



Diversification of Banking Services -A Study on Regional Rural Banks in Karnataka

**Dr. M.
Kumaraswamy**

Faculty, Department of Studies in Commerce, Post Graduate Centre,
Hemagangotri, University of Mysore, Hassan – 571 220.

Jayaprasad D.

Research scholar, Department of Studies in Commerce, Post Graduate
Centre, Hemagangotri University of Mysore, Hassan – 571 220

ABSTRACT

The banking sector has played a vital role in the overall economic development of the country right from the time of nationalization. Due to globalization the Indian Public sector banks have been facing keen competition from the Private Sector and Foreign banks. The banking industry, which is a part of the service sector, has undergone tremendous changes mainly to keep pace with fast changing global business. The economic reforms paved the way for the competition as the mantra for the survival of the banks in particular and all other concerns in general. Regional rural banks are operating in financial system mainly to achieve the global benchmark by diversifying its banking activities to the changing banking global environment.

Public sector banks including regional rural banks could not tune themselves to the globalised standards. The economic reforms guided the public sector to equip to meet all the challenges of the globalised scenario, failing which, privatization is unavoidable. Economic liberalization could provide disinvestment and divestment also. This is very essential not only for their survival but also for robust growth at a global level. Innovation of new banking services is the need of the hour; as such every bank may ponder whether it will opt for the mega event by that the rural banks can achieve transformations in its operations and marketing of its services in the competitive market.

KEYWORDS : Regional Rural Banks, One Sample Statistics

Introduction

The banking sector has played a vital role in the overall economic development of the country right from the time of nationalization. Due to globalization the Indian Public sector banks have been facing keen competition from the Private Sector and Foreign banks. As is well known, survival of the fittest is the core theme in the global market today. Sustenance and growth of public sector banking is very much essential for balanced and effective economic development. Increased competition has made this a challenging task. It is imperative that there is urgent need to strengthen the weak public sector banks. To strengthen the public sector banks, the Ministry of Finance, Government of India, and Reserve Bank of India have tested various strategies. The support through Deposit Investment and Credit Guarantee Corporation of India, direct aids given by the government as per the recommendation of the various committees, turnaround strategy for weak public sector banks, direct investment on the public sector bank securities by the Central government etc.

The banking industry, which is a part of the service sector, has undergone tremendous changes mainly to keep pace with fast changing global business. Indian banking is fully controlled by the Government of India under its code. The system comprised of public sector banks, private banks and multinational banks. The economic reform adopted in the financial services stimulates private and foreign banks to operate in India. Indian banking was monopolized by the public sector banks which are fully controlled by the Government of India. The economic reforms paved the way for the competition as the mantra for the survival of the banks in particular and all other concerns in general. The private banks, foreign banks, and public sector banks including regional rural banks are forced to compete with each other mainly to grab the opportunity besides accelerating the market share. Regional rural banks are operating in financial system mainly to achieve the global benchmark by diversifying its banking activities to the changing banking global environment.

Regional Rural Banks in India

Regional Rural Banks in India dates back to the years 1975. It's the Narasimham Committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural bank's that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi urban areas

and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The objectives of RRB are summarized as to provide cheap and liberal credit facilities to small and marginal farmers, agriculture, to save the rural poor from the money lenders, to act as a catalyst element and there by accelerate the economic growth in the particular region.

Regional Rural Banks operating in Karnataka

Pragathi Gramin Bank and Krishna Gramin Bank have been amalgamated into a new entity "Pragathi Krishna Gramin Bank". **Pragathi Krishna Gramin Bank with Head Office at Bellary** came into existence on 23rd August 2013 with the amalgamation of 2 RRBs viz, erstwhile Pragathi Gramin Bank (Sponsored by Canara Bank with Head Office at Bellary) and erstwhile Krishna Grameena Bank (Sponsored by State Bank of India with Head Office at Kalburgi).

