MONEY MOBILISATION AND ECONOMIC DEVLOPMENT OF INDIA

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Abstract- **Mobilization of resources is an important part of development process of any country. It is a challenge of financial institution of India. Various approaches to all the issue of financial sector reform to ensure that the financial services industry operate on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability. Post office is one of the important government agencies serving all over India. They have easy approach to communities living in different villages of district of India. The channeling of resources from the consistent surplus sector met at a large extent the deficit of the public and private corporate sector. This reflected an important role played by financial intermediaries in the flow of fund process in the Indian economy. This article shows the present scenario on the money mobilization and its impact on economic development of India.**

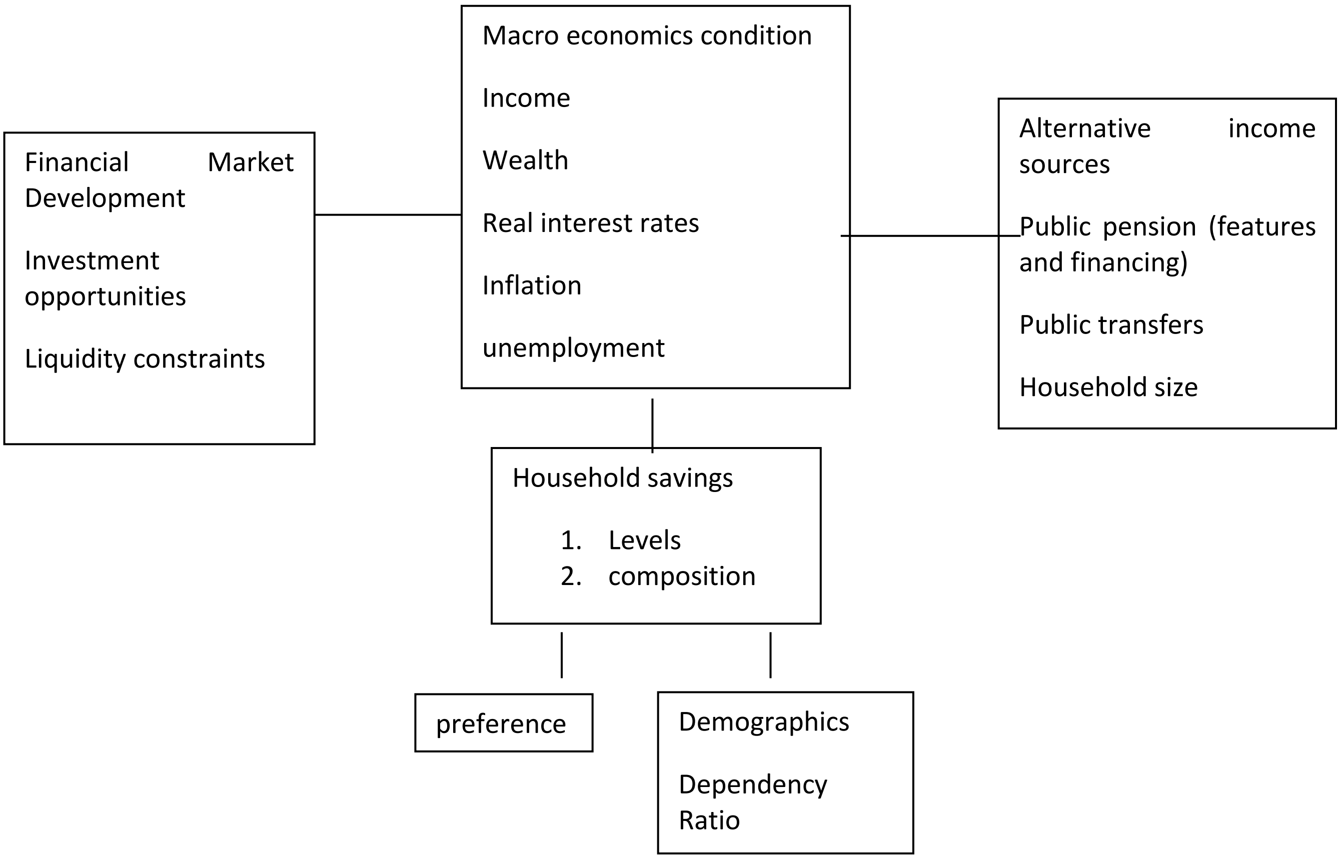
***Keywords*: financial services, functional autonomy, Financial, intermediaries, financial sector.**

