International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 3, Issue 2, pp: (612-623), Month: October 2015 - March 2016, Available at: www.researchpublish.com

Indian Banking Sector Impact on Economic Growth Rate and Social Development of Rural Areas of India

Obaid-Ur-Rehman

M.COM, PGDIBO, INDIRA GHANDHI NATIONAL OPEN UNIVERSITY (IGNOU), NEW DELHI, (Aligarh regional office), INDIA

Abstract: **Banking sector plays a critical role in the financial health of a nation .The banking system of India features a large network of banking branches, offering many kinds to the people. One of the major measures of economic development and financial growth of a country has been the sound performance of its banks .To maintain a healthy banking practices , The Reserve bank of India formulates and executes a monetary policy is one of the important of economic development in India . India economic growth is largely supported by banking sector .After independence, the major aim of rural credit policy in our country has been to expand of institutional financing with a view to curtail the role of indigenous financial agencies like moneylenders. The All – India Rural Credit Survey Committee (AIRCSC) perceived that only multi-purpose co-operatives can be a viable solution to the problem of rural finance. the role and importance of agriculture in Indian economy for employment generation to poverty alleviation, rural development taken as one of the most important path for nation's growth. It is found that most of rural populations are poor and they depend upon agriculture. For a smooth implementation in credit delivery mechanism of rural poor, government of India promoted rural regional banks. Rural banking in India plays a vital role in development of rural economy. In this paper an attempt has been made to study the performance of Regional rural banks, Commercial banks, Investment bank and private sector bank, which play an important role in the rural credit the study is diagnostic and explanatory in nature and make use of secondary data . This article is divided in three parts. First part includes the introduction and general scenario of Indian banking industry in rural India. The second part discusses the various challenges and opportunities faced by Indian banking industry in rural India. Third part concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks.**

Keywords: **RBI, Commercial Banks, performance, rural credit market, Regional rural bank, NABARD.**

1. INTRODUCTION

As per the Reserve of India (RBI), India's banking sector is sufficiently capitalized and well regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have with stood. The global downturn well Indian banking industry is expected to witness better growth prospect in 2015 as a sense of optimism stern from the government measures towards revitalizing the industrial growth in the growth .In addition, Rbi's New measures may go a long way in helping the restricting of the domestic banking India. The Indian banking system consist of 26 public sector banks, 56 regional rural banks,1589 urban cooperative banks , in addition to cooperative credit institutions .Public sector banks control nearly 80 percent of the market, there by leaving comparatively much smaller shares for its private peers.Stanadard poor 's estimate that credit growth in India's banking sector would improve to 12-13 percent in Financial year 2015-2016 from less than 10 percent in the second half of Financial year 2014-2015 .In recent time, we has witnessed that the world economy is passing through some circumstances as bankruptcy of banking and financial Institution debt crises in major economies of the world and Eurozone crises . The scenario has become very uncertain causing recession in major economies like US and Europe. This poses some serious question about the survival, growth and maintaining the sustaining development however, amidst all this turn moil .India's banking system Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has remarkable over the past decade. It is evident from the higher pace of credit expansion; expanding profitability and productivity to banks in developed markets, lower incidence of non performing assets and focus on financial inclusion have contribution to making Indian banking vibrant and strong. Indian banks have begum to revise their growth approach and revaluate the prospect on hand to keep the economy rolling.