Kaveri Grameena Bank (KGB), a Regional Rural Bank established under Regional Rural Banks' Act 1976, is a Scheduled Bank jointly owned by Government of India, State Bank of Mysore and Government of Karnataka (share capital contributed in the ratio of 50 :35:15 respectively), permitted to carry all kinds of banking business. The Bank is operating in 10 Districts of South Karnataka, having its Head Office at Mysore City with eight Regional Offices at Mysore, Mandya, Bangalore, Tumkur, Hassan, Chamarajanagar, Madikeri and Chikmagalur

Malaprabha Grameena Bank, Bijapur Grameena Bank, Varada Grameena Bank and Netravathi Grameena Banks were the four RRBs, sponsored by Syndicate Bank, in the State of Karnataka. When the above RRBs were established without much ado way back in the 1970/80s, people may not have had the slightest idea about the ripple that these RRBs would create in the banking industry and the impact that they would have on the rural scene. In the formative years, the main concern was to reach out to the rural poor through its strong network of branches

Services offered by the RRBs:

The aggregate deposits and advances of all RRBs (sponsored by the Bank) as on 31.03.2014 stood at Rs.41,034cr and Rs.24,032cr respectively. They have posted a profit of Rs.438 cr during the year 2013-14. The bulk of the loans from RRBs were to the priority sector. The percentage of priority sector advances and agri advances to total advances as on 31.03.2014 was 77.09% (benchmark 60%) & 63.78% respectively.

All these RRBs are on Core Banking platform. In addition to that, SBI has implemented various technology products in its sponsored RRBs

which enabled them to adopt modern technologies in banking. This has helped the RRBs to improve their performance at par with Commercial Banks. The following IT products have been enabled to SBI sponsored RRBs:

- 1) CBS
- 2) NEFT
- 3) RTGS
- 4) Central Plan Scheme Monitoring System (CPSMS)
- 5) ATM-cum-Debit Card (on RuPay Platform)
- 6) KCC Card (on RuPay platform)
- 7) Aadhar Payment Bridge System (APBS)
- 8) Kiosk Banking

Other IT initiatives under implementation:

- 1) Internet Banking
- 2) Mobile Banking
- 3) HRMS
- 4) Cheque Truncation System
- 5) Biometric Authentication
- 6) Anti-Money Laundering

Services offered by the Private and Foreign Banks

Private and foreign banks now provides your account balance and last 5 transaction details over phone round the clock information on deposit/loan schemes and many more services are available

Listed On The Left Are Services, SBI Offers To Its Customers.

- 1) Domestic Treasury
- 2) Broking Services
- 3) Revised Service Charges
- 4) Atm Services
- 5) Internet Banking
- 6) E-Pay
- 7) E-Rail
- 8) Safe Deposit Locker
- 9) Micr Codes
- 10) Foreign Inward Remittances.

Review of literature

The researcher's has carried out a review of literature relating to banking services particularly in diversification of banking services in regional rural banks.

Kumar Raj (1993) carried out a study on the topic "Growth and Performance of RRBs in Haryana". On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient use of distribution channels of finance to beneficiaries.

According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular.

Jain vibha (2007) examined the status of NPAs in commercial banks. The study found that the problem of gross and net NPAs is more acute in Public Sector Banks. The new Private sector banks and foreign banks have also registered an increase in the amount of gross and net NPAs during the period 1997-2003. It concluded that new private sector banks and foreign banks failed to prevent the fresh generation of NPAs in the period whereas, PSB's and old private sector banks were able to reduce it.

K. Kothai (2003) conducted a study on "None performing Assets of Scheduled commercial Banks in India: An Analysis". The research observed a decreasing trend in the NPA's of SCB's over the period of study. It revealed that the level of NPA's has declined mainly due to write off of bad debts and expansion of the total advances over the period of study

Singla (2008) studied the financial performance of banks in India in view of increasing globalization and increased competition in the

banking industry. He concluded that the financial position of banks is reasonable, debt equity ratio is maintained at an adequate level and NPA's also witnessed a decline during the study period.

The Committee on Financial Systems, 1991 (Narasimham Committee) stressed the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June 1993). The low equity base of these banks (paid up capital of Rs. 25 lakhs) didn't cover for the loan losses of most RRBs. In the case of a few RRBs, there had also been an erosion of public deposits, besides capital. In order to impart viability to the operations of RRBs, the Narasimham Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a proposal which was readily accepted. This recommendation marked a major turning point in the functioning of RRBs.

Banking Commission Report (1972) The banking commission was set up by the government of India in February 1969 under the chairmanship of Sri.R.G.Saraiya, and the terms of reference of the commission review the working of the co-operative banks and to make recommendations for ensuring a coordinated development of commercial and co-operative banks, the working of the various classes of indigenous banking agencies such as mutinies and shroffs and to evaluate their utility in the money market complex and make recommendations in the light of the findings and existing legislative enactments relating to commercial and cooperative banking.

