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Importance of banking sector in Indian agriculture and human life

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Abstract
The banking industry includes systems of financial institutions called banks that help people store and use their money. Indian banking sector have responsible commitment to straighten the agricultural sector in lending. India growing in population needs more food production even to meet its own demand. It is critical now that agricultural sector has been pushed as secondary sector rather than primary. Banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. The banking is one of the most essential and important parts of the human life. In current faster lifestyle peoples may not do proper transitions without developing the proper bank network. The banking System in India is dominated by nationalized banks. The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The growth of the Indian economy is estimated to have slowed down significantly. The economic slowdown and global developments have affected the banking sectors' performance in India in FY12 resulting in moderate business growth. It has forced banks to consolidate their operations, re-adjust their focus and strive to strengthen their balance sheets. Here researcher's objective is to study the Indian banking sector and performance of Indian banks.

Keywords: Banking system, banking, Indian agriculture, economic slowdown

Introduction

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. The banking is one of the most essential and important parts of the Banks role is not limited to lending to agriculture sector. But it expands to providing various services to the farmers, particularly to the Small and Marginal Farmers. Banks have established Credit Counselling Centres to help farmers understand the details of financial support provided by Banks and the various Govt.. They have to pay cost by way of interest on the funds raised. To recover this cost and to meet the administrative and other expenses as also to earn profit, banks have to utilize the working capital funds by either granting advances or making investments. Thus working capital funds, which are banks liabilities, get converted into assets. As we have already seen although a bank's earnings accrue only from advances and investments it has to hold " Cash in Hand" or "Balances with other banks in Current Accounts" and also invest some amounts in premises, furniture, fixtures and other assets which are essential tools for its trade. These assets do not generate any income for the bank on the other hand depreciation has to be provided taking into account their 'ware and tare'.

Banks are obliged by law, to repay the deposits and borrowings as and when they fall due for repayment. As these amounts have already been converted into assets, banks have to ensure all the time that all the assets are releasable, i.e. are liquid and can be fully recovered to meet the liabilities when need arises. The main object of granting loans or making investments is to earn profit. If any income is not earned on any advances it is treated as a Non- Performing Assets where the accrual or expected income from an asset stops, the possibility of not recovering even the principal amount invested in the asset also arise

The Indian banking sector consists of commercial and cooperative banks. The role of both types of banks is very significant in Indian agriculture. Cooperative banks were considered as the major source of credit flow to agriculture, but with the time, commercial banks too have come forward to extend credit to agriculture.

The share of commercial banks in providing credit to agriculture has increased from 49% in 1996-97 to 52% in 2000-01. But as per RBI's estimation, commercial banks are still far behind in achieving their target of providing 18% of the total credit to agriculture and allied sectors. On the other hand, the number of bank branches at rural centers has also decreased from 35,329 in 1994 to 32,481 in 2002. This has created a flutter in the ranks of the UPA government, which promised to double the agricultural credit in the next three years. The role of the banking sector in agriculture is not limited to providing credit. This article talks about the emerging roles of banking in agriculture and allied sectors and the private-public partnership (of private or public banks and government or private sectors). Role of Banking in Agriculture In a changing environment, banks are diversifying their role in the agriculture sector in order to get revenue from their significant contribution to agriculture. Some of the new roles that banks have adopted are: Marketing, training and consultancy, insurance and financing for infrastructure via private-public participation. Kisan Credit Card Scheme The Kisan credit card scheme was first introduced in India by Andhra Bank in 1998. The scheme aims to facilitate access to short-term credit to farmers and to simplify the credit mechanism, so that farmers can receive credit on time. The different commercial banks, Regional Rural Banks
(RRBs) and cooperative banks issue the Kisan credit card. By September 2002, 271.81 lakh Kisan credit cards had been issued (See Table 1), which is considered a significant achievement. Rural financial institutions are not wellintegrated with agriculture support systems like R&D, Extension, supply chain and processing, and their credit policy is too cropcentric. So non-crops and other high value activities are not taken care of. Only traditional crops have credit access; most banks give out only 15% or less of their total portfolio to the agri-sector as against the mandatory 18%. It was expected that with the introduction of the Kisan credit card, the farmers' condition will improve and they will be less dependent on moneylenders, but in reality farmers now are more dependent on moneylenders because of the lack of proper implementation of the policies laid down for the benefit of farmers and bureaucratic hurdles in getting credit from banks.

