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RESEARCH NOTES AND STATISTICS

Changes in the Number of Rural Bank Branches in India, 1991 to 2008

R. Ramakumar* and Pallavi Chavan

It is by now well documented that the trends that emerged in India in the 1990s with respect to the supply of rural credit in general, and agricultural credit in particular, were disturbing. In the 1990s, there was (a) a decline in the number of commercial bank branches in rural areas; (b) a widening of inter-State inequalities in credit provision, and a fall in the proportion of bank credit directed towards regions where banking was historically underdeveloped; (c) a sharp fall in the growth of credit flow to agriculture; (d) increased sidelining of small and marginal farmers in the supply of agricultural credit; (e) increased exclusion of the disadvantaged and dispossessed sections of the population from the formal financial system; and (f) a strengthening of the hold of moneylenders on rural debt portfolios (for details, see Shetty 1997; Ramachandran and Swaminathan 2005; Chavan 2005, 2007).

This note focuses on one specific aspect of the discussion on rural banking in the 1990s and after: the decline in the number of rural bank branches. We discuss the methodological issues related to the official data on rural bank branches, and try to address the question of whether the decline in the number of rural branches can necessarily be interpreted as *closure* of rural branches.

SOURCES OF DATA ON THE NUMBER OF RURAL BANK BRANCHES

Data on rural bank branches in India are available primarily from the Reserve Bank of India's annual publication titled "Basic Statistical Returns of Scheduled Commercial Banks in India." In this publication, data on bank branches are given for four groups of settlements: rural, semi-urban, urban, and metropolitan. These groups, however, are defined differently by the Reserve Bank of India (RBI) and the reports of the Census of India. The RBI definitions are as follow: (i) "rural" includes all centres with populations of less than 10,000; (ii) "semi-urban" includes centres with populations

*Tata Institute of Social Sciences, Mumbai, ramakumarr@gmail.com.

of 10,000 and above, but less than 1,00,000; (iii) “urban” includes centres with populations of 1,00,000 and above, but less than 10,00,000; and (iv) “metropolitan” includes centres with populations of 10,00,000 and more. Thus, population is the criterion that determines whether a region is rural or semi-urban. This is the reason why the RBI calls these groups of centres “population groups.” The RBI uses Census of India data to arrive at this classification of centres.

On the other hand, when a Census of India report refers to a place as “rural” or “urban,” the connotations are different. In the Census reports, an urban region is defined as follows: (a) all statutory places with a municipality, corporation, cantonment board or notified town area committee, etc.; (b) a place satisfying the following three criteria simultaneously: (i) a minimum population of 5,000, (ii) at least 75 per cent of the male working population engaged in non-agricultural pursuits, and (iii) a density of population of at least 400 per square kilometre. The Census of India does not classify any region as “semi-urban” or “metropolitan”.

In sum, the definitions of rural and urban centres in the RBI reports are different from the definitions of rural or urban areas in the Census of India. The two are not comparable, even though the terms sound similar.

There is an additional, methodological issue in using the RBI data on bank branches by population groups across time. The RBI periodically updates the population group classification using the latest available Census reports, thus creating problems of comparability across years. Until 1994, the RBI used Census of India 1981 figures to classify centres into population groups. From 1995 onwards and until 2005, Census of India 1991 figures were used to classify centres into population groups. From 2006 onwards, the RBI began to use Census of India 2001 figures to classify centres into population groups. In other words, if we need comparable data on population groups, we have to compare data between 1991 and 1994, and then between 1995 and 2005. Between 1994 and 1995, a large number of centres may have moved from “rural” to “semi-urban” classification due to population growth. As a result, the number of centres used to count the number of bank branches in 1995 may be smaller than in 1994, resulting in the return of a smaller number of bank branches. The problem is similar when we compare data for 2005 and 2006. In short, any direct comparison of the number of rural bank branches across a period of time involves comparing different numbers of centres based on different Census classifications, and is thus incorrect methodologically.

CHANGES IN THE NUMBER OF RURAL BANK BRANCHES

We now look at the data on the number of bank branches after accounting for definitional changes (Table 1). Between 1991 and 1994, the number of rural bank branches rose by 123 – from 35,206 to 35,329. Between 1995 and 2005, the number of rural bank branches fell from 33,004 to 32,082 – a reduction of 922 branches.

Table 1 *Changes in the number of bank branches in India, by population group, 1991 to 2008*

Period	Number of bank branches by population group			
	Rural	Semi-urban	Urban	Metropolitan
1991	35,206	11,344	8,046	5,624
1994	35,329	11,890	8,745	5,839
Change, 1991–95	123	546	699	215
1995	33,004	13,341	8,868	7,154
2005	32,082	15,403	11,500	9,370
Change, 1995–05	-922	2,062	2,632	2,216
2005 (corrected)*	30,646	15,253	12,315	11,685
2006	30,579	15,556	12,032	11,304
2007	30,551	16,361	12,970	11,957
2008	31,076	17,675	14,391	12,908
Change, 2005–07	-95	1,108	655	272
Change, 2007–08	525	1,314	1,421	951
Change, 2005–08	430	2,422	2,076	1,223

Notes: (i) Number of branches/offices in this table excludes administrative offices.

