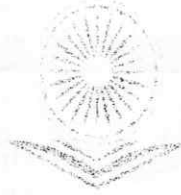


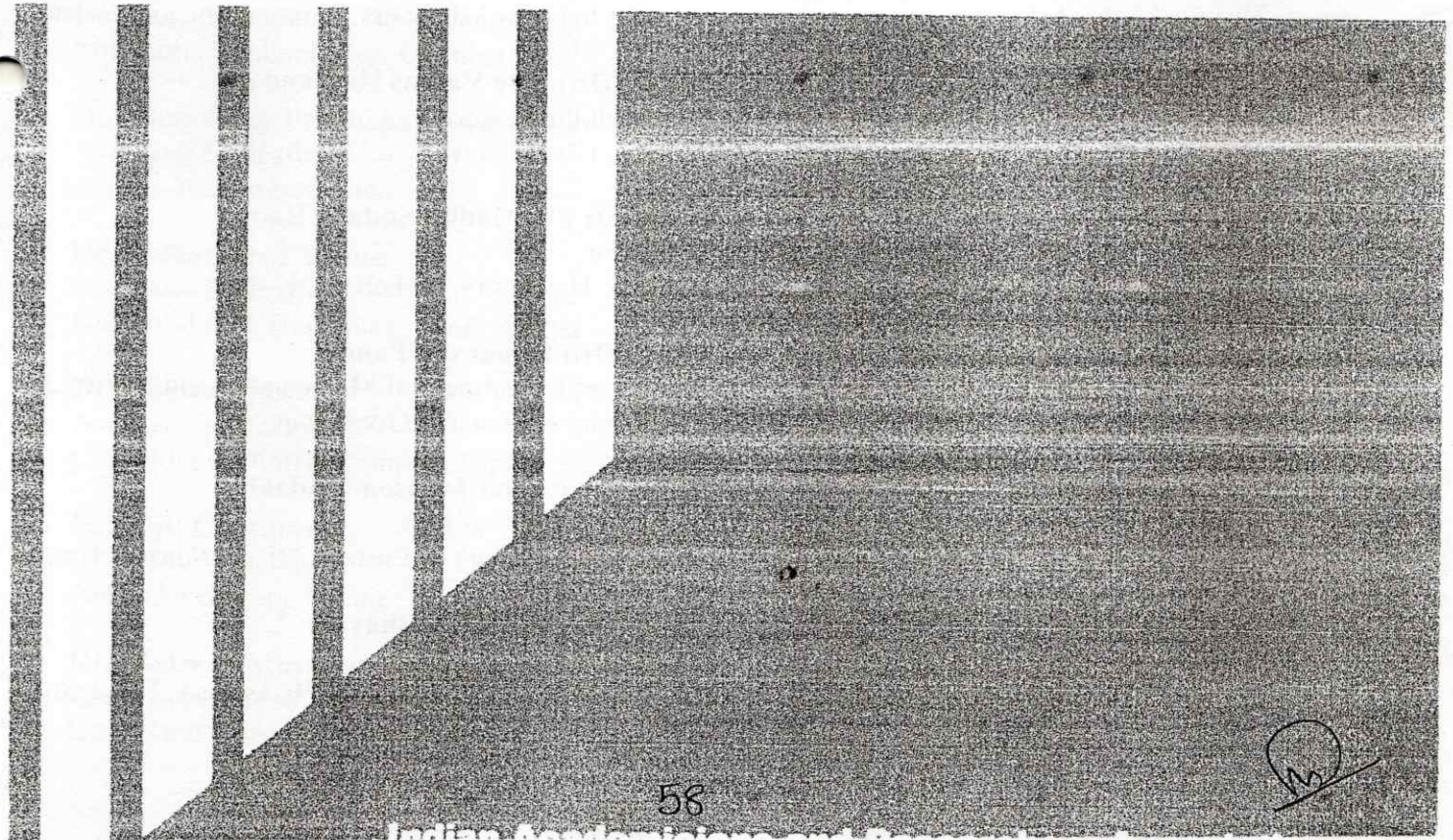
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**BANKING SCENARIO IN INDIA: A COMPARATIVE STUDY**

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**INTRODUCTION**

Financial system plays a vital role in the economic growth of the country. It intermediates between the flow of funds belonging to those who save a part of their income and those who invest in productive assets. It mobilizes and usefully allocates scarce resources of a country.

A financial system is a complex, well-integrated set of sub-systems of Financial Institutions, markets, instruments and services which facilitates the transfer and allocation of funds, efficiently and effectively.