Insurance

Indian agriculture depends heavily on the monsoon. Crops often get damaged because of abrupt changes in the weather. The suicide cases of cotton growing farmers in Andhra Pradesh and Maharashtra are an everyday thing now. To overcome all these problems, microfinance and general insurance companies have come up with crop and weather policies which can be helpful to poor farmers. Example: Basix, one of the largest microfinance companies in India at Hyderabad, announced India's first rainfall insurance program in July 2003 with Krishna Bhima Samruddi Local Area Bank.

Training and Consultancy

The ratio of extension worker:farmers is very less, i.e., 1:1000. In this case, it is very difficult for the government to provide timely information to farmers. It is praiseworthy that many banks have volunteered to train their officers regarding farm practices, which in turn help farmers. For example, SBI Rural Development, Hyderabad. Other banks which are involved in agri-consultancy services are Canara Bank and Indian Overseas Bank (IOB). IOB provides consultancy services for agroentrepreneurs and Canara Bank provides consultancy for high value projects like medicinal plant farming

Warehousing by Banks

Vegetables, fruits and flowers are perishable in nature and these need the best environment, so that their life can be increased. To make these perishable goods available throughout the year, it is important to have the required environment. To cater to such needs, banks like Rabo Bank (India) Limited and National Housing Bank are actively involved in financing the construction of cold storage. National Housing Bank has financed such projects mostly in Tamil Nadu.

Agri-Clinics

The Government of India has formulated a scheme to help agriculture graduates establish "agri-clinics" to provide assistance to farmers regarding soil testing, post-harvest management and technology. NABARD has come forward in this regard and will facilitate bank credit on priority sector lending terms. NABARD acts as the facilitator in providing the loans based on the appraisal of the projects. The loan amount varies from Rs. 5 lakhs (in case of individual) to Rs. 50 lakhs (in case of group projects). As per RBI guidelines, there will not be any collateral security on the loan amount of Rs. 5 lakhs. Several banks, like Indian Bank, have come up with a scheme to provide loans for establishing agri-clinics and agribusiness centers. The loan amount varies from the interest rate of 9.5% to 11.0%. However, the rate of interest is so high that it makes farmers think twice before availing the loan facility. This high rate of interest must be reduced. However, the agri-clinic model attempts to involve agriculture graduates and it is a win-win situation for everyone: The Government of India, the agriculture graduates and the farmer

1.2 Objective of the study

1. To study the Indian banking sector and performance of Indian banks

1.3 Importance or need of the study

Before the establishment of banks, the financial activities were handled by money lenders and individuals. At that time the interest rates were very high. Again there were no security of public savings and no uniformity regarding loans. So as to overcome such problems the organized banking sector was established, which was fully regulated by the government. The organized banking sector works within the financial system to provide loans, accept deposits and provide other services to their customers.
The following functions of the bank explain the need of the bank and its importance:

- To provide the security to the savings of customers.
- To control the supply of money and credit
- To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.
- To avoid focus of financial powers in the hands of a few individuals and Institutions.
- To set equal norms and conditions (i.e. rate of interest, period of lending etc.) to all types of customers

2. Research methodology

Banking Research is defined as if the research analyst is involved with an investment bank or a securities firm controlled by a member organization of the Financial Industry Regulatory Authority. It is due to reason that research methodology, which researcher used at the time of conducting the research, needs to be elaborate upon. It may be understood as a science of studying how research is done scientifically. So, the research methodology not only talks about the research methods but also consider the logic behind the method used in the context of the research study. Research methodology is a way to systematically study and solve the research problems. If a researcher wants to claim his study as a good study, he must clearly state the methodology adapted in conducting the research the research so that it may be judged by the reader whether the methodology of work done is sound or not.

2.1 Research design used in the study

Descriptive research design is used in this study because it will ensure the minimization of bias and maximization of reliability of data collected. Descriptive study is based on some previous understanding of the topic; research has got a very specific objective and clear cut data requirements. The researcher had to use fact and information already available through financial statements of earlier years and analyze these to make critical evaluation of the available material. Hence by making the type of the research conducted to be both descriptive and analytical in nature. From the study, the type of data to be collected and the procedure to be used for this purpose were decided.