INTRODUCTION

Mobilization of resources forms an integral part of the development process in India, In this process of mobilization banks are at a great advantage, chiefly because of their network of branches in the country. And banks have to place considerable reliance on the mobilization of deposits from the public to finance development programmes. Further, deposit mobilization by banks in India acquired greater significance in their new role in economic development and their growing obligations in the socio- economic field, with due emphasis on the 20-point Economic Programmc of Mrs. lndira Gandhi. Deposit mobilization is a challenge to all bankers and banking institutions in India.

Banks are facing stiff competition in the area of deposit mobilization due to attractive returns and concessions reaped by Investors in modes of savings other than the bank deposits. Competition in the banking industry has become more keen and intense than ever before with the entry of new private sector banks and more foreign banks. Banks face competition not only from other banks but also from other financial intermediaries like Non-Banking Financial Corporations (NRFCs), Mutual Funds, Manufacturing Companies, Financial Institutions and Capital Markets in the areas of resource mobilization as well as deployment. The Banking system is unlikely to be in a position to meet the demand for bank credit from the priority sectors - agriculture and small scale industry - unless a concerted effort is made to raise the rate of saving generally and the rate of saving in the form of deposits in particular. So far, agriculture and small industry have been relying on borrowing from the unorganized market. To the extent to which the banking system is able to supplant this market, the latter's resources would be released for other purposes. Unless, therefore, the banking system can attract these released resources as deposits, it would not be able to meet the demand for credit that is likely to be generated. Of course, it should be possible to induce borrowers in the organized sector to restrict their demand for credit to some extent and this is to be done. But such switching has its limits. From a long-term point of view, the banking system can be viable only if it can mobilize deposits at the required rate. And this can be done by making a bank deposit more attractive as a financial asset than private lending in the unorganized market.' Branch Expansion Programme, a must for economic development was vigorously pursued by Indian banks to help them increasc their deposits. Especially in a country like India, where general public arc scattered from remote rural areas to metropolitan cities and where the mobilization of the public for the purpose of banking is very less, the banking inevitably has to go to public at their places, than they coming to urban areas for banking purpose. The Bank expanded it. Operations mainly in the unbanked and under-banked areas and made available the baking facilities to the rural poor. 54.72 per cent of total branch network is expanded in rural and semi-urban areas. Even though it is not highly profitable to run a bank in rural and semi-urban areas, the Andhra Bank has been running more branches in these areas to improve the standard of living of the common man in the interest of our nation at large. The first step in the direction of branch expansion of Andhra Bank was starting first branch in Kakinada in 1929. By 1951 the Bank was operating 50 branches and by 1984, total number of branches was 894 among which 789 were full- fledged. The focus has been shifted from mass banking to social banking to an efficient banking system since 1991. Despite the commendable progress, serious problems have emerged as reflected in the decline in productivity and efficiency, and erosion of the profitability of the public sector banks. A nine member committee on the financial system headed by Sri M. Narasimham went into great detail about how the industry should be reshaped and sweeping changes were recommended in the norms to be followed by the banks in respect of capital adequacy, income recognition, provisioning, asset classification, etc. The committee's approach to the issue of financial sector reform is to ensure that the financial services industry operates on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability.

FACTOR AFFECTING HOUSEHOLD SAVINGS



The channeling of resources from the surplus units to the deficit units was reflected in the flow of funds (FOF) accounts of the Indian economy across the six sectors, *viz.*, households, corporates, government, banks, other financial institutions (OFIs) and the rest of the world sector. Households, the consistent surplus sector, met to a large extent the deficits of the public and private corporate sectors, and to a limited extent of the rest of the world sector. Funds were provided to meet the requirements of the deficit sectors either directly (primary issues) or through the financial intermediaries such as banks and OFIs (secondary issues). A notable feature from the sectoral distribution of claims was a general rise in the share of secondary issues from 39.7 per cent in 1970-71 to 47.1 per cent in 1999-00 with a corresponding decline in the share of primary issues. This reflected an important role played by financial intermediaries in the flow of funds process in the Indian economy.

