CHAPTER VII

SUMMARY, CONCLUSION AND
RECOMMENDATIONS FOR POLICY IMPROVEMENT
1. During the post nationalisation period, bank branches in general, bank branches in rural area, bank deposits, bank credit, priority sector advances, advances to weaker section and bank investments recorded a spectacular growth. Consequently population per branch rapidly declined to 11,000 in very recent period.

2. This research study is based on secondary data collected from various published reports and records of Reserve Bank of India. Simple statistical techniques have been made used to ascertain relevant results or conclusions.

3. This research study aims at examining the trends in respect of (i) Population group-wise credit deployment, (ii) Region wise and state wise credit deployment, (iii) Sectoral credit deployment, (iv) Priority sector advances, (v) advances to weaker sections and (vi) Investments/advances to public sector units.

Moreover, trends in profitability have also been examined.
CHAPTER : II

1. An anti-inflationary credit policy with an upward trend in CRR and SLR requirements and social objectives, by and large, have determined credit deployment of commercial banks in India during post-nationalisation period.

2. In some years, CRR and SLR together absorbed 53 percent of net demand and time liabilities of banks, keeping only 47 percent of resources to be deployed as credit.

3. For 47 percent of resources, the directives for credit deployment to meet objectives of social banking are: (i) 10 percent of total bank credit or 25 percent of priority sector credit to the designated weaker sections, (ii) 40 percent of total bank credit to priority sectors, (iii) 18 percent of bank credit by way of direct finance to agriculture by March end 1990 (iv) 1 percent of total bank credit under DRI scheme.

4. Various schemes and instruments have been resorted to in order to facilitate credit flow in to specific sectors of the economy. These schemes includes DRI, IRDP, SEEU, SEPUP, etc.
CHAPTER : III

1. There was 40 fold increase in the total volume of credit deployed by banks to all types of population groups.

2. The proportion of credit deployed in rural areas considerably increased.

3. There was more than forty seven fold increase in the credit deployed in Semi-urban areas.

4. The amount of credit deployed in Semi-urban areas showed an upward trend in that its period wise growth rate continuously rose during the period from 1969 to 1980; while during subsequent period, it showed a decreasing trend.

5. The proportion of credit deployed in Semi urban areas increased with ups and downs from 13 percent to 17 percent during subsequent period from 1980-85; it remained above 17 percent. During the period from 1985 to 1992; it varied between 15.4 percent and 16.9 percent.

6. The quantity of credit deployed in urban areas stepped up by about 39 times during the reference period.

7. The proportion of credit deployed in urban area to total ranged between 19.7 percent and 22.8 percent during entire period.
8. As compared to other population groups, the amount of credit deployed in metropolitan area slowly increased.

9. There was more than 30 fold increase in credit deployed in the metropolitan area.

10. The proportion of credit deployed in Metropolitan area to total was above 50 percent during 1970's and below 50 percent during 1980's.

11. It is observed that during the reference period, the fluctuations in the ratio were wider in Metropolitan areas than in urban areas.

12. Due to improvement recorded in credit deployment to the rural and semi-urban groups, their CD ratios and the national average got narrowed down during the period under study.

13. The quantity of credit deployed by Scheduled Commercial banks in Northern Region exhibited an upward trend throughout entire period.

14. Nevertheless, the rate of increase in it is not uniform in that it varied widely.

15. The Share of this region in total credit showed a fluctuating trend. This is because, the proportion of credit allocated for this region continued to constitute below 20
percent during the period from 1969 to 1975. During the period from 1976 to 1984, this proportion remained above 20 percent, it however, continued to remain below 20 percent again during the period since, 1985.

16. The CD ratio for this region has quite improved during 1970's as it showed an upward trend. It increased persistently from 40 percent to 98 percent during 1969 to 1976.

It continued to remain above 70 percent during the period from 1977 to 1982. During subsequent period, it was below 70 percent.

17. The credit supply for North-Eastern Region exhibited an upward trend throughout the entire reference period.

18. The rate of increase in the credit deployed is neither up to the mark nor satisfactory. This is because, the proportion of credit flow to this region to the total credit very slowly stepped up from merely 0.55 percent in 1969 to 1.3 percent in 1992.