2. STRATEGY OF INDIAN BANKING SYSTEM

The Indian banking system is significantly different from those prevalent in other countries due to its unique geographic, social and characteristic .India has large population, different culture indifferent parts of the country and also disparities in income. Also in India the population spread among rural and urban areas is also skewed in the favour of urban areas .All those features reflect in the size and structure of the Indian banking system .Further in order to fulfill the needs merchant to the government policy it has been subjected to various nationalization schemes at different times.RBI bold credit policies form guidelines for banks in India. Since they had to satisfy the domestic obligation, the banks have so far been confined with Indian borders. Banking in India oriented in the last decade of the 18th century. The roots of the State Bank of India lie in the first decade of the 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on 2 June 1806. The Bank of Bengal was one of three Presidency banks, the other two being the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1 July 1843). All three Presidency banks were incorporated as joint stock companies and were the result of royal charters. These three banks received the exclusive right to issue paper currency till 1861 when, with the Paper Currency Act, the right was taken over by the Government of India. The Presidency banks amalgamated on 27 January 1921, and the re-organised banking entity took as its name Imperial Bank of India. The Imperial Bank of India remained a joint stock company but without Government participation. Pursuant to the provisions of the State Bank of India Act of 1955, the Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 1 July 1955, the imperial Bank of India became the State Bank of India. In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. This made SBI subsidiaries of eight that had belonged to princely states prior to their nationalization and operational take-over between September 1959 and October 1960, which made eight state banks associates of SBI. This acquisition was in tune with the first Five Year Plan, which prioritized the development of rural India. The government integrated these banks into the State Bank of India system to expand its rural outreach. In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est.1944).SBI has acquired local banks in rescues. The first was the Bank of Bihar (est. 1911), which SBI acquired in 1969, together with its 28 branches. The next year SBI acquired National Bank of Lahore (est. 1942), which had 24 branches. Five years later, in 1975, SBI acquired Krishnaram Baldeo Bank, which had been established in 1916 in Gwalior State, under the patronage of Maharaja Madho Rao Scindia. The bank had been the *Dukan Pichadi*, a small moneylender, owned by the Maharaja. The new bank's first manager was Jall N. Broacha, a Parsi. In 1985, SBI acquired the Bank of Cochin in Kerala, which had 120 branches. SBI was the acquirer as its affiliate, the State Bank of Travancore, already had an extensive network in Kerala.Indian merchant in Calcutta established the union bank of India, 1839, but it failed in1848 as a consequence of the economic crises of 1848 -1849. The Allahabad bank, established in 1865 and still functioning today, is the oldest joint stock bank in India .Punjab national Bank, established in Lahore in1895 , which has survived to the present and is now one of the largest bank of India .The period between 1906and 1911,saw the establishment of banks inspired by the swadeshi movement . Ammembal Subba Rao Pai, a philanthropist, established the Canara Hindu Permanent Fund in Mangalore, India, on 1 July 1906. The bank changed its name to Canara Bank Limited in 1910 when it incorporated. Central bank was established on 21 December 1911 by Sir Sorabji Pochkhanawala with Sir Pherozeshah Mehta as Chairman, and claims to have been the first commercial Indian bank completely owned and managed by Indians. By 1918 it had established a branch in Hyderabad. A branch in nearby Secunderabad followed in 1925.In 1923, it acquired the Tata Industrial Bank in the wake of the failure of the Alliance Bank of Shimla. The Tata bank, established in 1917, had opened a branch in Madras in 1920 that became the Central Bank of India, Madras. Central Bank of India was instrumental in the creation of the first Indian exchange bank, the Central Exchange Bank of India, which opened in London in 1936. However, Barclays Bank acquired Central Exchange Bank of India in 1938. Also before World War II, Central Bank of India established a branch in Rangoon. The branch's operations concentrated on business between Burma and India, and especially money transmission via telegraphic transfer. Profits derived primarily from foreign exchange and margins. The bank also lent against land, produce, and other assets, mostly to Indian businesses. The Reserve Bank of India was founded on 1 April 1935 to respond to economic troubles after the First World War. The Reserve Bank of India was conceptualized based on the guidelines presented by Dr. Ambedkar to the "Royal Commission on Indian Currency & Finance" in 1925; Commission members found Dr B. R. Ambedkar's book "The Problem of the Rupee- Its origin and Its Solution" an invaluable reference tool and the Central Legislative Assembly eventually passed these guidelines as the RBI Act 1934. The bank was set up based on the recommendations of the 1926 Royal Commission on Indian Currency and Finance, also known as the Hilton–Young Commission. The original choice for the seal of RBI was The East India Company Double Mohur, with the sketch of the Lion and Palm Tree. However it was decided to replace the lion with the tiger, the national animal of India. The Preamble of the RBI describes its basic functions to regulate the issue of bank notes, keep reserves to secure monetary stability in India, and generally to operate the currency and credit system in the best interests of the country. The Central Office of the RBI was established in Calcutta (now Kolkata), but was moved to Bombay (now Mumbai) in 1937. The RBI also acted as Burma's central bank, except during the years of the Japanese occupation of Burma (1942–45), until April 1947, even though Burma seceded from the Indian Union in 1937. After the Partition of India in 1947, the bank served as the central bank for Pakistan until June 1948 when the State Bank of Pakistan commenced operations. Though set up as a shareholders' bank, the RBI has been fully owned by the Government of India since its nationalization in 1949.During the first phase the growth was very slow and banks also experienced periodic failures between 1913and 1948. There were approximately 1100 banks mostly small. To streamline the functioning and activities of commercial banks, the government of india came up with the banking companies act, 1949.Which was later changed to banking Regulation act,1949as per amending actof 1965(act no 23of 1963)Reserve Bank of India was vested with extensive power for the supervision of banking in India as the central Banking authority . The Government of India issued an ordinance ('Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969') and nationalised the 14 largest commercial banks with effect from the midnight of 19 July 1969. These banks contained 85 percent of bank deposits in the country. Jayaprakash Narayan, a national leader of India, described the step as a "masterstroke of political sagacity." Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank.[18] It was the only merger between nationalised banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. The government creation of regional rural bank in1975 for rural sector development .Ministry of finance and RBI provide insurance cover on deposits in saving banks since 1961.In 1991 Narasimhan committee constituted for "operational flexibility and functional autonomy "so as to enhance efficiency ,productivity and profitability .Narasimhan committee2nd (1998)bringing structural changes so as to strengthen banking system to make it more stable .Indian banking industry in collaboration of ministry of finance and ministry of information and technology digital india scheme in rural india through electronic fund transfer , Electronic clearing services , Automatic teller machine , Real time gross settlement and point of scale .