The deposit scheme of banks:

1. Fixed term deposits
2. Current A/C deposits
3. Recurring deposits
4. Saving A/C deposits
5. Tax saving deposits
6. Deposits for NRIs

DEPOSIT MOBILISATION BY POST OFFICE:

Rural people always prefer to save their hard earn income in government agencies. The post office is managed by the government. It has safety and security provision for keeping money. Post office now offers higher rate of return than all other resource mobilising agencies. There are various schemes of deposit offered by the post office.

1. Saving A/c
2. M.I.S.
3. Recurring deposit
4. Term deposit
5. National Saving Certificate
6. Kishan Vikash Patra
7. Public Provident Fund

The main attraction of the income tax payer is National Saving Certificate. At present 15 % and 20 % tax rebate is allowed on two slab of income tax of the tax payer. It is observed a large number of tax payers visit die post office in the month of February and March to purchase tax saving certificate. The govt, is also offering award through lottery that have contributed to the small saving scheme of the govt. Another tax saving instrument is also helping the income tax payer, which is known as Public Provident Fund. A depositor may deposit any amount at any time in the public provident fund, which carries a very good return.

OBJECTIVES OF THE STUDY

- To elaborating and analyzing the trend in deposit mobilization by the banks and post offices.
- To analyse the deposit mobilized by the banks and post offices for a period of 5 years.
- To throw light upon the broad typology of deposit products offered by the Banks and post offices.
- To draw briefly appropriate conclusions and make suitable recommendations for improving the performance of banks and post offices in the area of deposit mobilization.

REVIEW OF LITERATURE

Review of existing literature is a prerequisite for any study. The review is undertaken to take stock of existing knowledge base and to identify the research gap. For the purpose of this study the available literature is thematically classified and reviewed starting from a macro analysis related to the Banks and ending with literature that have a close bearing on the subject of investigation in this study. First, the studies related to the overall performance of the banking sector and that of the post offices are reviewed followed by studies that deal with issues of fund/financial management by the banks in general. In both the cases the macro level studies and micro level studies are included.

L.C. Gupta (1969): whose study states that during the pre independence period, the structure of industrial finance had the closed-circle character of industrial entrepreneurship and a semi-organized and narrow industrial securities market. It was devoid of issuing institutions and virtual absence of participation by intermediary financial institutions in the long term financing of industry. As a result of it, small and medium sized industries were facing a problem of specific financial gaps for industrial development during the post Independence period.

V.V.Bhatt (1974) in his study, states that the India needed a central development institution to provide for a "dynamic leadership" in the task of promoting a widely diffused, diversified and yet viable process of industrialization. It was under these circumstances that the IDBI was established in 1964. Initially, it was put as subsidiary to the RBI. It bore dual objectives of promoting all kinds of industries by mobilizing financial resources and coordinating as well as controlling the functions of other financial institutions. It was entrusted with an additional responsibility of acting as the principal financial institution for co-ordinating activities of institutions engaged in the finance, promotion and development of industry.

Thomasopiyoodegi, (2001): presented an analytical Study of Resource Mobilization and Utilization of funds by Export-Import Bank of India. The main objective of the study is to analyze the mobilization of resources and utilization of funds by export import bank of India. The findings of the study shows that the major portion of the funds mobilized by the bank has been used for providing loans and advances and a certain amount of funds are also parked in current assets. The study also gives some valuable suggestions for prudent funds management by the export and import bank of India. The findings of this study have many issues of significance to other banks including UCBs.

Rajitha Kumar (2001): Article “Working of Urban Co-operative Banks- A Case Study” has analyzed the working of the Palani Urban Co-operative Bank Ltd, Palani in Tamilnadu. An analysis was made in terms of deposit mobilization giving loans and advances and ability to earn profit. The author finds out that the bank’s performance in mobilization of deposit was good during the ten years from 1980-1981 to 1998- 1999. At the same time during this period the trend of giving loans and advances by the bank also showed increasing trend. But the credit deposit ratio revealed that it has reduced during this period and in 1996-1999, this ratio was below 50%. It indicates that the bank could not utilize the deposit to the maximum extent for giving loans and advances, so the bank keeps more surplus funds. The analysis ofrecovery performance of the bank also showed that it was not so satisfactory. The author suggested that the bank should take initiative to assess the need of the people in its area of operation and frame need based loan schemes instead of conventional method of loans to attract more and more people to take loans and advances from the bank.

