CHAPTER 2
RESOURCE MOBILIZATION PROGRAMS OF THE STATE BANK OF INDIA AND THEIR APPRAISAL

The chapter discussed the various schemes of SBI and Resource Mobilization. Deposits are the life-blood of commercial banks as they constitute the chief source of their funds. Most of the working of the bank depends on the amount, structure and nature of deposits. Resource Mobilization deals not only with the problem of raising more deposits but also with avenues in which they are to be employed. The bank renders invaluable service to the economic life of the community at large on the basis of deposits. Resources are, therefore, an essential raw material for banking business. The extent to which the bank has succeeded in procuring the long term deposits, savings and current deposits and raising funds through other schemes for resource mobilization. In the study it is proposed to include the resource mobilization schemes introduced by the State Bank of India such as recurring deposits, money box deposit scheme, re-investment plans, stock term deposit scheme, annuity deposit certificate, State Bank's Education Plan, Super Savings Scheme for old age, employee's welfare schemes, cash certificates, deposit linked
loans for purchase of consumer durable, janta deposit schemes, deposits in foreign branches etc.

The State Bank of India as we know went to the public for raising equity capital within the regulatory framework of the Act. To what extent the recent equity issue is going to affect the banking operations especially when the government's (Reserve Bank of India's) holding has gone down from 98.5% to nearly 70%. The way the increase in public holding has been allowed will have certain impact on the controls of the SBI. It is to be seen how efficiently the SBI satisfies the needs and requirements of the investing public. The trend in the allotment of equities to the existing shareholders, employees, Indian Public Financial Institutions, Mutual funds, etc. definitely show that these categories of shareholders will have a definite say in the policy formulation of the bank. It also shows that the government has in principal decided to privatisate the banking operations of SBI in phases.

The issue (equity issue) offers certain benefits to the various categories of persons such as bank, equity shareholders-both resident and non-resident shareholders, bond-holders-both resident and non-residential shareholders, and other eligible institutions. The various benefits
likely to accrue to these are going to be analysed in the study and arriving at the conclusion whether the benefits are real or not.

Banks are in a position to use nation's savings to productive purposes. Small savings are accumulated in the form of deposits which assist trade and industry to a great extent. The resources, which have been left unutilised, are profitably utilised by the banks. Additional deposits are created by permitting loans. It is on the basis of cash deposits and loan deposits that credit money is issued. The credit instruments are also a source of funds, but basically they depend on deposits. Banks make funds available to the borrower through their lending, investing and various deposit mobilising activities.

In order to fulfil social obligations the management of deposits calls for a very high degree of expertise imagination, judicious study of investment, lending and matching profitability with responsibility. As deposits form the base of a banking industry the management of these deposits it always done with great care.
The SBI in its proposal submitted to the Securities Exchange Board of India (SEBI) has offered the foreign institutional investor 29 lakh equity shares for Rs. 261 crore out of Rs. 1,116 crore public issue planned by it. The Bank, according to its programme, plans to issue 1.24 crore equity shares of Rs. 10 each at a premium of Rs. 90 per share.

SBI is taking full advantage of SEBI guidelines by proposing reservations for Indian financial institutions, mutual funds, FII's and others. Indian FI's have been allotted 24 lakh shares for Rs. 216 crore, mutual funds 12 lakh shares for Rs. 108 crore, employees of SBI and associate banks 5 lakh shares for Rs. 45 crore and subsidiaries 2 lakh shares for Rs. 18 crore. Pensioners of SBI have been allotted 5 lakh shares for Rs. 45 crore.

In fact, the quota for FII's is substantial -23.38 percent of the total public issue and this was offered at a very low premium of Rs. 90/- when the market price of SBI share is ruling at more than Rs. 4,000/- for Rs. 100/- a share. During internal discussions, there was a big demand by the SBI officials to keep the premium at more than Rs. 1,000/- for Rs. 100/- a share. There was a demand for splitting the share into Rs. 10 for hiking the
level of premium, but finally taking into account all factors as also the line of thinking of SEBI, the SBI management opted for Rs. 90/- as premium for one share of Rs. 10/-

SBI was the only public sector bank of the country to be having 1.5 per cent private holdings in its equity capital, the remaining 98.5 per cent being owned by the Reserve Bank of India before issue of share 1993. Now as a result of the Rs. 1,116 crore public issue, the holdings of RBI in SBI has gone down to 70 per cent. The SBI had an equity capital of Rs. 200 crore as on March 31, 1993 and the Bank enter the market by December, 1993, by the end of the next financial year, the equity structure will be drastically changed.