C.D. Wadhva (1980) made a noteworthy study, entitled "Rural Banks for Rural Development". This study covered an analysis of the progress made by all Regional Rural Banks in India and offered valuable suggestions for the restructuring of the Regional Rural Banks. This study was conducted in 1977 when the Regional Rural Banks were in the initial stages and the assessment of their performance was premature.

S.G.Hundekar (1995) made a study on "Productivity in banks". The study aimed at analyzing the productivity of the Bijapur Gramin Bank in Karnataka State from 1976 to 1990, in terms of its growth, its innovative ability, achievement of social objectives and its operational efficiency & profitability of working funds. The productivity of RRBs is analyzed with help of market share in branch expansion, deposit mobilizing, credit management, operational efficiency, profitability ratios.

Kaur (1999) studied the growth and performance of RRBs in Punjab during the period 1987-96. The study revealed that RRBs had the highest growth rate of 5.11 percent in the rural areas. Deposit per branch, credit deployment, growth of credit deployment in the rural areas and semi urban areas, credit per branch, priority sector advances were the highest for RRBs as compared to those of commercial banks and cooperative banks in the rural areas in Punjab during the study period. Credit-Deposit ratio remained below the national average for commercial banks and RRBs during the same period.

Chidambaram (2007) examined that RRBs in India made considerable progress in deposit mobilization, credit dispensation and profit making during the period 2002-03 to 2004-05. It was mentioned that as a result of amalgamation, RRBs were in a position to provide better customer services with better infrastructure and policies of experienced staff. It further stressed upon the need for a change in the attitude of branch managers of the RRBs.

Makandar, N.M. (2010) made study on "Profitability and Productivity Analysis of RRBs in India". In the light of the amalgamation of RRBs in India the main purpose of this study is to investigate the efficiency of the sample RRBs in Karnataka state and to analyze the changes in profitability and productivity by comparing between pre and post amalgamation period. The study concluded that the profitability of the sample has not improved as expected but in long run one hope that the restructuring of the RRBs in India give positive result.

Objectives of the Study

1. To study the banking services offered by the leading private and foreign banks at global level.
2. To analyze the banking services offered by the regional rural

- banks in Karnataka
- 3. To study the scope for diversification banking services by regional rural banks in Karnataka
- 4. To identify potentiality to diversify banking services by RRB's and makesuitable suggestions.

Research Methodology:

The researcher brings out the paper on the basis of primary and secondary data. Primary data: For this purpose a structured questionnaire was administered to the samples of respondents from managerial staff, non managerial staff and customers of all selected regional rural banks in Karnataka as part of my research work. The required data is also collected through interaction with the top managers and prime customers in Regional Rural Banks in Karnataka.

Hypothesis of the study:

- 1. H_0 - "Diversification of Services does not positively influence the performance of Regional Rural Banks."
- H_1 - "Diversification of Services positively influence the performance of Regional Rural Banks."

Analysis and interpretation data:

Hypothesis

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
q4.01	700	2.9880	1.35334	.06052
q4.02	700	2.8980	1.28175	.05732
q4.03	700	3.6260	1.09385	.04892
q4.04	700	3.5400	1.19970	.05365
q4.05	700	3.2240	1.33017	.05949
q4.06	700	3.0580	1.18043	.05279
q4.07	700	3.3360	1.37218	.06137
q4.08	700	3.3100	1.31353	.05874
q4.09	700	3.3240	1.22557	.05481
q4.10	700	3.4520	1.25173	.05598
q4.10	700	3.4000	1.26934	.05677

Source: primary data

Total Average Result of the Respondents

	N	Mean obtained	Std. Deviation	Mean	T	P
H1	700	32.7560	4.27141	30	14.428	.000

The average total scores on the issue of 'Diversification of Services positively influences the performance of Regional Rural Banks, were

verified against the average expected mean value of 30.0. One sample t test revealed a significant difference between averages expected and observed mean values. t value of 14.428 was found to be significant at .000 level. Further, it is clear that the observed mean values were significantly higher than the average expected mean values indicating that RRB's diversification of RRBs was really true. And the hypothesis "Diversification of Services positively influences the performance of Regional Rural Banks." Therefore the results indicate that the null hypotheses be rejected and accept the alternative hypotheses.