**FORMAL AND INFORMAL FINANCIAL SECTORS**

The financial systems of most developing countries are characterized by coexistence and cooperation between the formal and informal financial sectors. This coexistence of these two sectors is commonly referred to as 'financial dualism'. The formal financial sector is characterized by the presence of an organised, institutional, and regulated system which caters to the financial needs of the modern spheres of economy, the informal financial sector is an unorganised non-institutional and non-regulated system dealing with the traditional and rural Spheres of the economy

The informal financial sector has emerged as a result of the Intrinsic dualism of economic and social structures in developing countries, and financial repression which inhibits the certain deprived sections of society from accessing funds. The informal system is characterized by flexibility of operations and interface relationships between the creditors and the debtors. The advantages are: low transaction costs, minimal default risk and transparency of procedures. Due to these advantages of a wide range and higher rates of interest prevail in the informal sector.

**INDIAN FINANCIAL SYSTEM**

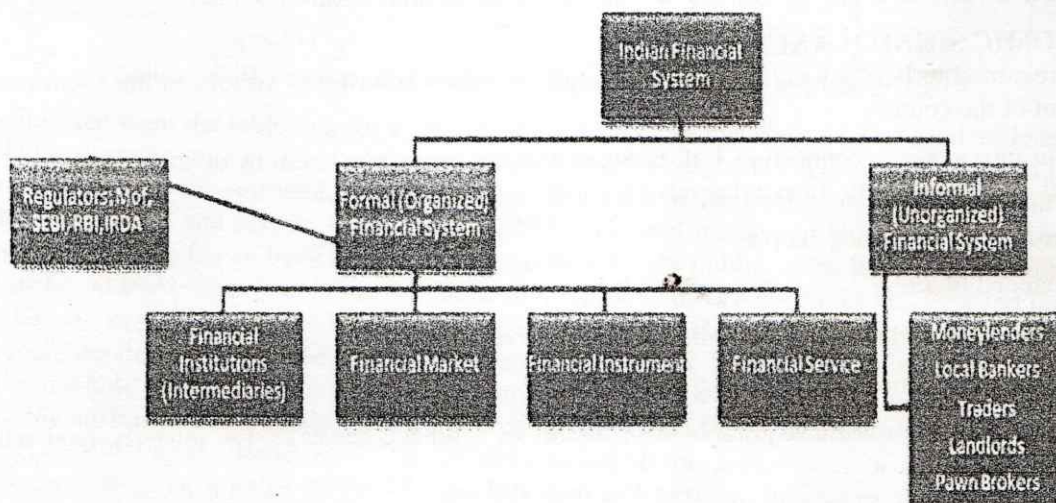
The Indian Financial System can also be broadly classified into the formal (organized) financial system and the informal (unorganized) financial system. The formal financial system comes under the purview of the Ministry of Finance (MoF), the Reserve Bank of India (RBI), the Securities and

Exchange Board of India (SEBI), and other regulatory bodies. The informal financial systems consist of:

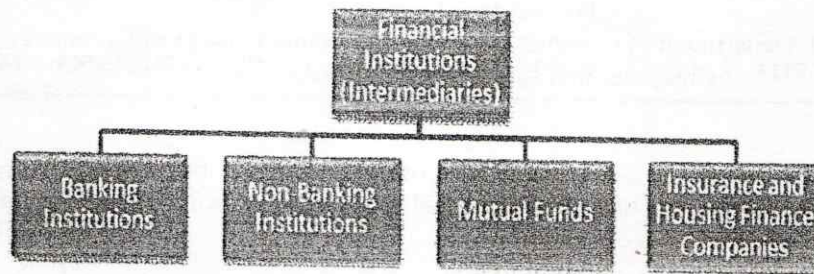
**Independence**

- Individual moneylenders such as neighbours, relatives, landlords, traders and storeowners
- Groups of persons operating as 'funds' or 'associations'. These groups function under a system of their own rules and use names such as 'fixed funds', 'association' and 'saving club'
- Partnership firms consisting of local brokers, pawnbrokers, and non-bank financial intermediaries such as finance, investment and chit-fund companies.