According to the SBI Act 1955, the RBI will be having a minimum equity holdings of 55 per cent and so the SBI is entitled to enter the capital market to strengthen its equity base. For other nationalised banks, this requires the amendment of the Banking Regulations Act and this has already got Union Cabinet's approval.

Apart from this Rs. 1,116 crore public issue, the SBI has planned Rs. 720 crore rights issue and Rs. 500 crore floating interest rate
redeemable bonds for 10 year maturity period. This rights shares numbering 1.20 crore will have a premium Rs. 50/- for one share of Rs. 10/-. The plan is to allot its existing share-holders, three shares for every five equity shares already held on the record date.

RESOURCE MOBILIZATION -

Acceptance of Deposits:

Mobilization of deposits is a significant and vital factor in the economic development of a country. It is significant because it provides a steady source of investment funds and vital because it provides an effective check on inflation inherent in a developing economy. The S.B.I. with a large network of branches spread all over the country and working under the active control of a central banking authority, plays an important role in the mobilization and productive utilization of deposits. The growth of deposits depends upon a number of factors i.e. development of banking habit, rise in money supply, deficit financing, growth of national income, branch expansion and realistic rates of interest. Most of these factors have contributed to the large ascretion of deposits in the State Bank of India.
Deposit mobilisation depends upon creation of deposits, increase of deposits, transfer of deposits and granting credit to the customers. Any activity by which deposits are created is termed as deposit mobilisation activity. The State Bank of India, has adopted various methods and schemes for creation of deposits namely, Term Deposits, Current Deposits and Savings Bank Deposits.

TERM DEPOSITS:

The term deposit means a deposit payable after the expiry of a certain period which varies from 30 days to 120 months. This form of deposit suits those small customers who are unable to make investments in industrial securities or other lucrative enterprises as they do not want to run the risk of depreciation of their capital. Under this scheme the minimum amount acceptable thereof for 12 months and above monthly interest is payable at a discounted value if the customer so desires. Loans are also available against term deposit receipts to the extent of 90 per cent of the deposit amount. Deposits in the name of minors are also accepted upto Rs. 50,000/-. The facility of premature encashment of deposit is also available with a penalty of 1 per cent.
CURRENT DEPOSITS

Deposits in the current account are beneficial to those customers who withdraw or deposit money as many times as they need. No interest is payable on this account. This account serves as an evidence of the expenditure or revenue of the customer. Cheques are generally used for withdrawing an amount from the account. The holder of the account need not carry with him a large amount of money because the cheque books will serve the purpose. A depositor can draw as many cheques as he likes. Current accounts suit the requirements of big businessmen, joint stock companies, institutions, public authorities and public corporations whose banking transactions happen to be numerous on every working day.

SAVINGS BANK ACCOUNT

Savings bank account is suitable for middle-income group who can save a certain amount during a certain period. Savings bank account comes in midway between the fixed and recurring accounts and serves the purpose of those persons who require money to be deposited and withdrawn off and on. In this account the depositor can withdraw and deposit money at any time. The interest is calculated on the lowest balance kept during each month. The minimum balance with cheque book facility is Rs. 1,000/-.
DEPOSIT IN FOREIGN BRANCHES

The State Bank of India enjoys a prominent position among the Indian banks, in so far as international operations are concerned. It has emerged as one of the world's largest 100 banks. In the context of the considerable growth and diversification of India's foreign trade, especially of project exports, in the last few years, the increasing number of joint ventures in various countries, the vast opportunities for tapping funds for development at leading international financial centres and the specialised banking needs of Indians working abroad, the bank has established its presence at a number of important centres of the world in recent years.

There has been an enormous growth of deposits under all the schemes with the State Bank of India. This rise is due to a number of factors, viz. increase in the number of offices, especially in rural and semi-urban centres and hitherto unbanked centres, rising incomes as a result of the increase in the circulation of currency and special efforts of deposit mobilization. The deposits of the S.B.I. clearly indicate that the bank has succeeded in creating saving habit among the people, residing in different areas of the country. It has also created
confidence in banking among the people of this country. The bank has not only succeeded in increasing deposits in India but has also made a tremendous achievement so far as deposits in the foreign branches are concerned.

OTHER DEPOSIT SCHEME

The State Bank of India has done yeoman's service to the people by launching a number of deposit schemes to suit the pocket and convenience of various section of our society. The rates of interest for these schemes are in accordance with the directives of the Reserve Bank of India. These schemes of deposits aim at in calculating in the people the habit of regular saving for the rainy day. Little do people realise that small savings bring handsome pleasant surprises in times of severe financial straits. Even out of pocket allowances for children, small savings of a housewife and petty savings of a low paid employee can bring handsome retirement benefits to make old age comfortable. The main schemes of deposits are:

RECURRING DEPOSITS ACCOUNTS

This scheme is designed to meet the savings need of a wide range of depositors like salaried people, workers, small traders, doctors, advocates, etc. who can save regularly small amount and want to receive a substantial amount of maturity. Instalment
for a particular month can be paid on any working day of that month. Loan facility is available upto 90% of the balance in the account plus interest accrued thereon till the date of advance.