19. The CD ratio of the region slightly rose as it continued to remain below 45.5 percent upto 1984 and above 45.5 percent after 1985.
20. Generally, we can conclude that the Eastern-Regions' pattern of credit deployed has been very slowly improving towards fulfilling the basic objective of minimising regional imbalances through expanding credit facilities to the neglected and backward parts of the Region.

21. The overall credit distribution throughout the total period by the Scheduled Commercial banks in the Central Region, has been quite progressive as it has on an average, doubled in terms of amount deployed. It is significant that the proportion of credit also consistently increased and therefore favourable from the viewpoint of the underlined objectives.

22. The CD ratios with this background of credit deployed generally exhibited a similar increasing trend although it has noticeably slackened initially.

23. In sum, we can say that the credit deployment trend in the Central Region has been progressively favourable from the point of view of the underlined objectives of bank nationalisation and the Region generally indicates potentialities for credit absorptivity in response to the wider scope for weaker sections who form a relatively greater majority of population in this Region.

24. The trend in Credit deployment in the Western Region, in terms of amounts clearly show a increasing trend. Inspite of considerable and consistant increase in distribution of the
amounts, their percentages are continually declining. This suggests that in the total national deployment, the share of this most advanced region is reducing which is a welcome sign though the pace of decline is very slow. Secondly, the declining trend of the Regional credit-deposit ratios over the total period indicates a gradual but positive step towards realising a post-nationalisation objective of reducing regional disparities.

By way of conclusion, though of a very general nature for obvious reasons of generality of data, we can say that the over all trend of credit distribution in the western region is getting favourable for to the realisation of the basic objective of nationalisation, but very slowly. The ups and downs in the credit deposit ratios can not be specifically accounted for the whole region like this on the basis of such a limited or simple data. However, looking to the leading position of this region in the context of the relative levels of economic development of various regions of the country and particularly of banking development, this region has not come up to a sizeably reducing trend of credit distribution which was expected of it.

In this region the Metropolitan and urban areas mostly contribute to the process of development through increasing levels of production, distribution and consumption. Also,
relatively, its rural and semi-urban areas show a higher
degree of development particularly in banking.

25. Analytically observed, it can be started, firstly,
that it is only the Southern Region that has shown quite
sizeable deployment of credit doubling it over each successive
period, though the percentage wise trend of this deployment
reflects flexibility which might have caused on account of
varying degrees of bank operations, fresh policy directives,
if any, and general and selective credit control of the
Reserve Bank of India.

Secondly, the Regional Credit-deposit ratios vis-a-vis
the national average, positive indicate that the Regional
ratios are sizeably above the national average though these
show a marginal fluctuations in the last sub-period.

In conclusion, the southern Region ranking higher
relatively inrespect of the level of economic development in
general, can be treated as ranking first in respect of banking
development in particular as it shows the highest effective CD
ratios. This gets confirmed by the highest and sizeable trends
of credit development in the country as is observed here.
Looking to the generally and relatively an advanced nature of
this region which deployes consistently increasing and
doubling of the amount (credit), one may make an apparent
observation that the region is not showing a reducing trend of
development which is expect of which under the post-
nationalisation policy.

**State-wise**

26. Among the developed states the position of Maharashtra
and West Bengal continued to remained strong in obtaining a
larger share from the total credit supplied by the banks.

27. The share of Maharashtra in total credit continously
declined from 30.5 percent to 22.7 percent during 1969 to
1982. Similarly the share of West Bengal persistently
decreased from 19.3 percent to 8 percent during the entire
period.

Though the shares of the both states continously
declined, they are still higher as compared to those of the
other states. This implies that, this trend is favourable in
reducing state-wise imbalances. However, this process appears
to be rather slow.

28. The shares of Andhra Pradesh, karnataka and Tamilnadu
continue to remain below respectively 7.3 percent, 7.2 percent
and 11.3 percent throughout the entire period. Moreover,
these shares of these states showed more or less a fluctuating
trend.
29. The position of the backward states like Assam, and Bihar in obtaining credit has not improved significantly. The share of the Assam continue to remain either below 1 percent or around 1 percent during the entire period, while the share of the Bihar in total credit continue to remain below 3 percent. This implies that backward states continue to remained backward.

30. The shares of Punjab, Uttar Pradesh and Madhya Pradesh have not improved significantly. The share of each state neither showed a definite trend. The share of the Punjab ranged between 2 percent and 4 percent.