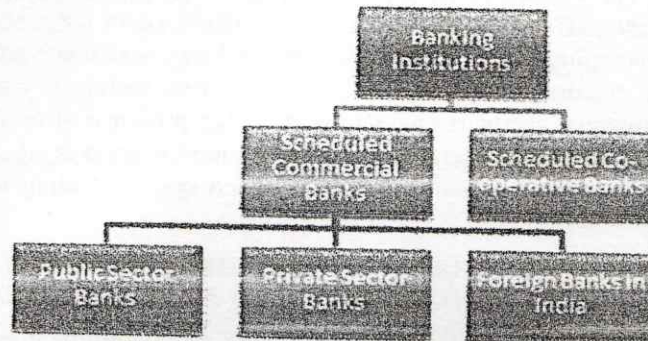
**INDIAN FINANCIAL SYSTEM**



## INDIAN FINANCIAL INSTITUTIONS



## INDIAN BANKING SYSTEM



## BANKING INSTITUTIONS

The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial system which plays a vital role in the success / failure of an economy. Banks are one of the oldest financial intermediaries in the financial system. They play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system is the fuel injection system which spurs economic efficiency by mobilizing savings and allocating them to high return investment.

Section 5(1)(b) of the Banking Regulation Act defines banking as 'the accepting, for the purpose of lending or investments, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.' section (1)(c) defines banking company as 'any company which transacts the business of banking in India.

The essential characteristics of banking business as defined in Section 5(b) of the Banking Regulation Act are as follows:

- Acceptance of deposits from the public
- For the purpose of lending or investment
- Repayable on demand or otherwise
- Withdrawable by means of any instrument whether a cheque or otherwise.

## SOCIO ECONOMIC SIGNIFICANCE

1. Banks are regarded to be a pivotal economic institutions which contributes sizably to the socio-economic development of the country
2. Serves as an intermediary connecting link between the two important sections of the society viz. people with savings and people with financial needs
3. Inculcate saving habits among people.
4. Promote financial literacy
5. Shoulder social responsibility as a custodian of financial resources
6. Promote capital formation
7. Contribute immensely towards equitable distribution of lendable resource for inter-regional and inter sectoral growth.
8. Cater to the credit and capital needs of entrepreneurs, industrialist, traders, consumes and public at large

9. Promote financial inclusion through opening 'no frill accounts' and bringing hitherto excluded groups into the banking net
10. Extend banking services to the under banked and unbanked rural areas
11. Generate employment opportunities
12. Safeguard interest of stock and stakeholders
13. Promote overall Socio-Economic development of the country

### OBJECTIVES AND METHODOLOGY

The boarder objective of the study is to examine the banking network in India with regard to total number of banks, bank branch, ATM's deposits, advances, credit to deposit ratio, total population per bank branch and per ATM's, pre-capita deposit, per capita advances, cost of funds and return on funds. Further, the banking scenario in Goa is compared with the banking scenario in India. The necessary required data is gathered from reports on Trend and Progress of Banking in India, 2016-17. RBI bulletin, Mumbai. Lead Bank Report, SBI, Panaji - Goa 2017-2018, Indian bank Association(www.iba.org.in) and from reference books in Economics. Simple averages and percentages are used to analysis the collected data.

### ANALYSIS AND DISCUSSION

Table-1: Trend and Progress of scheduled commercial banks as on 31<sup>st</sup> March, 2017

Sr. No.	Parameters	PSB	Private Banks	Foreign Banks	Total
01	Total No. of Banks (in Number)	29 (30)	21 (22)	46 (48)	96 (100)
02	Total No. of Branches (in Number)	93348 (76.00)	29520 (23.76)	299 (0.24)	123167 (100)
03	Total No. ATMs (in Number)	148555 (71.29)	58833 (28.25)	966 (0.46)	208354 (100)
04	Total Deposits (Rs. In Crores)	8076781 (72.00)	2564729 (24.00)	465523 (4.00)	11107033 (100)
05	Total advances (Rs. In Crores)	5557231 (69.00)	2219475 (27.00)	295844 (4.00)	8072550 (100)
06	Credit to Deposit Ratio (%)	68.80	86.53	63.55	72.96
07	(Projected population as on 2017) Total population per Bank Branch (Actual)	14346	45365	4478929	10873
08	Total population per ATM (Actual) (projected population as on 2017)	9014	22762	1386335	6472
09	Per capita deposits (Rs. in actual)	60310	19151	3401	82937
10	Per capita advances (Rs. in actual)	41496	16573	2209	60278
11	Cost of funds (%)	5.62	5.76	4.24	5.21
12	Return on funds (%)	8.15	9.28	7.97	8.47
13	Spread (%)	2.53	3.52	3.73	3.26

