International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 5.564 Volume 4, Issue 11, November 2017
Website- www.aarf.asia, Email : editor@aarf.asia , editoraarf@gmail.com

Role of Indian commercial Bank in Rural Sector

Dr.D.Madan Mohan
Principal, professor
Indur PG College,Bodhan

Abstract:

The important of the rural banking in the economic development of a country cannot be overlooked. As Gandhi said "real India lies in village" and village economy is the backbone of Indian economy. Without the development of the rural economy, the objective of economic planning cannot be achieved. Hens, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. Regional Rural Banks (RRBs) were established in October 2, 1975 and are playing a pivotal role in the economic development of the rural India. The main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs.

Keywords: Loans and advance, Priority and non-priority sectors, Rural credit

Introduction

Activities of modern economy are significantly influenced by the functions and services of banks. Banking sector constitutes the core part of economic system. Indian economy is agricultural economy and real India lies in villages. Village economy is the backbone of Indian economy. Even after 60 years of independence, the rural economy in India is still handicapped in terms of infrastructure and other chronic problems of cultivators. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture; 60% of industries are agro based; 50% of national income is contributed by rural sector and the agricultural sector is the largest foreign exchange earner to India. Such an essential and key sector is neglected by financial institutions and especially by the banks. Regional Rural Banks (RRBs) are constituted to meet the financial and banking needs of weaker sections of the rural areas with a special attention on small and marginal farmers, agricultural laborers, artisans, landless farmers, small traders, tint enterprises etc. Hence, RRBs were established in India in 1975 essentially for the purpose of taking banking service to the doorsteps of rural people, particularly in places where banking facilities are not available. In general, RRBs are commercial banks but they adopt some of the principles of cooperatives such as location in areas, work for rural population in a limited area etc. Thus they are hybrid institutes. RRBs operate under the control of two institutions, the National Agricultural Bank and Rural Development (NABARD) and Reserve Bank of India (RBI). The primary objective of this study is to analyze the performance in terms of loans provided to the priority and non-priority sectors of the country and especially various types of loans such as crop loans, term loans, loans to rural artisans, retail trade, small scale industries and self-help groups etc.

A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets. Banking in India, in the modern sense, originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829–32.The largest bank, and the oldest still in existence, is the State Bank of India (S.B.I). It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government; the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955.

1.2 RBI and Nationalization of Banks:

For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the Indian government nationalized 14 major private banks; one of the big bank was Bank of India. In 1980, 6 more private banks were nationalized. These nationalised banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks.The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.Despite the provisions, control and regulations of the Reserve Bank of India, banks in India except the State Bank of India (SBI), remain owned and operated by private persons. 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. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19.

Role of Banks in economic development: Banks play a very useful and crucial role in the economic life of every nation. They have control over a large part of the supply of money in circulation, and they can influence the nature and character of production in any country. In order to study the economic significance of banks, we have to review the general and important functions of banks.

a) Removing the deficiency of capital formation: In any economy, economic development is not possible unless there is an adequate degree of capital accumulation (or) formation. Deficiency of capital formation is the result of low saving made by the community. The serious capital deficiency in developing economies is reflected in small amount of capital equipment per worker and the limited knowledge, training and scientific advance. At this juncture, banks play a useful role. Banks stimulate saving and investment to remove this deficiency. A sound banking system mobilizes small savings of the community and makes them available for investment in productive enterprises. The important implications of this activity include Banks mobilize deposits by offering attractive rates of interest and thus convert savings into active capital. Otherwise that amount would have remained idle. Banks distribute these savings through loans among productive enterprises which are helpful in nation building. It facilitates the optimum utilization of the financial resources of the community.

b) Provision of finance and credit: Banks are very important sources of finance and credit for industry and trade. It is observed that credit is the lubricant of all commerce and trade. Hence, banks become nerve centers of all trade activities and therefore commerce and trade could function in the presence of sound banking system. The banks cover foreign trade transactions also. Big banks also undertake foreign exchange business. They help in concluding deferred payments, arrangements between the domestic industrial undertakings and foreign firms to enable the former import machinery and other essential equipment.

c) Extension of the size of the market: Commercial bankers help commerce and industry in yet another way. With the sound banking system, it is possible for commerce and industry for extending their field of operation. Commercial banks act as an intermediary between buyers and the sellers. Goods are supplied on bank guarantees, making it viable for industry and commerce to cultivate and locate markets for their products. The risks are undertaken by the bank. When the risks have been set free by the banks, the industry can look forward to derive economies of the large size of the market.

d) Act as an engine of balanced regional development: Commercial banks help in proper allocation of funds among different regions of the economy. The banks operate primarily for profits. When the banks lend their funds for more productive uses, their profits will be maximized. Introduction of branch banking makes it possible to choose between different regions. A region with growth potential attracts more bank funds. But in recent years, the approach of banks towards regional growth has been undergoing a change. Banks help create infrastructure essential for economic development. Thus banks are engines of balanced regional development in the country.

e) Financing agriculture and allied activities: The commercial bank helps the farmers in extending credit for agricultural development. Farmers require credit for various purposes like making their produce, for the modernization and mechanization of their agriculture, for providing irrigation facilities and for developing land. The banks also extend their financial assistance in the areas of animal husbanding, dairy farming, sheep breeding, poultry farming and horticulture.

f) For improving the standard of living of the people: The standard of living of the people is estimated on the basis of the consumption pattern. The banks advance loans to consumers for the purchase of consumer durables and other immovable property, which will raise the standard of living of the people. Stimulating human capital formation, facilitating monetary policy formulation and developing entrepreneurs are some of the other roles played by commercial banks in the economic life of every nation.