DEPOSIT LINKED LOANS FOR PURCHASE OF CONSUMER DURABLE

This scheme has been introduced to cater to the long felt needs of customers in the Personal Segment, for loans for purchase of consumer durable like scooter, television set tape recorder/players, musical instruments, furniture, refrigerator, household utensils etc.

JANTA DEPOSITE SCHEME

This scheme is ideally suited to meet the savings need of a wide range of people like housewives, children, salaried employees, factory workers, small traders etc. The bank comes right to the door step of the customer. Deposit collector accepts small savings periodically at the customer's house itself. The minimum balance to start an account is only nominal and the deposit earns interest 07% per annum subject to period of deposit. Demand loan (upto 90% of the balance in the account) can be availed of against the money in the account. This scheme is operative at selected centres. The factors which adversely affected the deposit growth of the bank because of tight credit policy and lower
pace of monetary expansion appear to have contributed to the declaration in the deposit growth of the bank. Apart from these, withdrawal of substantial deposits by oil companies for financing of oil imports and acute inflationary situation making savings in the form of bank deposits less attractive.

STATE BANK REINVESTMENT PLAN

This scheme provides easy way to take care of future needs like daughter's marriage, children's higher education, house construction etc. Under this scheme the minimum deposit acceptable is Rs. 100/- and deposits are accepted in multiples of Rs. 100. The duration of the deposit is from 6 months to 120 months. Interest on Reinvestment plant in reinvested/compounded at quarterly rests. If a sum of Rs. 100 invested for 10 years multiplies into Rs. 296.00. Loans can be availed of to the extent of 90 per cent of the amount deposited and accrued interest thereon till the date of advance. Under this scheme premature payments are allowed with a penalty of 1 per cent and payable at compounded rate of interest.
PERENNIAL PENSION PLANS

This is an ideal scheme for those who do not enjoy the pension facility. After a certain period the depositor gets monthly income (Pension) regularly. The depositor can remit monthly Rs. 20 or over in multiples of Rs. 10 for a period of 84 or 120 months. The depositor will receive pension from 86th or 122nd month onwards permanently. The principal amount remains intact in a Term Deposit of 60 months. If he opts to discontinue the pension he will receive a substantial amount in hand.

ANNUITY DEPOSIT CERTIFICATES

The Annuity Deposit Certificates Scheme is the ideal way to meet recurring expenses like supporting dependents or for children's education. From a portion of benefits like the provident fund or gratuity or bonus one can buy an Annuity Deposit Certificate and ensure a regular monthly income in multiples of Rs. 50 for a period of 36, 60, 84 and 120 months. The facility of premature withdrawal is permitted only in the case of the death of the depositor.
STATE BANK EDUCATION PLAN

It is a unique composite plan to take care of the total financial need of the child's higher education. A depositor can join the scheme when his child is about 2 years old. He remits Rs. 100 per month for 10 years. This scheme provides for withdrawal of a certain sum to meet expenses on admission fees, cost of books at the time of admission in colleges, sizeable monthly payment for 5 years to meet hostel and college fees and other expenses etc. Thereafter if the depositor's son/daughter desires to pursue higher studies the bank would grant educational loan.

EMPLOYEE'S WELFARE SCHEME

This is an ideal scheme for people who have just entered a career. A mere Rs. 150 per month for just 12 months is recovered from the salary and allowance of the employees. Repayment of this deposit of Rs. 1,800 synchronised with the depositor's retirement age fetches a whopping sum.
CASH CERTIFICATES

Under this scheme small investments grow into large savings after a certain period. A cash certificate of Rs. 100 payable after 10 years can be purchased for Rs. 37.24 only. Cash Certificates of maturities less than one year can also be issued. Standard maturity periods are 6, 9, 12, 24, 36, 48, 60, 72, 84, 96, 108 and 120 months. Cash Certificates are available in denomination of Rs. 100, Rs. 500, Rs. 1,000, Rs. 5,000, Rs. 10,000 and Rs. 50,000. Loans can be availed of against Cash Certificates to the extent of 90 percent of issue price plus accrued interest thereon till the date of advance. Cash Certificates can be kept in safe custody with the bank free of charge.