Source: RBI Reports on Trend and Progress of Banking in India 2016-17

It can be witnessed from the table that the Indian banking sector has made a record of total 96 banks as on 31-03-2017 comprising of public sector banks, private banks and foreign banks. The analysis reveals that in terms of number of banks, the foreign banks represent more than 48% of the total commercial banks in the country followed by PSB (30%) and private sector banks (22%). The total number of bank branches show that more than 76% of the total number of bank branches are accounted by the public sector banks indicating the presence of bank branches at every nook and corner of the nation, followed by private banks i.e. 23% and the number of bank branches are negligible in case of foreign banks i.e.(0.24%). This clearly conveys that the public sector banks dominate the lion's share in the total number of bank branches. In case of the total number of ATM's are concerned, the whole banking sector has made a remarkable growth in the total numbers of ATM's that are available to the customers. The analysis shows that again the public sector banks are found to have accounted more than 71% of the total number of ATM's of the banking sector, followed by private banks (28%) and in case of foreign banks, the number of ATM's are less than one percent. In case of deposit mobilization, the

PSB's are noticed to have represented more than 72% of the total deposits mobilized by the commercial banks in the country. The private banks account more than 24% followed by foreign banks i.e. just 4% of the total deposits. A similar observation is made in case of funds deployment of the banks. Again, the PSB's have contributed more than 69% of the total deposit mobilized by the banks. Where as private banks have advanced to different economic activities to the tune of 27% of the total advances. The foreign banks have made just 4% of the total advances.

Credit to deposit is one of the significant performance indicators of the banking sector. The bank sector-wise calculated C/D ratios show that the private sector banks have registered 86.53% C/D ratio followed by public sector banks (68.80%) and foreign banks recorded 63.55%. This shows that all the banks are found to have advanced their funds efficiently. The overall credit to deposit ratio for the whole banking sector is observed to be 72.96% denoting more than 72% of their total deposits are made available for economic activities and the overall C/D ratio is found satisfactory.

The total population per bank branch analysis reveals that in case of public sector bank, for every 14346 population, there is one bank branch and in case of private banks, for every 45365 population, there is one bank branch available where as in case of foreign banks, for every 4478929 population there is one branch. The overall analysis shows that for every 10873 population, there is one bank branch. This indicates that still considering the growth of population, the branch networking needs to be enhanced. The total population for one ATM analysis depicts that in case of PSB's for every 9014 population, there is one ATM's and in case of private banks for every 22762 population, there is one ATM. Where as in case of foreign banks for every 1386335 population, there is one ATM. It further reveals that as compared to the total member of bank branches the ATM's are more in case of all the three sectors of banks.

The analysis of per capita deposit indicates that the PSB's are noticed to have recorded the highest deposit per person followed by private banks and foreign banks. Similarly, the per-capita advances show that the public sector banks have recorded the highest per capita advances followed by private banks and foreign banks.

The cost of deposit is one of the major cost components of the banks in terms of payment of interest on deposits. The analysis of cost of funds reveals that the foreign banks are found to have recorded the lowest cost of funds i.e. 4.24% followed by PSB's and private banks. The interest received on funds shows that private banks are found to have received the highest returns on their advances i.e. 9.28% followed by PSB's and foreign banks. The spread analysis of all the three sectors indicates that the foreign banks have accounted the highest spread followed by private banks and the lowest spread in case of public sector banks. It tells that the margin between cost of fund and return on funds in case of public sector banks is very thin as compared to private and foreign banks.

### **BANKING SCENARIO IN GOA**

Goa was liberated from the Portuguese regime yoke on 19<sup>th</sup> December, 1961 and remained union territory along with Daman and Diu for several years; Goa was elevated to the status of 25<sup>th</sup> state in the Indian Union on 30<sup>th</sup> May 1987. It has a geographical area of 3702 Sq. Kms and a population of 14.59 lakhs (2011 Census). The state is divided into two districts (North and South Goa) and twelve talukas. This state has the highest per capita income in the country and the second lowest with respect to poverty ratio. Tourism, agriculture, industry, mining, construction, banking, trade and fishery are the main stay of the Goan economy. Goa with its unique natural beauty has emerged as one of the best and the most attractive tourist destinations in the world.

Banking as an integral part of territory sector has made a remarkable progress and expansion in the state of Goa. The banking system in the state is broadly comprised of SBI and its associates, nationalized banks, private banks, state co-operative banks and urban co-operative banks besides, urban credit co-operative credit societies and primary agriculture credit co-operative societies. The average population per bank branch office is the lowest in India is 1766 as against the national average. 10873.

The working and functioning of banks is being closely monitored by the different committees under the leadership of state bank of India. A separate Lead Bank Department for each district, state and block level committees have been working efficiently towards the growth and progress of banks in the State.