3. OBJECTIVE OF INDIA BANKING SYSTEM

1. To Initiates advance planning for introduction of new system or service in banking industry.

2. To promote education and knowledge of the law and practice of banking.

3. To promote and develop in India sound and progressive banking principles, practices and conventions and to contribute to the developments of creative banking.

4. To be a customer centric organization known for its differentiated customer service

5. To offer a comprehensive range of products to meet all financial needs of customers

6. To be a top creator of shareholder wealth through focus on profitable growth

7. To transform the customer banking experience into a fruitful and enjoyable one.

8. To leverage technology for efficient and effective delivery of all banking services.

9. To have bouquet of product and services tailor-made to meet customers aspirations.

10. The pan-India spread of branches across all the state of the country will be utilized to further the socio economic objective of the Government of India with emphasis on Financial Inclusion.

4. COMPONENTS OF INDIAN BANKING SYSTEM

Scheduled commercial Banks constitute those banks which have been included in the second schedule of Reserve bank of india (RBI)ACT , 1934.RB in turn includes only those banks in the schedule which satisfy the criteria laid down vide section 42(60)of the act. Some cooperation banks are schedule commercial bank although not all cooperative banks are being a part of the second schedule confers some benefits to the bank in term of access to accommodation by RBI during the times of liquidity constraints. All the same time, however this status also subjects the banks certain condition and obligation towards Reserve Regulation of RBI. For the the purprose of assessment of performance of banks categorize them as public sector bank, private sector bank , foreign bank , cooperative bank and Regional rural banks. The Indian banking association established in 1946 as a voluntary association of banks, strove towards strengthening the banking industry through consensus and coordination. Since nationalization of banks, psu banks tended to dominate Indian bank association and develop close link with government and RBI. Often, the reactive and consensus and coordinated approach bordered on cartelization. To illustrate, the IBA has worked out a scheduled of benchmark service charges for services rendered by member banks . Responding to the imperatives caused by the changing scenario in the reform era, The IBA has ,over the years , refocused its vision , redefined its role and modified its operational modalities . In the area of foreign exchange, Foreign exchange dealers association of India (FEDAI)was established in 1988 ,and banks were required to abide by terms and condition prescribed by FEDAI for transacting foreign exchange business . In the light of reforms FEDAI has refocused its role by giving of rates , but plays a multifarious role covering training of banks , personnel accounting standard evolving risk measurement and accrediting foreign exchange broker .

5. OVERVIEW INDIAN BANKING SYSTEM

The Reserve Bank of India is the central bank of the country. Central banks are a relatively recent innovation and most central banks, as we know them today, were established around the early twentieth century.The Reserve Bank of India was set up on the basis of the recommendations of the Hilton Young Commission. The Reserve Bank of India Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank, which commenced operations on April 1, 1935.

The Bank was constituted to

- Regulate the issue of banknotes
- Maintain reserves with a view to securing monetary stability and
- To operate the credit and currency system of the country to its advantage.