31. Similarly the share of Uttart Pradesh varied from 5 percent to 7.5 percent and the share of Madhya Pradesh also varied between 2 percent and 4 percent. This phenomena is not consistant with the policy of reducing imbalances among different states.

**Credit Deposit Ratio:**

32. The CD ratio exhibited a downward trend in West Bengal. In that it invariably declined from 82 percent to 56.8 percent during the period under study. Where as in Maharashtra, the CD ratio showed a fluctuating trend.
Moreover it remained above 70 percent. The behaviour of the CD ratio in West Bengal is consistent with the policy objective. While in Maharashtra, the behaviour is not consistent.

Another point is that though the CD ratio declined significantly in West Bengal. It was still higher during the entire period. Thus, the policy of the authority has been limited in its effectiveness in reducing regional imbalances in context of CD ratio.

33. The CD ratio in other developed states like Andhra Pradesh, Karnataka and Tamilnadu fluctuated widely during the reference period. This is because in Andhra Pradesh, CD ratio ranged between 72 percent and 92 percent. In Karnataka, it ranged from 75 percent to 90.7 percent, while in Tamilnadu CD ratio remained above 35 percent. This implies that the CD ratio has not declined in these advanced States. Naturally, this has widened the gap between developed and under developed states in case of CD ratio.

34. **Backward States:**

The CD ratio in backward States like Assam and Bihar continued to remain very low. This is because it remained below 58 percent in case of the former, while it remained less
than 41 percent in the case of latter. The CD ratios in these states, were invariably low as compared to advanced states. Consequently, this helped to enhance disparities between developed and backward states.

Among the developing states, in Uttar Pradesh, the behaviour of CD ratio was, more or less, consistent with the policy objectives. In Madhya Pradesh, CD ratio exhibited an upward trend as it increased from 53 percent to 66 percent during the reference period. Where as the behaviour of the CD ratio of Punjab and Uttar Pradesh is not satisfactory from the view point of policy objectives. In Punjab CD ratio, initially increased from 41 percent to 70 percent in 1985, while during the period since 1986, it rapidly declined to 44 percent. In Uttar Pradesh, CD ratio varied between 40 and 42.4 percent. CD ratio continued to be low in Uttar Pradesh. This is also not consistent with the policy objectives.

CHAPTER : IV

1. There was fall in the share of bank credit to large and medium industry and rise in that of the Small scale industry during the period from 1969 to 1993.

2. The share of large and medium industries in total bank credit steeply declined from 92 percent in 1969 to 28 percent in 1985. Notwithstanding, it slightly improved 37.4 percent in 1993.
3. The share of small scale industries rose from 3.2 percent in 1969 to around 12.5 percent in 1975. During the subsequent period, it ranged between 10.7 percent and 14.4 percent.

4. There was persistent improvement in the share of agriculture and allied activities in the total bank credit during the reference period. The share rapidly rose with ups and downs in some years from 2 percent in 1969 to a perceptible level of 17.3 percent in 1989.

5. The share of interest trade continued to remain significant. It varied from 17.3 percent to 28.4 percent during the period from 1969 to 1984. However, it showed a downward trend during subsequent period as it continuously camedown from 23.4 percent to 13.9 percent.

6. The proportion of personal loans to total bank credit continued to remain more or less stagnant around 3 percent to 4 percent during the period 1972 to 1987. Since it slightly rose.

7. The share of services in total bank credit was insignificant according for below 4 percent during the period from 1978 to 1990.
8. The credit deployed in terms of amount by scheduled commercial banks showed increasing trend, but the proportion of total priority sector advances fluctuated throughout the reference period.

9. The share of the Small-scale industries in total priority sector advances rose from 37.4 percent in 1970 to 40 percent in 1991.

10. The share of the Other priority sector advances ranged between 1 percent and 22.5 percent.

11. The proportion of the export credit to total priority sector advances showed an fluctuating trend. It fluctuated from 35.9 percent in 1969 to 16.8 percent in 1980 and 22.6 percent in the last period.

12. The share of the total priority sector advances in total banks' advances rose from Rs. 752.28 crores in 1969 to Rs. 45,469 in 1992.

13. The percentage of priority sector advances to total advances considerably increased up to 1988, but it decreased in the subsequent period.