(ii) *For 2005, the RBI has published comparable data after reclassification of centres as per the 2001 Census.

Source: “Basic Statistical Returns,” RBI, various issues, based on Master Office File.

The question to follow up, then, is the geographical distribution of the 922 branches that were closed between 1995 and 2005. However, there is a methodological difficulty in examining the change in the number of rural branches across States. In the Basic Statistical Returns (BSR), the *sum* of the number of rural branches across States does not match with the *total* number of rural branches in the country as a whole (given in Table 1). The reason for the difference is that the sources from which the RBI compiles data on these variables are different. State-wise figures for the number of branches are compiled from the “Master Office File” of the BSR. On the other hand, the national aggregate for the number of branches is based on two different sets of returns, titled “BSR-1” and “BSR-2”. The “Master Office File” of the BSR provides information on the total number of branches that actually existed in each State at the end of March each year. On the other hand, the data from “BSR-1” and “BSR-2” pertain only to the number of branches that reported data for that year to the RBI.

State-wise data on the number of rural bank branches are provided for comparison in Table 2. Clearly, the extent of decline in the number of rural branches between

Table 2 *Number of rural bank branches, selected years, India, by region and State*

Region/State	1995	2005	Gain/Loss	2007	2008	Gain/Loss
	1	2	3=(2-1)	4	5	6=(5-4)
Northern region	5,015	4,989	-26	4,676	4,782	106
Haryana	639	704	65	643	668	25
Himachal Pradesh	649	666	17	681	702	21
Jammu & Kashmir	573	588	15	502	514	12
Punjab	1,106	1,130	24	1,062	1,088	26
Rajasthan	1,928	1,833	-95	1,718	1,735	17
Delhi	57	59	2	49	53	4
North-Eastern region	1,317	1,229	-88	1,172	1,174	2
Arunachal Pradesh	68	53	-15	50	50	0
Assam	841	789	-52	771	775	4
Manipur	51	40	-11	34	33	-1
Meghalaya	131	131	0	123	123	0
Mizoram	61	60	-1	57	53	-4
Nagaland	40	37	-3	35	35	0
Tripura	125	119	-6	102	105	3
Eastern region	7,462	7,363	-99	7,164	7,236	72
Bihar	3,525	3,451	-74	3,274	3,283	9
Orissa	1,616	1,586	-30	1,568	1,599	31
West Bengal	2,271	2,272	1	2,267	2,291	24
Central region	8,220	7,889	-331	7,476	7,607	131
Madhya Pradesh	2,762	2,534	-228	2,341	2,350	9
Uttar Pradesh	5,458	5,355	-103	5,135	5,257	122
Western region	4,070	3,858	-212	3,619	3,682	63
Goa	154	151	-3	150	157	7
Gujarat	1,590	1,496	-94	1,401	1,430	29
Maharashtra	2,318	2,205	-113	2,064	2,091	27
Southern region	6,933	6,639	-294	6,286	6,417	131
Andhra Pradesh	2,467	2,386	-81	2,246	2,289	43
Karnataka	2,245	2,161	-84	2,095	2,122	27
Kerala	344	347	3	320	327	7
Tamil Nadu	1,846	1,715	-131	1,597	1,650	53
Pondicherry	23	21	-2	21	22	1
India	33,017	31,967	-1,050	30,393	30,898	505

Source: "Basic Statistical Returns," RBI, various issues, based on "BSR-1" and "BSR-2".

1995 and 2005 varied across regions and States (Table 2). Between 1995 and 2005, the largest decline in the number of bank branches took place in the Central region of India; 331 rural bank branches closed down in this region, and of them 228 branches were in Madhya Pradesh alone. The Central region was followed by the Southern region; 294 branches closed down in the Southern region, of which 131 branches were in Tamil Nadu. Similarly, of the 212 branches that closed down in the Western region, 113 branches were in Maharashtra.

However, between 2005 and 2008, there was a shift in the trend of closure of rural bank branches that was observed between 1995 and 2005.¹ The number of rural bank branches increased by 430 between 2005 and 2008; there were 30,646 rural bank branches in 2005 and 31,076 in 2008 (Table 1). The shift in the trend after 2005 came entirely from a sharp increase in the number of rural bank branches between 2007 and 2008. Between 2007 and 2008, the number of rural bank branches increased by 525, more than compensating for the fall between 2005 and 2007.

While the increase in the number of rural branches between 2007 and 2008 took place in all the regions of India, it is clear that the increase was largely concentrated in the Central and Southern regions. Of the additional 505 rural branches that opened in India between 2007 and 2008, about 24 per cent were located in Uttar Pradesh alone.

The addition of 430 new rural branches after 2005 is indeed a positive development. However, the fact remains that there was a total loss of 922 rural branches in the 10-year period between 1995 and 2005. In addition, there is evidence that the new bank branches were not necessarily opened in the regions where branches were closed down.