The Bank began its operations by taking over from the Government the functions so far being performed by the Controller of Currency and from the Imperial Bank of India, the management of Government accounts and public debt. The existing currency offices at Calcutta, Bombay, Madras, Rangoon, Karachi, Lahore and Cawnpore (Kanpur) became branches of the Issue Department. Offices of the Banking Department were established in Calcutta, Bombay, Madras, Delhi and Rangoon.Burma (Myanmar) seceded from the Indian Union in 1937 but the Reserve Bank continued to act as the Central Bank for Burma till Japanese Occupation of Burma and later upto April, 1947. After the partition of India, the Reserve Bank served as the central bank of Pakistan upto June 1948 when the State Bank of Pakistan commenced operations. The Bank, which was originally set up as a shareholder's bank, was nationalised in 1949.An interesting feature of the Reserve Bank of India was that at its very inception, the Bank was seen as playing a special role in the context of development, especially Agriculture. When India commenced its plan endeavours, the development role of the Bank came into focus, especially in the sixties when the Reserve Bank, in many ways, pioneered the concept and practise of using finance to catalyse development. The Bank was also instrumental in institutional development and helped set up insitutions like the Deposit Insurance and Credit Guarantee Corporation of India, the Unit Trust of India, the Industrial Development Bank of India, the National Bank of Agriculture and Rural Development, the Discount and Finance House of India etc. to build the financial infrastructure of the country.With liberalisation, the Bank's focus has shifted back to core central banking functions like Monetary Policy, Bank Supervision and Regulation, and Overseeing the Payments System and onto developing the financial markets. In the 1950s, the Indian government, under its first Prime Minister Jawaharlal Nehru, developed a centrally planned economic policy that focused on the agricultural sector. The administration nationalized commercial banks[12] and established, based on the Banking Companies Act of 1949 (later called the Banking Regulation Act), a central bank regulation as part of the RBI. Furthermore, the central bank was ordered to support the economic plan with loans.As a result of bank crashes, the RBI was requested to establish and monitor a deposit insurance system. It should restore the trust in the national bank system and was initialized on 7 December 1961. The Indian government found funds to promote the economy and used the slogan "Developing Banking". The government of India restructured the national bank market and nationalized a lot of institutes. As a result, the RBI had to play the central part of control and support of this public banking sector In 1969, the Indira Gandhi-headed government nationalized 14 major commercial banks. Upon Gandhi's return to power in 1980, a further six banks were nationalized. The regulation of the economy and especially the financial sector was reinforced by the Government of India in the 1970s and 1980s. The central bank became the central player and increased its policies for a lot of tasks like interests, reserve ratio and visible deposits. These measures aimed at better economic development and had a huge effect on the company policy of the institutes. The banks lent money in selected sectors, like agri-business and small trade companies. The branch was forced to establish two new offices in the country for every newly established office in a town. The oil crises in 1973 resulted in increasing inflation, and the RBI restricted monetary policy to reduce the effects. A lot of committees analysed the Indian economy between 1985 and 1991. Their results had an effect on the RBI. The Board for Industrial and Financial Reconstruction, the Indira Gandhi Institute of Development Research and the Security & Exchange Board of India investigated the national economy as a whole, and the security and exchange board proposed better methods for more effective markets and the protection of investor interests. The Indian financial market was a leading example for so-called "financial repression" (Mackinnon and Shaw). The Discount and Finance House of India began its operations on the monetary market in April 1988; the National Housing Bank, founded in July 1988, was forced to invest in the property market and a new financal law improved the versatility of direct deposit by more security measures and liberalisation. The *Foreign Exchange Management Act* from 1999 came into force in June 2000. It should improve the item in 2004–2005 (National Electronic Fund Transfer). The *Security Printing & Minting Corporation of India Ltd.*, a merger of nine institutions, was founded in 2006 and produces banknotes and coins. The national economy's growth rate came down to 5.8% in the last quarter of 2008–2009 and the central bank promotes the economic development.

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with providing refinance to lending institutions in rural areas, bringing about or promoting institutional development and evaluating, monitoring and inspecting the client banks. NABARD has effectively brought in a number of innovations in the rural credit domains. Some of these innovation are: Formation and linkage of SHGs, Farmers Club, Rural Infrastructure Development Fund, Watershed Development, Kisan Credit Card, District Rural Industries Project. RRBs in India are an integral part of the rural credit structure of the country. The Government of India set up Regional Rural Banks (RRBs) on October 2, 1975. Initially, 5 RRBs were set up on October 2, 1975, which were sponsored by Syndicate Bank, SBI, Punjab National Bank, United Commercial Bank, and United Bank of India. Capital sharing being 50% by the central government, 15% by the state government and 35% by the sponsored bank i.e. NABARD. The objective of the bank is to develop rural economy by providing credit and deposit facilities for agriculture and other productive activities of all kinds in rural areas. It also provides facilities to small and marginal farmers, agricultural labourers, rural artisans and other small entrepreneurs in rural areas. So the RRBs have been playing a catalyst role in the development of rural areas. They have been playing a significant role in financing the weaker section of the community in the rural areas and also in inculcating banking habits among the rural masses. nabard is the apex institution in the country which looks after the development of the cottage industry, small industry and village industry, and other rural industries. Nabard also reaches out to allied economies and supports and promotes integrated development. nabard discharge its duty by undertaking the following roles :

1. serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas

2. Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.

3. co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with government of india, state governments, reserve bank of india (rbi) and other national level institutions concerned with policy formulation

4. Undertakes monitoring and evaluation of projects refinanced by it.

5. Nabard refinances the financial institutions which finances the rural sector.

6. Nabard partakes in development of institutions which help the rural economy.
7. Nabard also keeps a check on its client institutes.
8. It regulates the institutions which provide financial help to the rural economy.
9. It provides training facilities to the institutions working in the field of rural upliftment.
10. It regulates the cooperative banks and the rrb’s, and manages talent acquisition through ibps cwe.

Nabard’s refinance is available to state co-operative agriculture and rural development banks (scardbs), state co-operative banks (scbs), regional rural banks (rrbs), commercial banks (cbs) and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, state-owned corporations or co-operative societies, production credit is generally given to individuals. Nabard has its head office at Mumbai, india.Nabard regional office [ro] has a chief general manager [cgms] as its head, and the head office has several top executives viz the executive directors[ed], managing directors [md], and the chairperson.it has 336 district offices across the country, one special cell at Srinagar. it also has 6 training establishments.

Nabard is also known for its 'shg bank linkage programme' which encourages india's banks to lend to self-help groups (shgs). Largely because shgs are composed mainly of poor women, this has evolved into an important Indian tool for microfinance. by march 2006, 22 lakh shgs representing 3.3 core members had to be linked to credit through this programme.[9]

nabard also has a portfolio of natural resource management programmes involving diverse fields like watershed development, tribal development and farm innovation through dedicated funds set up for the purpose.