14. The share of the finance distributed for fertilisers and other inputs steeply declined from 34.5 percent in 1969 to 2.8 percent in 1988.
15. The share of the loans to State Electricity Boards for energisation of wells etc. Considerably declined from 7.9 percent to 3.4 percent throughout the reference period.

16. There was a fluctuating trend of other types of indirect finance. It fluctuated from 12.7 percent in 1969 to 15 percent in 1979 and 4.5 percent in 1988.

17. The share of the Direct finance to farmer increased remarkably from 44.9 percent in 1969 to 88.8 percent in 1988.

18. The total credit deployed by the banks to Agriculture among the States showed an upward trend throughout the entire period.

19. It showed an increasing trend in Haryana, Punjab, Rajasthan, Chandigarh, Assam, West Bengal, Madhya Pradesh, Uttar Pradesh, Maharashtra, Karnataka, Kerala and Tamilnadu.

20. In case of Manipur, Meghalaya, Nagaland, Tripura, Daman and Diu, Pondicherry, it considerably decreased.

21. The proportion of advances to small-scale industries showed a fluctuating trend throughout reference period of the study.

22. The share of the Road and water Transport operators stepped up from Rs. 17.63 crores in 1969 to Rs. 2319.47 crores in 1988.
23. The share of the setting up of Industrial Estates considerably increased from Rs. 0.26 crores to Rs. 88.94 crores during the entire period.

24. Total credit deployed by banks to small-scale industries, E.T.C., State-wise exhibited the increasing trend throughout the entire period.

25. The share of the Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan and Uttar Pradesh considerably increased.

26. The share of the Manipur, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Pondichery also increased considerably.

27. The share of the Exporters' Credit showed an upward trend throughout the entire period of the study. It increased from Rs. 270.19 crores in June 1969 to Rs. 16,438 crores in June, 1993.

This showed a generally favourable or progressive trend in terms of the priority sector credit policy directives.

28. Among the other priority sector advances, Small Road and water Transport operators, Retail Trade, Small Business, Professional and Self-employed and Educational loans claimed significant share.

29. Agencies for lending to weaker section, Housing loan
for weaker section and SC/ST and pure consumption loan did not receive share of the credit upto the year 1980. But, their position considerably improved in the further periods.

30. The credit deployed to public Food Procurement Operations showed ups and downs throughout the entire period of the study.

31. The amount disbursed increased considerably during the period from 1973 to 1985.

32. The proportion of credit deployed at the interest rate less than 6 percent to the total credit continued to constituted a very small part; in total credit, as it accounted for below 3.5 percent during the entire period.

33. The amount of credit deployed at the interest rate below 6 percent exhibited an upward trend throughout the entire period.

34. However, the average annual growth rate in this category of credit varied very widely in that it ranged from 7 percent to 41.3 percent.

35. The amount of credit deployed at the interest rate 6 percent and above but less than 10 percent showed fluctuating trend throughout the whole period.
36. The average annual growth rate in this category of credit varied widely from 17 percent to 58.9 percent.

37. The amount of credit distributed by the 10 percent and above but less than 12 percent interest rate showed the ups and downs throughout the reference period.

38. The average annual growth rate in this category of credit varied very widely from 5.3 percent to 54.8 percent.

39. The proportion of credit deployed at this interest rate showed the very fluctuating trend throughout the reference period.

40. The credit deployed at the interest rate 12 percent and above but less than 14 percent showed ups and downs throughout the reference period.

41. The proportion of credit varied very widely throughout the period of our study.

42. The annual growth rate exhibited the very wide variation throughout the whole period.

43. The banks' credit deployed at the rate of interest 14 percent and above but less than 15 percent showed the fluctuating trend.
44. The proportion of credit very widely varied throughout the reference period.

45. The growth rate also varied very widely throughout the respective periods.

46. The proportion of total credit exhibits the increasing trend.

47. The growth rate varied widely throughout the reference period.

48. During the period since 1980, the proportion of advances under DRI scheme exceeded the prescribed target of 1 percent under credit policy.

49. The proportion of advances granted to beneficiaries belonging to SCs/STs to total DRI advances exceeded the prescribed sub-target of 40% during the entire period since 1981.