1.3 Globalization: Despite the rise in the NPAs, India's banking sector is set to become the fifth largest banking industry in the world by 2020 and the third largest by 2025 according to a recent KPMG-CII report. India's banking sector has been expanding rapidly over the past years followed by the emergence of universal banking, higher economic growth, and globalization. The banking industry is considered to be the lifeline of an economy. It activates and sustains economic growth. "If we look at the statistics, India being one of the top ten economies of the world and with relatively lower domestic credit to GDP percentage provides great opportunity for the banking sector to grow", the KPMG-CII report on the banking sector has observed.In India, there are 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks, and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public sector banks control nearly 80% of the market, thereby leaving much smaller shares for its private peers.The financial sector probably has been influenced most by the innovations in information technology. The age of digitalization and move towards adoption of new technology have transformed the way banks do business today. Information technology has played a vital role in shaping India's new-age banking activities. Banking technology today directly influenced by the spread of smart-phones and extensive availability of 3G and 4G networks. Advances in technology have also created newer customer expectations, multi-channel structure and progressive product offerings in the banking industry.

1.4 Banking reforms in India: In 1969, the government nationalised banks with deposits greater than Rs. 50 Cr. In 1980, the government again nationalised some more banks with country wide deposits more than 200Cr. In 1991, the government of India liberalized the economy. The committee on Financial systems, chaired by Mr. M. Narasimham in 1991, recommended to reduce the Statutory Liquidity Ratio (SLR), and Cash Reserve Ratio (CRR) to free up bank resources, relying on market forces to determine interest rates, making it easier for private and foreign banks to enter to enhance competition and reducing substantially the number of Public Sector Banks (PSBs). In 1998, the committee on banking reforms, also chaired by Mr. Narsimham recommended a further set of measures to strengthen the banking sector. The committee reviewed progress in existing measures and proposed further measures related to legislation, Capital Adequacy and Bank Mergers. The committee also recommended steps relating to greater technology use, skills training and professional management of banks. Many of reforms since 1991, improved the performance and strength of India's banking sector. Such as the amount of credit extended by the banking system as a share of GDP increased from 51.5% in 1990 to 53.4% in 2000. In 2000, the committee on Financial Sector Reforms included recommendations on Macroeconomic and regulatory frameworks for India, financial inclusion and domestic financial development. In 2014, P.J Nayak committee was constituted to Review Governance of Boards of Banks. It recommended on enhancing the government and management of public sector banks.

1.5 Rural Banking a Vision:

- Rural development is the sine-qua-none of the overall development of India. Since independence, it has been the constant endeavor of our policy makers to give adequate thrust to bringing rural prosperity in India.
- Even today, the country is home to 24% of the world's unbanked adults and about two-thirds of South Asia's. About 31 crore 'potentially bankable rural Indians' do not have access to formal banking services.
- Since rural households have irregular income and expenditure patterns, the banks have high Non-performing loans in rural areas. The loan waivers driven by political agenda, further aggravate the bankers' woes.
- The new rural finance paradigm needs to be based on the premise that 'rural people are bankable' and rural clientele is not limited only to the farmers and uneducated but also includes a generation which can use and adopt technology.
- In India, the 1st structured attempt towards financial inclusion, featured in 2005, when it was launched by K C Chakraborthy. Mangalam village became the 1st village in India where all households were provided with banking facilities.
- Steps taken by RBI for financial are: facilitating no-frill accounts and General Credit Cards (GCCs) for small deposits and credit, norms were relaxed for people intending to open accounts with annual deposits of less than 50,000.
- With a view to provide hassle-free and timely credit to farmers, as on September 2016, above 50 million Kisan Credit Cards (KCC) have been issued by the banking system.
- RBI directed the commercial banks in different regions to start a 100% financial inclusion campaign, as a result of which UTs like Puducherry and states like Himachal Pradesh, Kerala announced 100% financial inclusion in all their districts.
- RBI's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.
- The SHG-Bank Linkage programme of NABARD has become the biggest Micro-Credit programme of the world.

1.6 Conclusion:

The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this end in view, Regional Rural Banks were established by the Government of India to develop the rural economy. With the passage of three decades, the RRBs are now looked upon with hope for rejuvenating the rural India. In the present study, the role of RRBs in the rural credits structure has been deeply analyzed. 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. The 'Digital India' campaign has the potential to transform the Indian banking sector. Highlighting the progress of 'Digital India', more than 12,000 rural post office branches have been linked to payment banking. Historically, banks have used process management solutions to improve and streamline their customers' experience rather than enhance their security.

References:

1. T. Sreenivas(2006)Banking Sector and Human Resources: Changing Scenario; Published by Discovery Publishing House New Delhi.
2. Prof. L. VenugopalReddy(2006) Banking sector and Human Resources, Changing Scenario. DPH New Delhi.
3. R.K.Raul& J.U. Ahmad (2005) Public Sector Bank in India, Kalpaz Publication Delhi.
4. G.P. Kapoor (2004), Commercial banking in India, A.P.H. Publishing Corporation, New Delhi.
5. Reserve Bank of India. 2017. Frequently asked Questions: Priority Sector Lending - Targets and Classification, July 24.