The Organizational Structure for RRB's varies from branch to branch and depends upon the nature and size of business done by the branch. The Head Office of an RRB normally had three to seven departments.

The following is the decision making hierarchy of officials in a Regional Rural Bank.

- Board of Directors
- Chairman & Managing Director
- General Manager
- Chief Manager/Regional Managers
- Senior Manager
- Manager
- Officer / Assist

Currently, RRB's are going through a process of amalgamation and consolidation. 25 RRBs have been amalgamated in January 2013 into 10 RRBs. This counts 67 RRBs till the first week of June 2013. This counts 56 as of March 2015. On 31 March 2006, there were 133 RRBs (post-merger) covering 525 districts with a network of 14,494 branches. All RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus. However, within a very short time, most banks were making losses. The original assumptions as to the low cost nature of these institutions were belied. This may be again amalgamated in near future. At present there are 56RRBs in India.

6. CO-OPERATIVE BANKS AND RURAL CREDIT

The Co-operative bank has a history of almost 100 years. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate.

Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks.

Co-operative Banks in India are registered under the Co-operative Societies Act. The RBI also regulates the cooperative bank. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Co-operative banks in India finance rural areas under:

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Institutional Arrangements for Rural Credit (Co-operatives):

- Short Term Co-operatives
- Long Term Co-operatives

Primary Agricultural Credit Societies (PACSs):

An agricultural credit society can be started with 10 or more persons normally belonging to a village or a group of villages. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. The members have unlimited liability, that is each member is fully responsible for the entire loss of the society, in the event of failure. Loans are given for short periods, normally for the harvest season, for carrying on agricultural operation, and the rate of interest is fixed. There are now over 92,000 primary agricultural credit societies in the country with a membership of over 100 million.

The primary agricultural credit society was expected to attract deposits from among the well –to-do members and non-members of the village and thus promote thrift and self-help. It should give loans and advances to needy members mainly out of these deposits.

Central Co-operative Banks (CCBs):

The central co-operative banks are located at the district headquarters or some prominent town of the district. These banks have a few private individuals also who provide both finance and management. The central co-operative banks have three sources of funds,

- Their own share capital and reserves
- Deposits from the public and
- Loans from the state co-operative banks

Their main function is to lend to primary credit society apart from that, central coopertive banks have been undertaking normal commercial banking business also, such as attracting deposits from the general public and lending to the needy against proper securities. There are now 367 central co-operative banks.

State Co-operative Banks (SCBs):

The state Co-operative Banks, now 29 in number, they finance, co-ordinate and control the working of the central Co-operative Banks in each state. They serve as the link between the Reserve bank and the general money market on the one side and the central co-operative and primary societies on the other. They obtain their funds mainly from the general public by way of deposits, loans and advances from the Reserve Bank and they are own share capital and reserves.

7. COMMERCIAL BANKS AND RURAL CREDIT

The commercial banks at present provide short term crop loans account for nearly 45 to 47% of the total loans given and disbursed by the commercial banks. Term loans for varying periods are given for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube well, for development of fruit and garden crops, for leveling and development of land, for purchase of ploughs, animals, etc. commercial banks also extend loans for allied activities viz., for dairying, poultry, piggery, bee keeping, fisheries and others. These loans come to 15 to 16%.

Commercial Banks and Small Farmers:

The commercial banks identifying the small farmers through Small Farmers Development Agencies (SFDA) set up in various districts and group them into various categories for credit support so as to enable them to become bible cultivators. As regard small cultivators near urban areas and irrigation facilities, commercial banks can help them to go in for vegetable cultivation or combine it with small poultry farming and maintaing of one or two milch cattle.

IRDP and commercial banks:

Since October 1980, the Integrated Rural Development Programme (IRDP) has been extended to all the blocks in the country and the commercial banks have been asked by the government of India to finance IRDP. The lead banks have to prepare banking plans and allocate the responsibility of financing the identified beneficiaries among the participating banks. Commercial banks have been asked to finance all economically backward people identified by government agencies.

8. REGIONAL RURAL BANK

The Narasimham Committee on rural credit recommended the establishment of Regional Rural Banks (RRB) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. They would combine the local feel and familiarity with rural problems which cooperative possess and the degree of business organization, ability to mobilize deposit, access to central money markets and modernized outlook which the commercial banks have.

On Narasimham Committees recommendation, the Government passed the Regional Rural Banks Act, 1976. The main objective of RRB is to provide credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisian and small entrepreneurs and develop agriculture, trade, commerce, industry, and other productive activities in the rural areas.