Gurumoorthy (2002): Article “Performance of Urban Co-operative Banks” mentioned that UCBs are parking centers for deposits. Their rate of interest for deposits is more than the public sector banks. It is the need of the hour to utilize the mobilized deposits profitably.

Kishore Kant Singh (2002): Article “Critical Analysis of Profitability of Commercial banks in India” analyze the productivity and profitability of commercial banks particularly after nationalization and suggests measures to strengthen their profit earning capacity. The major findings of the study includes that there was a rapid expansion of banking services with the opening of bank branches in rural and semi-urban areas and there was not considerable improvement in the profitability position of the commercial banks.

B.Rohila: presented a case study analysis of banks productivity on some parameters of activities - capital formation, resources mobilization, quality of assets and management of liquidity are studied to see its contribution in socioeconomic development of its climate constituents. To evaluate banks profitability and growth during its life span and analysis of its profitability, cost of management and management system and control are studied to evaluate its functioning and recommended further growth oriented strategies.

C.M.Kulshreshtha in his study of the pathetic state of urban cooperative banks, suggested provision of higher rates on the deposits by the cooperative banks as it would provide them a competitive edge. He also suggested that to facilitate improving their working, a few procedural changes need to be made like allowing these banks to open deposit account for educational and other institutions. However, he cautioned about the gross violations of capital adequacy norms and guidelines of advances through rigorous enforcement of rules, government could undertake meaningful reforms in this vital segment of the banking sector.

RESEARCH METHODOLOGY:

For the purpose of indepth study the contents have been taken from relevant books and articles, journals and websites. The method is analytical and descriptive. Both primary and secondary sources of information have been taken.

RESULT AND DISCUSSION

As the financial sector develops, the share of non-deposit saving instruments tend to increase at the expense of bank deposits. This trend is expected to accentuate in the coming years. The challenge, therefore, for the banks is to mobilise hitherto untapped savings and to improve their services to not only retain their existing depositors but also attract new depositors. They would also have to widen their deposit base through exploring new opportunities thrown up by the recent emphasis on inclusive growth and financial inclusion. As the growth process strengthens and becomes more inclusive, it is expected that demand for financial products would accelerate rapidly, necessitating a greater penetration of banking services.

VARIOUS DEPOSIT SCHEMES

Deposit Mobilization				Rate of Growth		
year	Demand deposit(Rs)	Time Deposit(Rs)	Term Deposit(Rs)	Growth of Demand deposits	Growth of Time deposits	Growth of Term deposits
2013-14	472579	874540	2716085	-	-	-
2014-15	571367	1109915	3065638	20.90	26.91	12.87
2015-16	641939	1351782	3622712	12.35	21.79	18.17
2016-17	630337	1528857	4294471	-1.81	13.10	18.54
2017-18	714201	1758062	4957270	13.30	14.99	15.43
2018-19	630791	2012620	5766192	5.60	14.48	16.32
MEAN	630791	1439296	4070395			
VARIANCE	317.65	646.49	1078018			
CAGR	12.40%	23.17%	2071%			

SOURCE: DEPOSIT MOBILISATION BY COMMERCIAL BANKS IN INDIA

Tables shows that the number of current deposit account in 2013-14 was 472579/- it has a growth of 21% in 2014-15 but has shown a gradual wide fluctuation in growth in the following years and shown a CAGR of 12.40% and variance of 317.65 which is the lowest. At the same time Time deposit and Term deposit shown a gradual decrease in growth rate but the CAGR of time deposit in the highest 23.17%.

