CHAPTER-NINE

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The decade of seventies has witnessed a sea change in the Indian banking scene. With the nationalisation of 14 major banks in July 1969 the stage was set for imparting a new ethos to commercial banking. The massive branch expansion programme with a distinct thrust in the remote rural areas and conscious attempts to reduce regional and sectoral imbalances through purposeful change in the pattern of credit deployment have brought about a silent revolution in the Indian banking scene, shifting the focus of attention to the small man, the weak and the under privileged. In Uttar Pradesh from mere 753 offices in 1969, the commercial banks had spread a massive network of 7718 offices at the end of June 1988 thereby bringing down the population coverage per bank office to 17,000.

For reducing the regional imbalances in branch expansion, the Reserve Bank of India has taken the district as a unit. Since for all development purposes block is the hub of activity, if the criteria of population of a block is taken for working as the requirement of branches, it would be more appropriate. Thus the thrust has to be shifted from district to the block if regional imbalances in branch expansion in rural areas has to be removed. This will further encourage deposit mobilisation by banks. Further there is need to open
more branches, particularly in unbanked towns and rural centres. The Reserve Bank's branch licensing policy should be revamped. However, opening of a large number of branches in small centres meant heavy expenditure and likely losses in the initial 5-7 years. This would naturally have its impact on bank's profit. Judged by overall standards, the record of performance of the banking system during the seventies has been indeed creditable. Before nationalisation the banks were urban oriented i.e., their functioning was confined to big cities only. Even if a few semi-urban centres were covered then the branches opened in those pockets only collected deposits for lending in big cities and to big customers.

The greatest lacunae in the branch expansion is the non-availability of infrastructure. Reserve Bank of India has prescribed 4 minimum infrastructure as all weather road, police station, post-office medical dispensary and educational institutions. An analysis on the availability of infrastructure at the 1818 identified centres for the years 1982-85 would show that there are only 267 centres on which minimum infrastructure was available.

Banks, should try to open small farmers windows for quick facilities of loan to agricultural labourers and weaker section of the society. The bank should also try to adopt a new pattern of rural banking which may be in harmony with local needs by leaving aside urban culture. A cogent policy on costs
and earnings involving, re-structuring of interest rates in consonance with the social role of the nationalised banks in particular has yet to be formulated. It should be noted that while a rational interest rates policy will go a long way in restoring the viability of banks, Complementary economic measures will have to be taken to ensure the viability of industrial and business enterprise. The incipient sickness of the nationalised banks mirrors the malaise of the economy.

Banks are still urban oriented and a pace of their expansion in the rural areas, particularly credit to the rural sector, has not been as far as was expected. It is also felt that banks are competing with one another and their resources are not being put to optimum use. Besides, their internal financial position is not quite sound. The personnel in nationalised banks were to adopt service oriented approach but they did not fully appreciate that their public image largely depend on creating among their customers particularly the smallman. Besides, procedures and practices need to be reviewed for cutting down avoidable delays in matters like opening of accounts, encashment on cheques, appraisal for loan applications and so on. In any case through systematic training programmes, bank personnel at various levels need to be equipped to shoulder the responsibilities as public servants. It will also affect deposit mobilisation efforts favourably.

Regional Rural Banks (RRBs) are also playing important
role in deposit mobilisation and credit deployment in rural areas in the country. A regional rural banks should make earnest effort for utilizing a maximum possible refinancing and borrowing facilities for raising its earning assets. It may further be inferred that it is relatively more profitable to raise funds under borrowing and financing arrangements for investment in assets. This however does not mean that deposits are less important source of funds. However, the size of deposits should not be a constraint in creating assets, as borrowing and refinancing arrangements can help creation of assets with greater profitability and should be used as supporting source of funds. But RRBs have been operating with some serious constrains- They do (i) lend only to the weaker sections, (ii) charge lower rate of interest (iii) open branches in remote rural areas and (iv) keep up low cost profile- as a result of which the RRBs do not have adequate staff required of project preparation to avail NABARD refinance. The RRBs have a number of many troubles including the staff orientation for the rural lending work.

Three points to emerge from the above review.- (i) The Co-operative and commercial credit structure in the rural areas is inequitable as also badly clogged (ii) RRBs are visualised as an alternative to rundown co-operatives (iii) The commercial banks, especially public sector banks, are virtually to be freed from the responsibility of directly
extending rural credit. RRBs are visualised as a corrective but their efficacy would depend to a large measure on the extent to which the co-operative structure at the base level is strengthened.