50. The banks achieved the prescribed sub-target of 40 percent in respect of beneficiaries belonging to SCs/STs.

51. Number of women beneficiaries assisted under IRDP continued to remain significant during the period since 1986-87.

52. The Banks did not achieve the prescribed target in respect of number of beneficiaries to be assisted during each under SEPUP.
53. The performance of banks in respect of assistance under SEEUP was not satisfactory as they did not achieve the prescribed target in case of number of beneficiaries to be assisted during each year.

54. The qualitative performance of banks is not satisfactory due to poor recovery mounting overdues and existence of non-performing assets.

55. The overall recovery of all sectoral dues ranged between 49 percent and 58 percent during the period from 1985 to 1992.

57. The proportion of overdues in respect of advances to SSI rose from 18 percent to 20.5 percent during the period from 1985 to 1987, while in respect of agricultural advances, it remained around 21 percent.

58. The proportion of overdues was highest in respect of other priority sector advances. Moreover, it continuously rose from 25 percent to 29.5 percent during the same period.

59. The proportion of overdues in case of large scale industrial loans was lowest accounting for less than 16 percent during the same period.
CHAPTER V

1. Throughout the entire period, total investments of banks in Government securities exhibited an upward trend owing to simultaneous increase in both aggregate deposits with banks and SLR applicable to them.

2. Average growth rates of total deposits and total investments were higher during period 1975 to 1980 as compared to those earlier period. Moreover, growth rates of both were more or less the same.

3. Average growth rate of aggregate deposits with banks declined from 18.4 percent during 1980-1985 to 14.5 percent during 1985-1989, due to stiff competition from NBFIIs in deposit mobilisation.

   Nevertheless, the growth rate of investment of banks increased from 16.5 percent to 24.4 percent on account of increase in SLR.

4. Scheduled Commercial banks' investment in foreign securities was insignificant as its proportion to total continued to remain less than 1 percent (more specifically below 0.2 percent).
5. Investment by foreign offices of Indian banks in Indian and foreign securities also continue to remain insignificant as it constituted less than 1.5 percent throughout the entire period.

6. The proportion of Scheduled Commercial banks' investment in Indian Government Securities continued to remain large during entire period. However, on an average, it declined from 72 percent during 1969-79 to 65 percent during 1980-1989.

7. Scheduled commercial banks' investment in other domestic securities was also significant during entire period. Nevertheless, its proportion with ups and downs increased from 19 percent to 36 percent.

8. The proportion of banks' investment in other domestic securities was below 30 percent during the period from 1969 to 1979. During the period since 1983, it was above 35 percent.

9. The proportion of banks' investment in State Government securities continuously declined but it remained high (above 42.2 percent) during the entire period.

10. The proportion of banks' investment in debentures of State Electricity Boards increased from 11.7 percent to 29.4 percent during the same period.
11. The proportion in the case of SFCS also showed a increasing trend in that it continuously rose from 3.3 percent to 8.2 percent.

12. On the contrary the proportion of Banks' investment in debentures of state Industrial Development Corporations continuously declined from 3 percent to 1.3 percent.

13. The proportion in case of Road Transport Corporations remained below 1 percent.

14. The proportions in case of Joint Stock Companies and LDBS showed a downward trend during entire period.

15. The proportion of scheduled commercial banks' investment exhibited a downward trend incase of Maharashtra, Gujarat, Tamilnadu, and Andhra Pradesh during the entire period.

16. It showed an upward trend in case of Uttar Pradesh, Madhya Pradesh, West Bengal, Bihar, Assam, Orissa, and Jammu and Kashmir.

17. In case of Punjab, it slowly declined and it remained more or less stagnant in case of Kerala after 1974.
18. The proportion of banks' investment continued to remain below 1 percent in case of small states such as Nagaland, Sikkim, Himachal Pradesh and Goa.

19. The disparity in proportion of banks' investment among different states narrowed down to some extent during the period under study.

20. Due to higher yields offered on long term securities as compared to other securities, the proportion of banks' investment in long term securities to total increased significantly.

21. On the contrary, the proportion of banks' investment in short-term securities declined rapidly during the same period.

22. The proportion of treasury bills to total investment ranged between 1.6 percent and 6.3 percent.

23. In case of old loans, the proportion of investment in Securities maturing during the period from 2005 to 2009 and 2010 and above was large in 1989.

