by the bank on the beneficiaries or in terms of the impact of its credit policy on its own growth and development. Such a practice naturally tempts the banks to give more attention to disbursement and less attention to recovery performance. Hence, the role of a rural bank in achieving the socio-economic objectives, sought to be achieved by the Government, may be evaluated in terms of its capacities of promoting the socio-economic development of borrower-beneficiaries.
8. Streamlining Recovery Performance:

Poor recovery performances of the bank has resulted in both profit erosion due to arousal of non-performing assets in the form of dues outstanding since long on which interest income ceases to realise and capital erosion over the period due to heavy operating losses. Therefore, there must be perfect co-ordination between credit planning and credit collection. In the case of a fresh credit disbursal, how much is to be sanctioned is to be influenced by how far the borrower is capable of capitalising the credit procured from the bank. If it is a repeated sanction, how much is to be sanctioned is to be influenced by how far the borrower was prompt in repaying earlier dues.

For the purpose of collecting long overdues, recovery officers may be properly trained and motivated. If non-payment is due to wilful default, stringent actions may be taken even by filing suits in a court of law. A survey relating to socio-economic profile of the default-borrowers may be undertaken so as to identify the wilful and non-wilful defaulters. This profile will also be useful for future credit planning. Acting heads of the borrower's families may be located for the purpose of sanctioning credit in the names of only such active members in the families. Recovery drives may be arranged soon after harvest.
9. **Effective Management of Bank Funds:**

Bijapur Grameena Bank has relied heavily on re-finance facilities for its credit expansion. Deposits mobilised at cost must be deployed in an effective way for credit expansion. There must be again trade-off between liquidity and profitability in respect of cash management. This type of prudent financial management philosophy will definitely improves its operating profitability and the profitability of its working funds.

10. **Simplification of Loaning Procedures:**

Poor or lack of repaying capacity of the borrower may also be due to diversion of funds for non-productive purposes. Delayed credit due to complex and lengthy sanction and disbursal procedures will not be used for the purpose for which it was obtained. Therefore, right credit is to be provided to the right borrower at right time at right place in right form to ensure timely recovery.

11. **Introduction of Household Credit Card System:**

Under the present multi-agency system for rural credit several credit agencies like commercial banks, co-operative banks, rural banks, etc., are operating. Such a system gives ample scope for borrowing from more than one credit agency for the same purpose. If he borrows like this, naturally his
repayment capacity would be adversely affected; which, in turn, results in higher level of overdues at bank level. Hence, to ensure proper assessment of credit requirements of and credit disbursement to each rural householder, a 'Household Credit Card System' may be introduced where each family is allotted a card which must provide full particulars relating to position of assets and liabilities of the concerned family. This document will act as the best base for rational credit planning and control by the rural bank. This device mitigates the problems of under-financing, over-financing or duplicate-financing.

12. Proper Mode of Credit Disbursement:

To ensure proper end-use of the credit and timely recovery, it is imperative on the part of a rural bank to discharge the credit in the form in which it is needed. If the credit is needed for purchasing insecticides, pesticides, fertilisers, etc., it is advisable to the bank to remit the payment directly to the suppliers of such things. Sometimes, in spite of direct payment of cash by the bank to the suppliers or dealers, there may be possibilities of misutilisation due to re-sale of such things to other dealers or receipt of cash rather than the things from the dealers. To avoid such cases, unexpected household visit or field visit may be given by the bank to ensure proper follow-up. Such a system of
disbursement and follow-up will definitely improves bank's effectiveness in credit planning and recovery.

13. **Motivational Research for Mobilising Rural Savings:**

At rural places, most of the people are illiterate. Their savings needs and habits differ widely. Their investment behaviour is interest-elastic. Some of them may be interested in the formation of physical assets like land, building, etc. Their needs are not only multiple but also competitive. The investment behaviour of the depositor is decided by the degree of motive strength. Hence, the rural savers are to be properly studied and the complexity of their infinite needs is to be analysed for the purpose of stimulating them to keep their savings in the form of bank deposits. Such a type of motivational research enables the bank to garner savings from different people. This results in the improvement of volume of deposits, which will reduce its reliance on re-finance facilities from higher financial agencies. Pragmatic deposit mobilisation policy coupled with prudent management of bank funds capacitates a rural bank to increase its credit creation capabilities and profitability.
14. Regular Assessment of External Environment for Innovating New Deposit Schemes:

If a rural bank is to mobilise more savings in the midst of competition posed by Government Schemes, Corporate business units, co-operative banks and other commercial banks, it has to continuously scan the external environment in the money market for the purpose of innovating and introducing a suitable deposit scheme so as to retain existing customers or to attract new customers. This on-going search for different deposit schemes in the light of ever-changing environment will increase the effectiveness of the rural bank in mobilising small and scattered savings of the rural people. This increased volume of deposits strengthens its credit creation capacity.