2.2 Data collection method

Surveys, interviews, observations, focus groups, and forms are common data collection methods. Sampling involves selecting a representative group from a larger population. Choosing the right sampling method to gather representative and relevant data is crucial. The process of data collection begins after a research problem has been defined and research design has been chalked out. There are two types of data

2.2.1 Primary data

Primary data is the data that is collected for the first time through personal experiences or evidence, particularly for research. It is also described as raw data or first-hand information. It is first hand data, which is collected by researcher itself. Primary data is collected by various approaches so as to get a precise, accurate, realistic and relevant data. The main tool is gathering primary data was investigation and observation. It was achieved by a direct approach and observation from the officials of the company.

2.2.2 Secondary data

It is the data which is already collected by someone else. Researcher has to analyze the data and interprets the results. It has always been important for the completion of any report. It provides reliable, suitable, adequate and specific knowledge. Researcher collected the secondary data by using banks annual reports and authorized websites of banks.

2.3 Type of data used in the study

The required data for the study are basically secondary in nature and the data are collected from
The annual report of the Indian banks

Internet: In which includes required financial data collected from Indian Bank's official websites i.e. www.axis.com, www.sbi.co.in etc. and some other websites on the internet for the purpose of getting all the required financial data of the banks.

The valuable cooperation extended by staff members and the branch manager of different banks, contributed a lot to fulfil the requirements in the collection of data in order to complete this research.

2.4 Methods of data analysis

For measuring various phenomena and analyzing the collected data effectively and efficiently to draw sound conclusions, certain statistical techniques were used. The data collected were edited, classified and tabulated for analysis. The analytical tool used in this study is graphical method to compare the performance of Indian banks. The MS- EXCELtool is used to analyze the data.

3.1 Review of literature

Banking in India originated in the first decade of 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, both of which are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the "The Bank of Bengal" in Calcutta in June 1806. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras. The presidency banks were established under charters from the British East India Company. They merged in 1925 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India.
For many years the Presidency banks acted as quasi-central banks, as did their successors. The Reserve Bank of India formally took on the responsibility of regulating the Indian banking sector from 1935. After India's independence in1947, the Reserve Bank was nationalized and given broader powers.

3.1.1 Early history of Indian banking sector

The first fully Indian owned bank was the Allahabad Bank, established in 1865. However, at the end of late-18th century, there were hardly any banks in India in the modern sense of the term. The American Civil War stopped the supply of cotton to Lancashire from the Confederate States. Promoters opened banks to finance trading in Indian cotton. With large exposure to speculative ventures, most of the banks opened in India during that period failed. The depositors lost money and lost interest in keeping deposits with banks. Subsequently, banking in India remained the exclusive domain of Europeans for next several decades until the beginning of the 20th century.
Foreign banks too started to arrive, particularly in Calcutta, in the 1860s. The Comptoire d'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking centre.

4.1 Nationalized banks in India

Banking System in India is dominated by nationalized banks. The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi prime minister of India. The major objective behind nationalization was to spread banking infrastructure in rural areas and make available cheap finance to Indian farmers. Fourteen banks were nationalized in 1969.

Before 1969, State Bank of India (SBI) was the only public sector bank in India. SBI was nationalized in 1955 under the SBI Act of 1955.The second phase of nationalization of Indian banks took place in the year 1980. Seven more banks were nationalized with deposits over 200 crores.

Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Indians had established small banks, most of which served particular ethnic and religious communities. The presidency banks dominated banking in India. There were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally undercapitalized and lacked the experience and maturity to compete with the presidency and exchange banks. This segmentation let Lord Curzon to observe, "In respect of banking it seems we are behind the times. We are like some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments." A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India

Conclusions

Today the banking sector in India is fairly mature in terms of supply, product range and reach. As far as private sector and foreign banks are concerned, the reach in rural India still remains a challenge.

A growing economy like India requires a right blend of risk capital and long term resources for corporate to choose an appropriate mix of debt and equity, particularly for infrastructure projects which is the need of the day. A well-functioning domestic capital market is also necessary for the banking sector to raise capital and support growth and also have suitable capital adequacy ratio to mitigate risk. Bank investments are also showing an increasing trend. After researching banking sector researcher found that different problems are increasing to banking sector because of the money market has always down.

Limitations of the study

Difficulty in data collection

Generally the organization does not allow outsiders to conduct any study or research work in the organization. Therefore, get the research done in the organization itself was very difficult.

Limited knowledge about the bank in the initial stages

Branch manager was reluctant for giving financial data of the bank

The analysis and interpretation are based on secondary data contained in the published annual reports of the Indian banks for the study period

Due the limited time available at the disposable, the study has been confined for a period of 5 years (2009- 2013)

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