The first five RRB were set up on October 2 1975, at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur and Rajasthan and Malda in West Bengal. These banks were sponsored by the Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The role of regional rural banks (rrb) in the present scenerio:

- To accept deposit
- To grant advances
- To provide ancillary banking services
- To supply inputs and equipments to farmers
- To provide assistance in the marketing of their products
- To maintain godowns

- The authorized capital of RRB is fixed at Rs. 1crore, and its issued capital at Rs. 2 lakhs. Of the issued capital, 50% is to be subscribed by the Central Government, 15% by the concerned State Government and the rest 35% by the sponsoring bank.The working and the affairs of the RRB are directed and managed by a Board of Directors. The Board of Directors consists of chairman, three directors to be nominated by the Central Government concerned, and not more than 3 directors to be nominated by the Central Government and his term of office does not exceed five years.The progress of RRB in the initial stages was quite rapid. At present 196 RRB in 23 states with 14500 branches operating in the country. The total deposit with RRB in 2004-05 amounted to Rs. 58350 crores and their advances came to Rs.31770 crores. Over 95 % of the advances of the RRB are direct advances to small marginal farmers, landless laborers and rural artisian or, in other words to weaker section of the society.More especially about 48% of RRB loan assistance is to agricultural and 52% for non-agriculture (rural artisian, retail trade, etc). State wise, the largest number of offices in a single State is to be found in Uttar Pradesh (3100) followed by Bihar (1950) and Madhya Pradesh (1620). RRB has an important role to play in our rural economy, as they have to act as alternative agencies to provide institutional credit in rural areas. In course of time it is necessary to remember that they have not been set up to replace cooperative credit societies but act as a supplement to them. RRB has always been active participant in programmes designed to provide credit assistance to weaker sections. the problems faced by RRB:

- Haste and lack of coordination in branch expansion.
- Difficulties in deposit mobilization.

- Constraints in deposit mobilization.
- Slow progress in lending activity.
- Urban orientation of staff.

1. The unique role of RRB in providing credit facilities to weaker sections in the villages must be preserved. The RRB should exist as rural banks of the rural poor.
2. The RRB may be permitted to lend up to 25% of their total advances to the richer section of the village society.
3. The State Government should also take keen interest in the growth of RRB.
4. Participation of local people in the equity share capital of the RRB should be allowed encouraged.
5. Local staff may be appointed as far as possible.
6. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
7. A uniform pattern of interest rate structure should be devised for the rural financial agencies.
8. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
9. The credit policy of the RRB should be based on the group approach of financing rural activities.
10. The RRB may initiate certain new insurable policies like deposit-linked cattle and other animals insurance policy, crop insurance policy or the life insurance policy for the rural depositors.
11. The RRB may relax their procedure for lending and make them more easy for village borrowers.
12. Co-ordination between district level development planning and district level credit planning is also required in order to chart out the specific role of the RRB as a development agency of the rural areas.
13. NABARD has laid out certain guidelines for the commercial banks, Regional Rural Banks and Cooperative Banks to provide the data to RBI including that regarding loans given by banks to the microfinance institutions.
14. NABARD has been instrumental in grounding rural,social innovations and social enterprises in the rural hinterlands. This endeavour is perhaps unparalleled in the country, it has in the process partnered with about 4000 partner organisations in grounding many of the interventions be it, SHG-Bank Linkage programme, tree-based tribal communities' livelihoods initiative, watershed approach in soil and water conservation, increasing crop productivity initiatives through lead crop initiative or dissemination of information flow to agrarian communities through Farmer clubs. Despite all this, it pays huge taxes too, to the exchequer – figuring in the top 50 tax payers consistently. NABARD virtually ploughs back all the profits for development spending, in their unending search for solutions and answers. Thus the organisation had developed a huge amount of trust capital in its 3 decades of work with rural communities

9. DANTWALA COMMITTEE 1977

In June 1977, the Reserve Bank of India appointed a committee to review the working of RRB. Professor M.L.Dantwala headed it and the committee submitted report to the Reserve Bank of India with some important recommendations.

A. The RRB with some modification in their organization and function become a very useful component in the totality of the rural credit structure. The RRB can make a substantial contribution to improving quality and quantity of credit flows to the rural areas by becoming an integral part of the rural credit structure.

B. Providing rural credit in a more efficient manner.

C. The RRB should function at the intermediate level. It should progressively fill the credit gap in the rural sector.

D. The jurisdiction of a RRB should be confined to one district.

E. The RRB should be allowed to provide full banking facilities in the areas of their operation.

F. Forms and procedure of the RRB should be simplified.

G. Sponsoring banks should provide training to the staff of the RRB.

H. The RRB should adequately recruit technical staff.

I. The RRB should ensure uniformity in the interest rate policy on par with all rural financial agencies in the organized sector of the money market.

10. NARASIMHAM COMMITTEE 1991

RRB were establish mainly to provide a low cost alternative to the operation of commercial bank branches but the functioning of the RRB gives much cause for concern. According to Narasimham committee, there are basic three problems faced by the RRB.

A. Because of the many restriction placed on the businesses they can undertake, RRB have low earning capacity.

B. The wage and salary scales of RRB have been rising and, in fact with the recent award of Tribunal, their salary scales, an important rationale for the setting up of RRB has ceased to exist.