These committees will set bank-wise operational targets and the actual performance of the banks is reviewed in the light of set targets. The National Bank for Agriculture and Rural Development (NABARD) as an apex level body established for the promotion of agriculture and rural development, has been also supporting and supplementing efforts of the banks towards the agriculture and rural development in the state. The NABARD extends refinance facility to banks for financing agriculture and allied activities such as minor irrigation

projects, land development, farm mechanization, dairy and poultry etc. Over and above, this institution plays a key role in promoting socio-economic empowerment of rural poor.

**Table-2: Banking Scenario in Goa as on 31<sup>st</sup> March, 2018 (Rs. In crores)**

Sr.No	Parameter	Figures
1	Total No. of Banks (Actual)	53
2	Total No. of Branches (Actual)	826
3	Total Population per Bank Branch (Actual) Population (Census 2011)	1766
4	Total Deposits (in crores)	Rs 70108.74
5	Total Advances (in crores)	Rs 21748.84
6	Credit to Deposit Ratio (%)	31%
7	Per capita Deposits (Rs in actual) Population (census 2011)	Rs 480525
8	Per capital Advances (Rs. In actual) Population (Census 2011)	149066

Source: Lead Bank Report, SBI, Panaji-Goa 2017-18

It can be seen from table 2 about the banking scenario in Goa as on 31<sup>st</sup> march, 2018. The total number of banks have stood at 53 banks comprising of PSB, private, foreign and co-operative banks. The banking sector has made a progress in the total number of bank branches to the tune of 826 bank branches. The total population per bank branches (census 2011) is 1766. It is interesting to note that the total population per bank branch in the state of Goa is the lowest as compared to the total population per bank branches at the national level. This really speaks about the strength of branch banking network in the state of Goa.

The total deposits of the banking sector stood at Rs. 70108.74 crores and the total advance have reached Rs. 21748.84 crores for the corresponding period. The credit to deposit ratio is found to be more than 31% and indicating only 31% of the total deposit mobilized are advanced to different economic activities. It is further noted that more than 69% of the total deposits mobilized are parked idle with the banks not earning anything except incurring cost towards deposit. The pre-capita deposit and per capita advances analysis reveals that the banking sector in Goa has made a record of having the highest pre-capita deposit as compared to the per capita deposit at all India. Similarly, the per capita advances is also found to have registered the highest in the state as compared to per capita advance at all India level.

**Table-3: Performance Under Priority Sector Advances in Goa as on 31/03/2018**

Sr.No.	Parameters	Benchmark	31.03.2018
01	Total Deposits	NA	70108.74
02	Total Advances	NA	21748.84
03	C.D. Ratio	NA	31.02%
04	Total PSA	-----	7906.77
	Percentage of PSA to total advances	40%	36.35%
05	Dir Advances	-----	0.33
	Parentage of Dir Adv. To Total Advances	1%	0.001%
06	Weaker Section Advances	-----	1087.36
	Percentage of weaker Sec. Ad. To Total Adv	10%	5.00%
07	SC/ST Advances	-----	319
	Percentage of SC/ST Adv. To Total Advances	5%	1.47%
08	Advances to women	-----	2563.09
	Percentage of Adv. To Women to Total Adv.	10%	11.79%
09	Direct Agriculture Advances	-----	805.37
	Percentage of Direct Agri. Adv. To Total Adv.	18%	3.70%

Source: Lead Bank Report, SBI, Panaji-Goa 2017-18

Some of the key indicators like priority sector advances, direct advances, weaker section advances, advances to SC/ST, advances to women and direct agriculture advances are displayed in table 3. It is learnt from the table that the total priority sector lending is 36.35% which is closed to priority sector/lending target i.e. 40% of the total advances. The weaker section advances is stood at 5% which is less than the target. The total advances to SC/ST population is less than 2% as against the target 5%. It is interesting to note that women section has

availed considerably good advances from the banks and advances to agriculture is observed to be negligible. The overall analysis reveals that the many priority sector lending have not achieved the targeted advances.

#### **CONCLUSION**

The necessary data pertaining to physical and financial key indicators of scheduled commercial banks for the trend 2016-17 and banking network in the state of Goa in particular is analyzed and discussed based on the analysis and discussion, it is concluded that the public sector banks represented the highest share in the parameters like number of banks, bank branches, ATM's deposit, advances, per capita deposit, per capita advances etc. as compared to private and foreign banks. On the other hand, the banking network in the state of Goa has made a remarkable progress in terms of number of bank branches, the lowest population per bank branch, highest per capital deposit, highest per capita advances as compared to the scheduled commercial bank in the country. The performance in the credit deployment of banks in Goa is found to be very poor and credit to deposit ratio is just 31%. The major challenges like bad loans, non-performing assets, cyber-crimes, managerial problems and growing competition have a close impact on the performance of the banks.

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