Resource mobilisation depends to a great extent on several measures initiated by the government to accelerate the growth of the economy. There is a number of dark spots which are giving room for anxiety on the deposit front. Lower income generation owing to depressed conditions in the agricultural sector due to bad monsoon and in the industry on account of continued imbalances in the supply-demand and growing unemployment and relatively lower yield on bank deposits compared to several other instruments of investment are likely to slow down the growth rate of deposits of the banking system ever in future.

The rural branches of commercial banks to mobilise deposits have not been adequate to fully tap the deposit potential existing in rural areas and as a result, the success achieved by rural branches of commercial banks in mobilising deposits have been somewhat slow as reflected in very low percentage of rural deposits in their total deposits. In this context banks with their vastly superior branch net work in rural areas may try in the coming years to put in more efforts to widen their coverage so as to bring in the banking fold
those people in the rural areas who have still remained outside the banking sphere and thus mobilise more deposits in rural areas. Perhaps in coming years banks are likely to attach equal importance to deposit mobilisation at their rural branches, to that they have been attaching to credit extent. As a result the percentage share of rural deposits of their total deposits may go up from 14% as at present to, say, 25% by the turn of the century. This will enable them to keep their deposit growth rate at a high level, if not equal to the present rate of deposit growth. 

There are some areas in which income of the bank can be increased - (i) Deposits mix with tilt towards non-interest bearing deposits (ii) Term deposits from institutional sub-segment (iii) Non-fund based credit facilities (iv) Ancillary business, like bills, draft, rupee travellers cheques etc. and advances mix lending towards large advances.

However, a few suggestions in brief regarding the banking industry for immediate implementation can be made. Firstly- further branch expansion so thought lessely pursued hitherto must be halted in order to consolidate the precarious position of the industry. Further the problems of multiple bank branches in rural and semiurban centres should be tackled by banks to close their branches in very small villages, leaving only one branch of a bank in the field.
Secondly, productivity of the staff being very low, it would be necessary to tackle the problem of militant unions. The wage structure must be made more relevant to the present day realities. Thirdly, the bank must improve their recovery performance. "Follow up" of advances by the branch staff is a must for this. Ruralbias is more important to a bank than universally degree, what we need is 'barefoot bankers."

The banks role in savings mobilisation depends upon how effective agency integrating the rural and urban sectors, the backward and developed areas and facilitating easy flow of funds into loan and equity.

The banks have to continue playing an active role in the welfare of the community but they must ensure that they do not impair their commercial character. It is obvious, therefore, that banks should plan their activities so as to increase their earnings and at the same time, avoid all kinds of wastage. Sharper focus on improved productivity, useful insights on control of cost, market, share and opportunities to enhance profit margins will in the current decade, help to increase earnings of commercial banks. Close monitoring of income, cost and profitability will be of key importance.

Some of the significant findings of this study about resource mobilisation are as below:—
(i) Real national income has the most dominant impact on bank deposits as not that significant.

(ii) Deposits interest rate sensitivity is clear from deposit holders switch over from one type of maturity of deposits to another in the event of change in interest rates.

(iii) Nominal income to be the most dominal influences on deposit holding.

(iv) The current deposit holders and savings deposit holders are sensitive to rate of interest on long term deposits (i.e. responding negatively for the three years deposit rates). However in the case of three year fixed deposits, the sensitivity is large and positive comparable interest and implicit return.

Another important factor identified in the process of the study is the significance of saving leading - role of branches in the rural centres in mobilising rural savings. It is observed that savings would never proceed investment in the rural area since the majority of rural households are poor. In the context what is necessary is to extend credit to the household for improving their productivity and for acquiring earning assets. Then the branches must mobilise saving and recover their loans from incremental incomes. Wherever the branches play such role, it is found that deposit mobilisation is relatively high. The penetration of bank
branches in the rural areas particularly in the agriculturally rich area has brought about change in the asset preference from real assets like gold to financial assets like bank deposit.

The RBI introduced term deposits having maturity of three years or more. The interest rate applicable to such deposits is fixed at 11 percent. This rate is not attractive as compared to interest rates offered by other financial instruments such as Indira Vikas Patra, N.S.C., Mutual Funds etc. Therefore, there is a need for upward revision in interest rates applicable to such long-term deposits with banks.

The Chakravarty Committee recommended that interest rates should be above the inflation rate with a view to give real rate of interest to deposit holders. But this being insufficient, we must provide some incentives for long term deposits. Such interest rates, would ensure real interest rate as envisaged by the Chakravarty Committee and give incentive to depositors to save for a longer duration. This must be lower than the cost of renewal of term deposits, so that it will be beneficial to the bankers. The interest amount can be calculated on yearly basis. The policy makers may take into consideration this suggestion and modify the interest rate formula which can be used by bankers while calculating interest on such deposits having longer maturity.