C. The sponsoring bank are also running their own rural branches in the every area of operation of the RRB. This has given rise to certain anamolies and to avoidable expenditure on controls and administration.

Recommendation Of Narasimham Committee:

A. Commercial bank should segregate the operation of their rural branches through the formation of one or more subsidiaries.

B. Each rural subsidiary should have compact area of operation so as to facilitate recruitment and development of manpower apart from providing the needed trust in business operations and effective improvement in the control and the supervision and information system.

C. The rural subsidiaries should be treated at par with RRB in regard to cash reserves and statutory liquidity requirements (SLR) and refinance facilities from NABARD.

D. All concession in lending to agriculture and to small industry should be phased out, and there would be saving in cost of administration brought through the process of rationalization.

E. NABARD should help RRB to earn higher level of interest income for their surplus cash balances and for their funds presently invested in Government securities or in Government guaranteed securities for SLR compliance.

11. KHUSRO COMMITTEE

The Agriculture Credit Review Committee under the chairmanship of Dr. A.M. Khusro observed that weakness of RRB were endemic and non – viability was built in to their structure. RRB has accumulated huge losses over the year and, in some cases, the losses have eroded even a part of their deposits. There was, thus, a strong case of winding up of such insolvent institutions. Besides, RRB would not be able to serve the interest of the largest groups in the manner expected of them. According to the Khusro Committee, there was no place for RRB in the country rural system in near future and they should be merged with sponsored banks.

12. NARASIMHAM COMMITTEE REPORT II – 1998

In 1998 the government appointed yet another committee under the chairmanship of Mr. Narsimham. It is better known as the Banking Sector Committee. It was told to review the banking reform progress and design a programme for further strengthening the financial system of India. The committee focused on various areas such as capital adequacy, bank mergers, bank legislation, etc.

It submitted its report to the Government in April 1998 with the following recommendations.

1. Strengthening Banks in India : The committee considered the stronger banking system in the context of the Current Account Convertibility 'CAC'. It thought that Indian banks must be capable of handling problems regarding domestic liquidity and exchange rate management in the light of CAC. Thus, it recommended the merger of strong banks which will have 'multiplier effect' on the industry.

2. Narrow Banking : Those days many public sector banks were facing a problem of the Non-performing assets (NPAs). Some of them had NPAs were as high as 20 percent of their assets. Thus for successful rehabilitation of these banks it recommended 'Narrow Banking Concept' where weak banks will be allowed to place their funds only in short term and risk free assets.

3. Capital Adequacy Ratio : In order to improve the inherent strength of the Indian banking system the committee recommended that the Government should raise the prescribed capital adequacy norms. This will further improve their absorption capacity also. Currently the capital adequacy ration for Indian banks is at 9 percent.

4. Bank ownership : As it had earlier mentioned the freedom for banks in its working and bank autonomy, it felt that the government control over the banks in the form of management and ownership and bank autonomy does not go hand in hand and thus it recommended a review of functions of boards and enabled them to adopt professional corporate strategy.

5. Review of banking laws : The committee considered that there was an urgent need for reviewing and amending main laws governing Indian Banking Industry like RBI Act, Banking Regulation Act, State Bank of India Act, Bank Nationalisation Act, etc. This upgradation will bring them in line with the present needs of the banking sector in India.

Evaluation of Narsimham Committee Reports:

The Committee was first set up in 1991 under the chairmanship of Mr. M. Narasimham who was 13th governor of RBI. Only a few of its recommendations became banking reforms of India and others were not at all considered. Because of this a second committee was again set up in 1998.

As far as recommendations regarding bank restructuring, management freedom, strengthening the regulation are concerned, the RBI has to play a major role. If the major recommendations of this committee are accepted, it will prove to be fruitful in making Indian banks more profitable and efficient

13. NEW ERA OF INDIAN BANKING SYSTEM

Credit growth of scheduled commercial banks (SCBs) decelerated from 14.5% in FY14 to 9.7% in FY15 on account of increased risk aversion on account of deterioration in asset quality and availability of alternative sources of funds. The total income of the banks saw 12.5% growth in FY14 decelerating to 10.7% in FY15, gross interest income recording a decelerated 10% growth in FY15 as compared to 12% in FY14 and net interest income seeing a decelerated 9.2% growth in FY15 as compared to 11.2% growth in FY14.The corporate sector raised finances through issuance of commercial papers (CP) and external commercial borrowings (ECBs), impacting credit off-take growth. The market for CPs gained momentum during H2 FY15 with 49% y-o-y growth in Q4 FY15. Activity in the corporate bond market also gained momentum in H2 FY15 “There has been a significant deceleration in the bank credit growth rate from approximately 15% in FY14 to 10% in FY 15. This actually is the lowest growth in 18 years. On the other hand, lending to stressed sectors such as infrastructure, iron and steel, textiles, aviation, and mining which account for nearly 51% of the total stressed advances continued to affect the asset quality. However, we have come a long way from our traditional banking systems to creating modern banks that are heading to a digital future. RBI’s recent announcement of granting in-principle approval for payment banks will usher in a new era of differentiated banking in the country. But the most commendable part of this transformation is that it is taking place across all aspects of banking - digitization, alternate delivery channels, financial inclusion, re-capitalization, modern and robust risk management systems and unprecedented customer-centricity, to name a few. Yes, there are challenges but I am confident that the coming years are going to witness the further transformation of Indian banking as never seen before” said Mr. Kaushal Sampat, President and Managing Director - India, Dun & Bradstreet.The year also saw the collapse of international commodity prices, in particular of crude oil prices, reduced political uncertainty, and improved domestic policy environment and increasing pace of reforms. However, despite these positive signs, the performance of the Indian banks continued to remain lacklustre with persistent pressure on asset quality. Meanwhile, net banking and mobile banking continued to grow with increasing Internet and mobile penetration.