Major Findings of the study:

1. The study identified that the private and the foreign banks, in the wake of globalize scenario, have made transformed progress in terms of deposit mobilization, and diversifying of banking services. The situation in-turn forced to regional rural banks in Karnataka for diversifying its services.
2. The concept of traditional service in banking sector is ceased, consequent to reforms in banking scenario. In fact the regional rural banks started offering modern services to govern hedge with other public, private and foreign banks.
3. The study found out that, the profit in regional rural banks was declining trend due to competition lack of diversity of banking services. The regional rural bank was declining initial period of mergers and acquisition due to operation was not linked with profit and lack of diversity in the banking services.
4. The study finds that regional rural banks render only traditional services before economic reforms. Slowly and steadily the regional rural banks are moving from traditional services to modern services, thanks to freedom accorded to them. The regional rural banking services may be transforming in large scale in the global banking system.
5. The regional rural banks operations have been slowly transforming to non-fund based activities. The regional rural banks in fact confined to fund based before economic reforms.
6. The study find out that, Real Time Gross Settlement (RTGS) services can be extended by regional rural banks for both domestic and foreign country transaction in the global village i.e. anywhere, any time and any place banking services from customer to customer, bank to bank, bank to customer.
7. The study find out that the regional rural banks can also increase the effectiveness of retail banking services (ATMs) along with the network of merged banks and make use of the existing infrastructure and ATM counters to the optimum extent on par with commercial banks.
8. The Regional rural banks can achieve Strong base in capital, human resource, technology, area of operation and qualitative products are sources of the important factors which supports the banks to offer potential banking services to its customer.

Some of the major suggestions:

1. Regional rural banks have to function under global environment. The regional rural banks shell transformer themselves from ethno centric approach to geo centric approach, through polycentric and re-geocentric approach. This transformation will be a need-less of necessary in global banking system.
2. Diversify banking services will reduces Cost per employee, ones regional rural banks going for diversifying process. Comparative cost advantage theory at the industrial level keeps reducing. The cost per employee will decaling substantially reduction of cost per employees.
3. Regional rural banks continue to focus on social banking also mainly to left the people living under poverty line; this can be continued further, if the rural banks consolidate in the big way by focus upon global modern banking services.
4. The management of Regional Rural Banks may come out with road map of having the quality of services. They must accord kingly status to the customers in Market orientated economy.
5. ATMs and CDMs are value added in the services rendering by the retail banking. This system helps the customers to debit their accounts, hence quick remittance at any movement. The regional rural banks also think over to offer these services by getting the assistance of the sponsor banks.
6. Diversify banking services in the regional rural banks with anther such banks will expand market share. The network branches of merged banks it can takeover by a leverage to further expand their business in the uncovered rural areas, besides taping the

- opportunity in the country where they want to operate.
7. The banks in-addition to focusing upon traditional and non-traditional services may focus upon Customer Relation Management (CRM) which will keep the process of creating new customers and retaining of old customers in both semi-urban and rural area.
 8. Regional rural banks can strengthen retail banking services keeping in view the holidays and the volume of transaction. Further rural banks may reduce service chargers on debit transactions offer the process of mergers and acquisition.

Conclusion:

The banking industry, which is a part of the service sector, has undergone tremendous changes mainly to keep pace with fast changing global business. Indian banking is fully controlled by the Government of India under its code. The system comprised of public sector banks, private banks and multinational banks. The economic reforms paved the way for the competition as the mantra for the survival of the banks in particular and all other concerns in general. The private banks, foreign banks, and public sector banks are forced to compete with each other mainly to grab the opportunity besides accelerating the market share.

Public sector banks including regional rural banks could not tune themselves to the globalised standards; hence they have problems such as impact of social banking on the economy, poor customer service, obsolete to technology, alarming NPA, prudential regulation, in effective human resources resulting in under utilization of human resources. And they are incapable to compete with leading private and foreign banks. The problems of public sector banks caused a dent on the solvency and liquidity position of the banks. The economic reforms guided the public sector to equip to meet all the challenges of the globalised scenario, failing which, privatization is unavoidable Economic liberalization could provide disinvestment and divestment also.

The regional rural banks that were born in Karnataka may also come out with their own formula to go for diversifying its services. This is very essential not only for their survival but also for robust growth at a global level. Innovation of new banking services is the need of the hour, as such every bank may ponder whether it will opt for the mega event by that the rural banks can achieve transformations in its operations and marketing of its services in the competitive market.