24. In case of new loans the proportion of banks' investment in securities maturing during the period from 2005 to 2009 was very large accounting for more than 97 percent.
25. The maturity of investment in Government securities by Scheduled Commercial Banks remained more or less the same in 1990 as before.

CHAPTER VI

1. The working funds of the banks showed a increasing trend throughout the entire period.

2. The total earnings and total expenses fluctuated throughout the reference period.

3. The profit after tax marginally increased.

4. The annual average growth rates of the total business of banks stepped up in the respective periods. It means that operations of banking business have increased considerably during the reference period of the study.

5. The current operating earnings as well as current operating expenses of Scheduled Commercial banks exhibited an upward trend throughout the entire period.

6. The volume of earnings exceeded volume of expenses throughout the period, therefore balance of profit was positive.

7. The balance of profit rapidly declined in 1984 due to increase in deposit rates and decrease in interest rate on advances.
8. The profitability ratio also declined continuously from 0.12 percent to 0.9 percent during the period 1981 to 1984. The sharp decline in profitability ratio was due to same aforesaid factors.

9. The profitability ratio improved after 1985, owing to hike in interest rate on food advances, higher interest rate on CRR, increase in yield rate on Government securities, increase in capital base of Scheduled commercial banks etc.

10. The responsiveness of earnings to expenses was co-related with profitability ratio in some years. For instance in 1984 both former and the latter declined significantly.

11. The interest expenses formed major part of the total expenses. It was followed by establishment expenses and other expenses.

12. The share of interest expenses in the total showed an upward trend in that it increased from 51 percent to 67 percent during the period from 1971 to 1981. During subsequent period it increased upto 72 percent.

13. The share of interest expenses in the total current operating expenses continued to remain large throughout the entire period.
14. The share of establishment expenses in total current operating expenses steeply declined with ups and down from 40 percent to 19 percent during the period 1972 to 1991.

15. The other expenses constituted a small part of total current operating expenses. During the entire period since 1978 the proportion of other expenses to total remained more or less below 10 percent.

16. After 1981, interest expenses, establishment expenses and other expenses, on an average formed respectively more than two third, less than one-fourth and less than one-tenth of total current operating expenses.

17. The proportion of overdues to loans in case of large and medium industrial units continued to remain low during each year as compared to that in case of each of other sectors. However, it rose from 12.3 percent to 15.6 percent during the period from 1983 to 1987.

18. In case of SSI, the proportion of overdues to loans slightly stepped down from 21.3 percent to 20.5 percent during the same period. However, the proportion of overdues continued to remain high.

19. In case of agricultural loans, the proportion of overdues continued to remain at a stagnant level of around 21.3 percent.
20. In case of other priority sector loans, it rapidly rose from 25 percent to 29.5 percent during the period from June 1985 to December 1987.

21. The share of priority sectors in total credit rose from 34.62 percent in 1974 to 42 percent in 1990.

22. Interest subsidy rate ranged from 3 percent to 4 percent in the case of Loans to SSI, it varied from 0.84 percent to 2 percent. In case loans to transport operators, it ranged between 2 percent and 3.7 percent.

23. Owing to interest subsidy rates, the amount of income loss to Scheduled commercial banks rapidly rose from Rs. 33.44 crores to Rs. 607 crores during 1974 to 1986.

24. Poor recovery of loans ranging from 48 percent to 57 percent pushed up the proportion of overdues of Scheduled commercial banks.

25. The proportion of overdues was significant in case of agricultural loans and other priority sector loans as it continued to remain above 21.3 percent in case of the former and above 25 percent in case of the latter.

26. The proportion of non-performing advances continued to remain above 13.5 percent during reference period.
27. Simultaneous increase in both interest subsidy rates and outstanding credit to priority sectors, poor recovery of loans and significant ratio of overdues adversely affected recycling funds earning and ultimately the profitability of scheduled commercial banks during the period under study.

28. Continuous increase in the balance of scheduled commercial banks with the RBI with average interest yield of about 8.4 percent consequent upon frequent increase in CRR produced either negative effect or a very small positive effect on earnings of banks.

29. Statutorily pre-empted funds accounting for 53 percent of net DTL with marginally higher rate of return than even average cost of funds caused to reduce earning capacity of scheduled commercial banks.