CHANGING DEMOGRAPHICS AND FINANCIAL SERICES

Banks also have to recognise the changing saving patterns associated with the changing demographic profiles. The proportion of population in the working age group of 15-64 years is expected to increase steadily from 62.9 per cent in 2006 to 68.4 per cent in 2026. Accordingly, the dependency ratio (ratio of dependent to working age population), which declined from 0.80 in 1991 to 0.73 in 2001, is expected to decline further to 0.59 by 2011 (GoI, 2008). The changing demographics appear to have played a role in the shift in composition of household savings towards physical assets, especially reflecting housing demand. Accordingly, banks would also need to devise innovative strategies of mobilising surplus resources from a progressively younger age profile of savers. Another noticeable feature emerging in India is that public sector employment, which grew by an average of 1.53 per cent per annum during 1983-1994, declined by 0.70 per cent during 1994-2005. On the other hand, growth in private sector employment in the organised sector accelerated from 0.44 per cent to 0.58 per cent over the same period. With the private sector leading the growth in organised employment, there would be an increased demand for varied financial products such as insurance and other contractual saving instruments consistent with the changing risk-return profiles of the working age population. The changing demographics and employment patterns would generate demand for a wide range of financial services such as insurance, housing and other financial products with innovative features. In order to reap the benefits of the changing demographics and employment patterns, banks would have to re-orient their role as financial intermediaries beyond the traditional confines of passive deposit mobilisation and lending by providing a package of financial services as demanded by the customers. *Ipso facto*, the customers would be keeping their deposits with the banks.

RURAL DEPOSIT MOBILIZATION- NEED FOR INNOVATIONS

Against the backdrop of a decline in the share of rural deposits in total deposits of SCBs since the 1990s, there is a need to step up efforts to access rural savings to raise the overall deposit mobilisation of banks. Although there are many challenges, the rural sector throws up vast opportunities for banks to reap the benefits of low cost large deposit base, which may not be available to other financial intermediaries. The international experience provides some useful lessons in this regard.

The rural sector harnesses the power of providing small amounts of household savings which can be mobilised by the banks that can be made available for productive uses to rural and agricultural enterprises. A major challenge faced by banks in rural areas is that deposit transactions often involve small amounts and display irregular patterns reflecting seasonality and erratic nature of small scale income generating activities. In order to cater to this demand, many banks in the Philippines have adopted 'piggy banking' concept, whereby small locked boxes were provided to the savers to be maintained at their homes after opening of the savings account with a minimum deposit.

The keys were kept with the banks. This allowed the clients to save small amounts on a daily basis in their boxes and bring them to the banks when they intended to deposit their savings. This enabled reduction in banks' time on collections (USAID, 2005). Another major challenge lies in identifying appropriate technologies to reduce significantly the costs of doing rural business that result from low population density and poor physical infrastructure. While technological and management information system (MIS) solutions are necessary to overcome this challenge, their impact on the efficiency, quality of services, bottom lines and outreach potential of the banks need to be carefully assessed. For instance, local technology firms in the Philippines helped develop open source software to meet the specific needs with multiple branches and units and the central bank's data processing and reporting requirements. This software allowed customization of the technology by the rural banks and its flexible adjustment in tandem with additions or changes in products. It proved to be high quality and cost effective system that improved the banks' ability to quickly and efficiently handle multiple transactions and more clients. Thus, although there are challenges in tapping rural savings, the international experience shows that these challenges could be met effectively by adopting some innovative methods. The experience of other countries with suitable adaptations can be a guide to the banks attempting to expand their outreach in the rural sector and boost rural savings.

COMPETITION FROM OTHER INTERMEDIARIES/ MARKETS

With greater avenues for the deployment of funds and the prospects for higher returns enabled by the development of markets, investors progressively diversify their portfolios across instruments and institutions, thereby demanding financial services for management of cross-sectional risks. This leads to a change in the nature of the demand for intermediation services, whereby investors look beyond stable returns offered by bank deposits while parking their surplus funds. This, in turn, leads to the emergence of a number of specialised intermediaries/markets that are able to cater to the evolving investor requirements. Against the backdrop of the ongoing financial innovations following the adoption of financial liberalisation in India in the early 1990s, equity market related instruments such as equity shares and units of mutual funds have been gaining importance in view of their higher returns, *albeit* with higher embedded risks. To an extent, this trend has resulted from the natural process of financial market development, whereby new instruments gain popularity with a decline in transactions cost and asymmetric information. By enabling investors in better assessment of risk-return perceptions, this has widened the choices of investments. With traditional deposit base of banks shrinking with these developments, there is a need for them to extend their outreach to prospective depositors/investors by expanding the ambit of the specialised financial services offered by them by repackaging and redesigning of product to suit individual needs.