Banks profiled in this publication were listed on the basis of parameters such as total income, total business, net profit and total assets. The publication also encloses an industry review that presents an analysis on aspects such as growth, profitability etc. In addition, the publication also provides a brief section on insights on the featured banks derived from the in-depth analysis from the recent developments and trends in the sector.

- Credit growth of the featured (Scheduled Commercial Banks) SCBs decelerated from 14.5% in FY14 to 9.7% in FY15, due to increased risk aversion on account of deterioration in asset quality and availability of alternative sources of funds.
- The growth in aggregate deposits decelerated to 10.5% in FY15 from 15% in FY14 due to lower deposit mobilization as well as base effect i.e. high accretion to NRI deposits last year owing to fresh foreign currency non-resident account (banks) (FCNR(B)) deposits mobilized under the swap scheme during Sep to Nov 2013 to tide over the external financing requirements. Further, during FY15, many SCBs reduced deposit rates on various maturities which may have affected the growth of aggregate deposits.
- Total income of the featured SCBs registered 12.5% growth in FY14 which decelerated to 10.7% in FY15.
- Gross interest income, which accounted for more than 88% of the total income of featured SCBs in FY15, also recorded a decelerated 10% growth in FY15 as compared to 12% in FY14.
- Net interest income (NII) of the featured SCBs recorded a decelerated 9.2% growth in FY15 as compared to 11.2% growth in FY14.
- Net interest margin (NIM) of the featured SCBs declined marginally from 2.53% in FY14 to 2.52% in FY15. Lower share of low cost CASA deposits in total deposits in FY15 had an impact on NIM along with weakened credit demand.
- The Gross NPAs of the featured SCBs registered a growth of 22.6% in FY15 and the Net NPAs of the featured SCBs registered a growth of 23.2% in FY15. In comparison the provisions for NPAs increased at a slower pace of 21.3% y-o-y in FY15.
- Overall Net NPA ratio increased from 2.1% as on Mar 31 2014 to 2.4% as on Mar 31 2015. The Net NPA ratio of the PSBs increased to 2.9% as on Mar 31 2015 to 2.6% as on Mar 31 2014. Similarly, for private sector banks it increased from 0.7% as on Mar 31 2014 to 0.9% as on Mar 31 2015.
- In addition to higher NPAs, aggregate restructured assets of the featured SCBs grew 26.5% from Rs 4 tn in FY14 to Rs 5.1 tn in FY15.
- Net profit of featured SCBs recorded 10.5% growth in FY15 as compared to a decline of 11.3% in FY14.The growth was mainly on account of the base effect as well as increase in treasury gains, write back of excess provisions held in investment portfolio and decelerated growth in operating expenses particularly staff costs.

14. CONCLUSION

Development of the rural economy is essential in order to ensure a balanced economic growth. The various problems faced by the rural sector such as: illiteracy, lack of access to basic services of electricity, sanitation, drinking water etc. can be overcome if adequate credit facilities are provided. The initiative taken by the RBI to set-up the Regional Rural Banks and other such banks to promote banking in the rural India has come as a boom for these areas. In the present study, the role of RRBs in the rural credits structure has been deeply analysed. The rural credit structure consists of priority sector and the non-priority sector. There has been tremendous achievement in disbursing loans to both the sectors. Though the banks are not left untouched by the challenges, yet an ample amount of opportunity is waiting to be grasped by these banks.

REFERENCES

[1] Banking And Financial System – Sundaram and Varshney – Sultan Chand and Sons

[2] Banking and Financial System - Mithani and Gordon –Himalaya Publishing .

[3] Prof. G. Ram Reddy Third Endowment Lecture by Dr. Y.V. Reddy, Deputy Governor, Reserve Bank of India, at Potti Sreeramulu Telugu University Auditorium Public Gardens, Hyderabad, on December 4, (1999).

[4] George A Floris, The Banking System and Rural India, (1960). [3]. Dr. Amrit Patel Rural Banking Policy, India Timely & Effective Use Of Technology And FI & FIT Funds Needed(2010).

[5] Vasant - Rural Development in India. (Himalaya Publishing House 2005).