360 Degree Consultancy Private Limited

Newsletter for the month of October 2015

The Reserve Bank of India has recently granted licences for small banks that include players working in the microfinance sector as well as in the other non banking arena. These banks will be operating in the small category whereby, the loans and deposits upto an amount of Rs. 25 lacs should constitute 50% business of the stated bank. Further, 75% of the adjusted net bank credit should be extended to the priority sector.
It has been a master stroke through which two problems are getting addressed. One, the existing scheduled commercial banks will be relieved from much of their priority sector lending obligations especially to agriculture and SME sector. These two sectors require specialisation at the local level to assess their needs and requirements that a bank catering to all type of customers are generally not capable to handle. Second, the existing scheduled commercial banks have been found complaining about the administrative burden of maintaining these small depositors and customers for charging higher net interest margin from their other clients. With the onset of these small banks, much of their burden and compulsions would ease and they would be able to deliver their products and services in a much more efficient and cost effective manner.

On the other hand, the loss of business would also hamper their overall growth and profitability. The recession and high level of stress in the economy has forced the existing players in the banking arena to shift their attention from large to the small ticket size. The competition emanated from these new entities would be denting the size of their balance sheet.

To further analyse this situation, we will have to revisit our economic theories.
The macroeconomic equation says that savings= consumption + investment or in other ways that investment is equal to savings - consumption. The consumption, we are talking about here is the discretionary spending as the necessary amount required to maintain ourselves in this world will decide about the amount of savings we have. This saving is the combined outcome of organised players consisting of corporate and public sector and the unorganised players constituting agriculture and the household sector. The corporate sector is in the phase of downturn as it is crippling with the problem of under utilised capacity and low demand. That means the savings from household sector is still ticking the path of growth, otherwise, the overall level would have come down by huge margin. **Just to rephrase, the household sector does not constitute only the individuals in the salaried class but also the unorganised sector that include the proprietorship and partnerships.** The savings of the people in job are closely linked with the income generated through salaries that results from business of the corporate sector and government sector. However, the income and resultant savings of the unorganised sector is a very crucial link that has not been given due importance in our economic policies.

The simple glance at the tables listed below will tell you the bias maintained against the unorganised sector. Despite contributing significantly to the national income and generating savings for the country, the bank credit made available to them falls into the oblivion.

Share of Different Sectors in National Income

Category	1980-81	1990-91	2000-01	2004-05	2011-12
Organised	**30.0**	**36.2**	**41.4**	**41.1**	**42.7**
Government	17.50	23.90	22.7	21.6	19.8
Private Sector	12.5	12.3	18.7	19.5	22.9
Unorganised	**70.0**	**63.8**	**58.6**	**58.9**	**57.3**
Agriculture	38.08	31.46	25.1	18.9	17.3
Others	31.92	32.34	33.5	40.0	40.0
Total	100.0	100.0	100.0	100.0	100.0

Share in Savings by different sectors

Category	**1990-91**	**2000-01**	**2004-05**	**2008-09**	**2011-12**
Household	80.8	89.9	72.6	73.8	72.4
Private Corporate	11.4	15.6	20.3	23.1	23.4
Government	7.8	-5.5	7.1	3.1	4.2
TOTAL	100.0	100.0	100.0	100.0	100.0

Share in Outstanding Bank Credit to different sectors

Category	**1990**	**1996**	**2005**	**2008**	**2011**
Household	58.3	51.1	37.9	36.8	36.2
Private Corporate	31.3	38.6	46.6	46.5	44.1
Government	10.2	10.3	15.5	16.7	19.7
TOTAL	100.0	100.0	100.0	100.0	100.0

By establishing a policy of financial inclusion for these small and marginal persons, we can reap huge benefits that have been denied as a demographical dividend to our society. The small scale sector contributes 70% of the total exports of India and provides 60% employment in our economy. This segment has not been recognised as a potential one for reasons unexplained to us. The segment does not require subsidies but attention to the needs and requirements. The spirit of entrepreneurship is in our blood and despite the level of unemployment that exist in our nation under disguised as well as disclosed numbers, the saving grace to the growth in national income is the unorganised sector. The move of the RBI augurs well for the players in the small and marginal front as well as for the economy as a whole. The function of credit as well as deposit links the depositors and borrowers and bank as an intermediary arrange these linkages and as a service provider gets the dues to cover their expenses and the profit margins. However, recognising the stakeholders through which the business of banks is continuing is an essential and obligatory function of an enterprise. RBI has set the tone right by making up policies for small and niche banks. Hopefully, the skewing in banking operations will be put to a halt and the multiplier effect of the same is visible in the near future.