Banks, however, face various constraints compared to non-banks while diversifying their activities. First, non-banks are able to manage their resources more effectively by having a leaner cost structure and quickly adopting new technologies, thereby offering higher returns. Furthermore, non-bank intermediaries such as brokerages, asset management firms and mutual funds are able to offer specialised services like cash management and wealth management for various investors, including high net worth individuals. Second, unlike non-banks, banks are often subjected to various regulatory requirements such as statutory stipulations of reserve requirements, directed lending, prudential regulations driven provisioning requirements and limits on capital market exposures. While these measures promote financial stability, they constrain the diversification opportunities thrown by a developing financial system. Third, special deposit schemes announced by the Government from time to time which offer not only higher returns but also provide tax incentives, boost effective returns *vis-à-vis* the traditional bank deposits, thereby constraining bank's effort at deposit mobilisation. While various restrictions on banks and prudential requirements may be justifiable from the special role banks play in the system, the policy anomaly arising out of tax benefits needs to be removed to provide banks a level playing field.

NEED FOR CONTINUED FOCUS ON DEPOSITS

Banks have the benefit of low cost deposit base which, to an extent, make them immune from the day-to-day market volatilities. Thus, the core deposit base serves as a source of 'stored liquidity' which is durable as compared with 'borrowed liquidity' originating from the market. Another distinguishing feature is that while deposits rates are relatively more rigid, interest rates on borrowing vary more flexibly in tune with the market conditions. During periods of favourable macroeconomic conditions characterised by abundant liquidity and low nominal rates, the low perception of financial risks often induces financial market participants to undertake progressively higher risks. On the other hand, during periods of turbulence caused by any unforeseen event, the resultant reassessment and repricing of risks by investors trigger heightened uncertainties in the market and thereby expose the excessively leveraged entities to the risk of default. Therefore, while accessing the market for borrowed liquidity have the benefits, the probability of excessive leveraging associated with borrowings calls for adequate safeguards to protect the fund base from unforeseen events. This was borne out by the Northern Rock crisis, a UK-based bank, which had a higher share of borrowed liquidity *vis-à-vis* stored liquidity. Faced with problems in mobilising funds from the market due to the tightening of credit conditions, the performance of the bank was adversely affected prompting depositors to withdraw their money in large numbers, which ultimately resulted in a bank run.

Banks in India have traditionally relied on deposits for their funding requirements. Their reliance on borrowings has been insignificant. As the economy expands and the demand for funds increases, banks at times may find their deposit resources to be insufficient for meeting the growing demand, thereby encouraging them to raise funds by way of borrowings. Going by the Northern Rock experience, heavy borrowing by banks has serious implications, especially during financial distress, and, therefore, too much reliance on borrowings needs to be avoided. In case banks resort to such borrowings, they also need to adopt appropriate internal risk management strategies. In particular, while the increased flexibility given to banks in India in recent years opens up new opportunities for raising resources, the enhancement of associated risks would demand appropriate management of their liabilities through minimising costs along with mitigation of risks arising from adverse movement in interest rates and exchange rates. They need to regularly review their business strategies so that they are in a position to combine longer term viable financing with profitability in operations.

NEED FOR SKILL DEVELOPMENT IN BANKS

Banks while gearing to face competition from non-banks and capital market instruments both at home and abroad, which is likely to increase in future, would have to appropriately price and package their products to remain competitive, which would demand appropriate skill development at bank levels. While banks have the potential, they need to invest significantly in skill enhancement at all levels, for developing innovative products and delivering new service modes in the face of increased competition. Public sector banks face added challenges while attracting and retaining new personnel in the face of rigid compensation structures in comparison with private and forign sector banks.

CONCLUSION AND SUGGESSTION:

It is concluded that major challenge lies in identifying appropriate technologies to reduce significantly the costs of doing rural business that result from low population density and poor physical infrastructure. While technological and management information system (MIS) solutions are necessary to overcome this challenge, their impact on the efficiency, quality of services, bottom lines and outreach potential of the banks need to be carefully assessed. Although there are challenges in tapping rural savings, the international experience shows that these challenges could be met effectively by adopting some innovative methods. The experience of other countries with suitable adaptations can be a guide to the banks attempting to expand their outreach in the rural sector and boost rural savings.

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