30. With rapid branch expansion in rural area the proportion of loss-making offices increased which, in turn, reduced earnings of Scheduled commercial banks during reference period.

31. The proportion of high cost-time deposits increased; while that of low cost demand deposit decreased. This trend pushed up the cost of funds for Scheduled Commercial banks.
RECOMMENDATIONS FOR POLICY IMPROVEMENT

1. The level of CRR and SLR should be reduced. The high levels of SLR and CRR that were in operation till the end of 1991-92 stemmed from the need to moderate monetary growth, in the context of high budget deficits and their automatic monetisation. These have however, been important changes in this area. The central Government is committed to reduce its fiscal deficit in the current years. The Government has also expressed its intention to reduce the fiscal deficit future in the coming years.

As fiscal and budget deficits come down, it will be possible to reduce the CRR and SLR and thus enable banks to provide larger amount of credit at their discretion. This has already happened. Because of the changes made in these ratio, pre-emption of incremental deposits which stood at 63.5 percent in 1991-92, came down to 45 percent in the first half of 1992-93 and will come down further to 25 percent in the second half of the year. Almost 75 percent of incremental deposits are available for expanding credit.

2. Priority sector advances and advances to weaker section should be reduced, or the rate of interest on such type of credit may be increased. This is because rate of
return on priority sector advances is low (concessional rate of interest). Moreover the proportion of overdues in respect of priority sector advances is high. Therefore, interest subsidy should be stopped. It will help banks for getting more earnings by which losses will be minimised. It will help improve the profit position of banks. The banks should be given autonomy for deploying their funds. Autonomy in India would mean that Reserve Bank of India should be able of effectively discharge its role as monetary authority and as a regulatory body over the financial system. To enable RBI to discharge its role more effectively as regulator of the financial system, the existing overlap of functions and responsibilities between Government and RBI over commercial banks have to be minimised.

Taking into account the present stage of development of Indian banking and credit system, autonomy in banking operations with a broad regulatory framework is ideal policy to be pursued in India. Task of monetary regulation and credit supervision should be left in safe hands of the RBI whose autonomy and authority should be respected. These are instances of countries like France where the major banks in the public sector but are allowed to operate with a high degree of autonomy without any interference from Government.
3. The Banks have been facing competition from All India Financial Institutions (AIFIS), State Level Financial Institutions, Foreign banks. As a consequence of the Liberalisation policy measures initiated by the Government, several new players have emerged on the horizon, viz. new foreign banks, non-banking finance companies, Foreign capital market, domestic capital market, and of course mutual funds, post offices, UTI, LIC, Corporate bodies for attracting and mobilising deposits from the public.

Foreign banks have talent and technology. They have a professional outlook and can give quick decisions and personalised service. It is widely appreciated that commercial banks in India will not be able to improve their performance and compete with foreign banks unless their operations are adequately mechanised.

4. **Need for Skilled Staff:**

The new financial services market is, however, a highly sophisticated and competitive market, where the players have of necessity, to be highly skilled, resourceful and innovative. To be successful in this market the concerned staff will have to develop keen insights into the pricing, issue and profitability of the securities business, be thoroughly conversant with the accounting, economic and business aspects of the various segments of the capital and securities market, trends in the capital market, portfolio
management, etc. For example, in the international financial markets, pricing of new instruments is often not done correctly and many instruments appear under priced. The market participants have to develop skills to fully understand and assess all elements of risks and appropriately price the products and services. Recent innovations in international Banking, Staff may have to be specially trained in these lines. Since it is a highly competitive business, the costs will have to be kept down and extensive use of computers is absolutely necessary to ensure speed, accuracy and low transaction costs.

Efforts should be made to increase staff output by imparting necessary training and to recognise their good work for further encouragement. This would help to put the banking industry back on the rails.

