Should, Indian Banks Become Sahukars?

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Abstract
Indian banks have been facing a decline in CASA deposit for the past few years. As there has been a shift in saving habits of Indian households. The Saving objectives of the Indian households have given way to Investment objectives

Keywords: Indian Banks, Saving, Investment, Sahukar, Operating Profits

INTRODUCTION

Indian Banksare currently going through change phase. Rising interest rates and tight liquidity have made low-cost deposit mobilization difficult, especially for Public Sector Banks.Despite loan growth, operating profits are under strain due roRising credit costs and provisions andWeak fee income growth.

Future of Indian Banking System

About an Year ago I wrote an article 'The Way Forward for Indian Banks'. I suggested that Banks should diversify itself into three lines of business 1 One is asset management company with deposits from public, Maintaining private portfolio Management. The company should have the option to invest in sister concern or other company or instrument which shall provide better return in comparison to present system of primarily utilizing deposit for advance . The RBI should do away with Concept of CRR and SLR. And in turn the money that is equivalent should be only used to fund govt borrowings which shall give better return for the company. CRR and SLR Requirements are hampering incomegeneration for Banking Companies. Second company shall work only as finance company, which has only lending activities and this firm may use funds from sister concern or form other FI. The Third company handling transactions and operational selling 3rd party products just like a fintech platform. This Company will better work as a forward and backward linkage for other subsidiary company of Bank This structure shall surely help banks to increase profit margins by being innovative. And also there would be lesser complexity of Compliances.

Now after about an year, the above suggestions seems a requirement for Banks to survive.

As such there is a need for Indian banks to take cue from the age old Sahukar system,with modifications.

India's Saving rate has declined from 34.6% in F.Y 2011-12 to 30.7% in F.Y 2023-24

Deposits still form the largest share but have seen their proportion decline (e.g., from 56% in 2013-14 to 41% in 2023-24).

Shares and debentures, provident and pension funds, and claims on government (small savings schemes) have seen an increase in their share, indicating a move towards market-linked instruments and other avenues.There is a noticeable shift in household financial asset allocation towards market-linked instruments and away from traditional deposits.

The shift in investing pattern of indian household from Savings bank to Market Instrument has started putting strain on NII and Operating profit of Banks as cost of fund have steadly increased.There are few actions that should be taken at Regulator end and others at individual bank level.
Firstly, Regulators and Government should consider Banks as a corporate working for value creation and profits generation for Various stakeholders.

Secondly,Excess control is straining the balance sheet of Banks.
Banks on the other hand should look beyond dependency on CASA and Loans.They should also look out for innovative products for value creation and profit maximization.
The striking feature of sahukar system was Simple, direct communication with no complex regulatory strains.
The sahukar lends his own capital to the public, rather that funds sourced at a Cost from the market. As suggested above If the Banks only lend from their capital(Sourced as as capita). They can do away with CRR and SLR requirements. For this to happen, they should stop sourcing deposit from public. Rather they should seek investors. To fund their lending activities. Indian Banks should only have checking accounts with designated fee struture for operating of Offered checking account services.

Conclusion

Banks are navigating a dual challenge of declining low-cost deposits and rising operational and provisioning costs. Profitability will remain under pressure, pushing banks to innovate in Income generation and Value creation. As such, Banks have to come out of the current trap of CASA and go for non Interest-bearing Checking accounts with focus on other income generation tools and sourcing of funds from market for gap funding for lending activities

References

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