REFERENCES

- 1) Avkiran, N.K. (1999). The Evidence of Efficiency Gains: The role of mergers and the benefits to the public. *Journal of Banking and Finance* 23, 991-1013.
- 2) Ellinger, P. (1994). Potential Gains from Efficiency Analysis of Agricultural Banks. *American Journal of Agricultural Economics*, 76 (3) pp.652-654.
- 3) Government of India Report of the Committee on Rural Banks, (Chairman-M, Narasimhan), New Delhi, 1975.
- 4) Gupta, R.V. (1998). Report of the High-Level Committee on Agricultural Credit through Commercial Banks. Reserve Bank of India, Mumbai.
- 5) Karam Pal and Jasvir Singh. (2006). "Efficacy of Regional Rural Banks (RRBs) In India: A Conventional Analysis", *JIMS-8M, Indian Journals.com*.
- 6) Mester, L.J. (1996). "A Study of Bank Efficiency taking into account Risk Preferences", *Journal of Banking and Finance*, Vol.20, No.6, 1025-45.
- 7) Subramanyam G. (1993). "Productivity Growth in India's Public Sector Banks: 1979-89", *Journal of Quantitative Economics*, 9, 209-223.
- 8) Thakur, S. (1990). Two Decades of Indian Banking: The Service Sector Scenario, Chanakya Publications New Delhi, India.
- 9) Kumar, R and Sharma, M. (2011); "Rural banking in Himachal Pradesh: a comparative study of Himachal Gramin Bank and ParvatiyaGramin Bank", *Political Economy Journal of India*, (January/July).
- 10) Thingalaya, N. K.(1987); "Banking Development in India Since Independence", *Pigmy Economic Review*, 33 (1):1, (August).
- 11) IBA: (2011), *Indian Banks' Association, Indian Banking at a Glance*, 2011.
- 12) Jham Poonam (2012) "Banking Sector Reforms and Progress of Regional Rural Banks in India (An Analytical Study)", Online published 11 January.
- 13) Khankhoje, D. and Sathye, M. (2008) "Efficiency of Rural Banks: The Case of India", *International Business Research*, Vol. 1. No.2, pp. 140-149.
- 14) Ibrahim, M. "Performance Evaluation of Regional Rural Banks in India" *International Business Research* Vol. 3, No. 4; October 2010, Published by Canadian Center of Science and Education 203.
- 15) Makandar, N.M. Profitability and Productivity Analysis of RRBs in India" 2010 16) Ishwar, P. A financial performance analysis of regional rural banks: Pre and post transformation'. *International Journal of Economics Research*, 2(1), 142-151, 2011.
- 17) Bhatt Nitin and Y. S. P. Thorat (2006). *India's Regional Rural Banks: The Institutional Dimension of Reforms*. *Journal of Microfinance*, 3 (1), pp: 65-94.
- 18) Bose Sukanya (2005). *Regional Rural Banks: The Past and the Present Debate*. Macro Scan, URL: http://www.macrosan.com/fet/jul05/fet200705RRB_Debate.htm.
- 19) Gadgil M.V. (1992). *Future of Institutional Agricultural Credit in India: Likely Impact of Narasimham and Khuro Committee Reports*. *Indian Journal of Agricultural Economics*, 47 (2), pp: 255-65.
- 20) Kumar Rama and Pallavi Chavan (2008). *Revival of Agricultural Credit in the 2000s: An Explanation*. *Economic and Political Weekly*, XLII (52), pp: 57-60.
- 21) Mohan Jagan (2004); "Regional Rural Banks Need a Shot in the Arm", *Financial Daily from the Hindu Group of Publications*. March 19th Edition.
- 22) Sahu Gagan Bihari (2007). *Supply Analysis of Institution Credit to Agriculture for Major States in India*. *Indian Journal of Agricultural Economics*, 62(4), pp: 664-70.
- 23) Singh Surjeet (1990). *Rural Credit: Issues for the Nineties*. *Economic and Political Weekly*, 25 (46), pp: 2531-535.
- 24) Velayudham, T. K. and V. Sankaranarayanan (1990). *Regional Rural Banks and Rural Credit: Some Issues*. *Economic and Political Weekly*, 25(38), pp: 2157-2161.
- 25) NABARD, *Annual Report, Various Issues*.
- 26) RBI, *Annual Report and Report on Trends and Progress of Banking in India, Various Issues*.