5. The important problem to be faced by the banks is the recovery of the loans and advances. To solve this problem, the existing recovery mechanism should be adequately strengthened. Asset recovery officers should be appointed / designated and, wherever warranted, recovery cells should be created at the controlling offices, or larger branches which should be manned by committed officials fully geared to give the desired thrust in this regard.
In the present day economic scenario, the banks have no option but to diversify their activities to increase their income in order to maintain their viability and also to maximise their profits. At the same time, they have to be cost conscious for the new activity and have to keep a vigil on the pitfalls of the new venture. They have to handle such business efficiently and profitability, more so in case of smaller banks. Most of the diversified activities are credit based and may need large funds. A Bank, therefore, has to estimate its capabilities and resources prior to undertaking a new activity. Indian banks should focus greater attention on enlarging their ancillary business both in terms of variety and coverage. There are various ancillary services, marketing of services, leasing factoring, portfolio management and mutual funds, etc. which open up the newer areas into which banks can successfully diversify. In this light it can be said that entry into some of these areas through fully owned subsidiaries is a step in the right direction.

To ensure maximum profitability, banks need to adequately charge for these services with proper cost-benefit analysis periodically. While it is essential to provide banking services at minimum cost.
7. To improve banks' profitability, the following suggestions are important:

i. The establishment expenditure, which constitutes the largest item of total expenditure of banks, needs to be monitored regularly after dividing it in controllable and non-controllable aspects. Though the staff salary, structure of banks is subject to bilateral agreements with the trade unions, but the utilisation of manpower resources to the optimum advantage is within the control of management. If staff assessment is carried out on the basis of activity analysis and productivity criteria, it could be possible to attain higher business volume with minimum staff and thus establishment cost can be substantially reduced and bank profitability improved.

ii. Deposits, which constitute a major chunk of bank liabilities, needs to be explored to the maximum potential. Banks must put maximum efforts to attract fixed deposits which contribute significantly towards the enhancement of bank profitability. However, it becomes difficult for banks to mobilise fix deposits owing to competition from mutual funds and other NBFI, still there is scope for enhancement of short-term deposits in case of banks. In order to increase short-term deposits, they can provide following facilities: (a) attractive interest rate, (b) better nomination facilities and (c) introduction of sophisticated technology and communication systems etc.
There is an urgent need to release the resources from non-performing assets in order to deploy them profitably elsewhere. The preventive measures such as proper credit appraisal and better control and supervision should be adopted with greater care.

Banks' responsibility is not only to deploy - credit to various purposes but also to see that the credit is properly utilise for the productive purposes, by which it will be recovered.

Computerisation should to some extent be introduced in banks:

The Rangarajan Committee\(^1\) has twice gone in to the aspect of bank computerisation. But unfortunately bank trade unions have been bauking at these plans. There is no basis for the fear that computerisation would result in retrenchment of staff. In fact, the Rangarajan Committee itself dispelled the fears when it said: "The objective of mechanisation is not to replace man with machines. Rather the objective is to make work-life more meaningful. The credibility of the banking system can be enhanced by unbridled computerisation at a

faster pace and by enforcing greater discipline among the work force. Survival of banks today depends on increasing profitability. Staff rendered surplus on account of computerisation can not be laid off in Indian conditions but has to be redeployed elsewhere mainly for giving strategic focus to social banking etc.

11. Customers' services should be improved:

In this context it is said that "Customer counter is the face of banking system and the people at large judge them by this face". The quality of services provided at the bank counters, no doubt, needs improvement and upgradation. A little more effort and a positive change in the attitude and work culture of the staff would surely take banking to the 21st century with a bang. The staff should become efficient around basics and make seemingly simple matters (which from customer's point are important) with serious and due concern.

The first step towards improved service is punctuality. To ensure this, the Goiporia Committee\(^2\) recommended that the Staff should attend office at least 15 minutes prior to the commencement of scheduled time. But there is still opposition to this step and the position has not improved appreciably. Waiting at the counters makes one

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sad and angry. Though time norms are fixed for certain transaction. Positive discipline is a must for the staff. A sense of responsibility and accountability has not percolated to the clerical level.

12 **Entry of New Banks:**

Reserve Bank of India's recent guidelines for the entry of new privately owned domestic banks are aimed at fostering a healthy and competitive banking system, while recognising the importance and role of public sector banks, there is increasing recognition of the need to introduce greater competition which can lead to higher productivity and efficiency of the banking system as a whole.

Lastly I would like to say that in keeping with the unfolding scenario, banking operations should be marked by sophistication, speed and reliability. Banking elsewhere has gone high tech. The winds of change have to sweep the indigenous system, clear of the inefficiencies rigidities and solvenliness. Let us not be obsessed with the human face syndrome. We have to move with the times and banking is no exception.