Between 2005 and 2008, the total number of “banked” rural centres (i.e. centres served by at least one bank branch) in India fell from 28,643 in 2005 to 28,281 in 2008.² This was because the majority of the rural centres were single-branch centres and a closure of the only branch essentially made these centres “unbanked”.³ At the same time, the number of banked centres increased after 2005 for other population groups – semi-urban, urban, and metropolitan. Thus, a loss of 922 rural branches between 1995 and 2005 cannot be directly equated with, or set off against, a gain of

1 The RBI has published comparable data for 2005 after the reclassification of centres during this year according to the 2001 Population Census.

2 The number of rural centres in 2005 is computed on the basis of Census of India 2001 data, and is thus comparable with the number of rural centres for 2008.

3 In 2008, of 34,426 centres in the country, 28,529 were single-branch centres. At the same time, 37 centres had 100 or more bank branches. Of the single-branch centres, 26,104 (91.5 per cent) were rural centres (RBI 2008).

Table 3 *Ratio of rate of growth of rural branches to rate of growth of rural population, India, by region and State, 1995 to 2008*

Region/State	Ratio of rate of growth of rural branches to rate of growth of rural population	
	1995–2005	2006–08
Northern region	0	0.3
Haryana	0.4	1.0
Himachal Pradesh	0.2	0.7
Jammu & Kashmir	0.1	0.1
Punjab	0.1	0.1
Rajasthan	–0.2	0.3
Delhi	0.1	1.3
North-Eastern region	–0.4	–0.4
Arunachal Pradesh	–0.4	–0.5
Assam	–1.5	–0.6
Manipur	–0.3	–0.4
Meghalaya	–1.0	–3.4
Mizoram	0	–0.3
Nagaland	0	–2.8
Tripura	–0.7	1.1
Eastern region	–0.1	0.1
Bihar	–0.1	0.1
Orissa	–0.2	–0.4
West Bengal	0.7	9.2
Central region	–0.2	0.3
Madhya Pradesh	–0.2	0.3
Uttar Pradesh	–0.2	0.3
Western region	–0.3	0.6
Goa	–0.1	0.4
Gujarat	–0.3	0.6
Maharashtra	–0.1	3.8
Southern region	–0.1	0.6
Andhra Pradesh	–0.5	0.3

Table 3 *Ratio of rate of growth of rural branches to rate of growth of rural population, India, by region and States, 1995 to 2008—cont'd*

Region/State	Ratio of rate of growth of rural branches to rate of growth of rural population	
	1995–2005	2006–08
Karnataka	–0.3	0.6
Kerala	–0.4	0.7
Tamil Nadu	–0.3	0.7
India	–0.2	0.5

Notes: (i) The population for each State is the mid-year population estimate of 2001, after applying the share of rural population. The rates of growth are exponential annual rates of growth.

(ii) No State reported a negative rate of growth of rural population.

Source: “Basic Statistical Returns,” RBI, various issues, based on “BSR-1” and “BSR-2”; Population Census of India 2001; data on mid-year population estimates from Central Statistical Organization.

430 new branches, since, in many centres, the loss of one branch has meant the loss of the only available branch.⁴

It is not adequate, however, to limit the discussion on rural penetration of banks only to the change in the *number* of rural bank branches. In order to understand the access to rural banking services, we need to normalize the change in the number of rural bank branches with respect to changes in the rural population.

As discussed earlier, given the difference in the definition of “rural” in the Census of India and the BSR, it is difficult directly to compare changes in the number of rural branches with changes in the rural population. We have attempted a small exercise to compare the rates of growth of rural branches and of rural population across regions and States (Table 3). Between 2006 and 2008 – the period of increase in the number of rural branches – the ratio of the rate of growth of rural branches to the growth

⁴ The argument given for the closure of bank branches in the period of financial liberalization is that banks find it unviable to maintain branches in remote rural areas. Hence, the RBI has devised certain methods whereby the access to banking services is to be made available to rural areas even without a bank branch being physically in existence. With this objective, the RBI has unveiled a “Business Correspondent” (BC) model, and has now initiated a process of providing handheld devices to BCs with the objective of expanding access to banking services to remote rural areas. So far, some of the public and private sector banks (but no foreign bank) have employed BCs. Further, banks have been instructed to deploy mobile ATMs, which will go to every village in the area once a week. A mobile ATM is expected to function like a mobile branch of the bank. The RBI has plans to connect every village with a population of 2,000 at least once a week by means of a mobile branch by 2011. All these measures, however, are quite recent, and their success in terms of taking banking services to rural areas in the absence of an actual bank branch is yet to be studied.

in rural population was less than 1 across regions and States. Even in the Central region, where the increase in the number of rural branches was the sharpest between 2006 and 2008, the ratio of growth of rural branches to that of rural population was only 0.3.

In sum, even though there has been an increase in the number of rural branches in the country in recent years, the growth of rural branches has not been able to keep pace with the growth in rural population, thus indicating a decline in banking penetration in rural areas.

Keywords: rural banking, rural credit, financial inclusion, Reserve Bank of India, banking statistics.

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