15. Educating the Rural People about Banking Business:

Rural people being illiterate may not be aware of deposit schemes, credit schemes, banker's role in their socio-economic life, consequences of non-repayment, etc. Hence, positive change in their investment and repayment behaviour calls for proper education by the rural banks. For this purpose, some exhibitions in evening times, group meetings with farmers, etc., may be arranged at frequent intervals.
16. **Agriculture-oriented Merchant banking services:**

Most of the farmers at rural places do not have requisite and rich knowledge about crop planning, crop rotation, usage of fertilisers, modern methods of tilling the land, etc. Similarly, they lack expertise in respect of marketing of agricultural produce, financial planning, etc. Hence, agriculture-oriented merchant banking services relating to above matters may be undertaken by the bank as there are technically specialised employess in the fields like agricultural sciences, accounting and finance, etc. This type of service will not only educate the rural people but also increase the ancillary business of the bank which, in turn, would augment its ancillary income base.

17. **Need-based Branch Expansion Policy:**

The branch expansion policy of the bank is to be need-based rather than Government-policy based. Effectiveness of branch expansion policy of a rural bank is to be evaluated not in terms of its total number of branches but in terms of the total number of profit-making branches. It is needless to emphasise that a sound branch, which comes into picture only after the assessment of needs of a particular area would be the most useful and operationally viable branch but not the branch which gets originated in a particular area because of
political influence. Such a policy will reduce the number of loss-making and operationally non-viable branches. Similarly, it eliminates the situation of profit-erosion and capital erosion due to the existence of loss making and financially non-viable branches.

18. X-raying Loss-making Branches:

An increasing number of loss-making branches of the bank is posing a threat to the continuation of rural banking system. Hence, it is imperative on the part of the bank to analyse the causative factors on branch-wise basis to explore the exact reasons for operational and financial non-viability. In the process, the worthwhileness of their continuation in the light of promising future potentialities for banking development at such places may also be decided.

19. SWOT Technique for Branch Expansion:

A rural bank sends proposal to the monetary authority i.e., RBI at the time of opening a branch at a particular place. An increasing number of loss-making branches is the clear symptom of absence of proper diagnosis of internal and external environment for assessing prospects and potentialities of a bank branch. Hence, to increase the effectiveness of the branch expansion policy of the bank, it has to prepare its proposal by following the spirit of SWOT technique which
signifies that a rational decision relating to any aspect is to be arrived at on the basis of perfect matching between banks internal factors (strengths and weaknesses) and external environmental factors (opportunities and threats). Before coming to a conclusion of starting a branch at a particular place, it has to assess its own strengths in terms of its financial, human resources, etc., besides studying in detail the possible impact of working of other competing banks and potentialities for banking development at a particular place. Such a screening will definitely reduce a number of loss-making branches.

20. Streamlining Financial and Operating Reporting Systems:

The existing financial information system in the form of annual reports is not exhaustive. It does not provide detailed information relating to ageing of overdues, non-performing assets, etc. Hence, it is not amenable for following the philosophy of management by exception. There must be exhaustive and effective internal operational reporting system between the branches and the Head Office. Such a reporting should enable the Head Office to diagnose operating and financial health of different branches at the end of each month so that the Head Office can think of introducing cost control and profit planning measures in the nick of time. Such a system
of reporting and evaluation will definitely improve the operating cost-effectiveness of the branches and reduce the number of loss-making branches.

To sum up, operational viability, financial soundness, ability to promote the socio-economic well-being of the rural masses, etc., of a rural bank are the direct results of improvement in its operational and financial productivity. Monitoring of efficiency and effectiveness of its different facets of management, viz., branch management, credit management, deposit management, ancillary services management, cash management and human resource management at regular intervals is the only solution to its operational and financial problems. The measures suggested above, if properly adhered to, would definitely improve the working of the Bijapur Grameena Bank in particular and other Regional Rural Banks in general.

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