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**CHAPTER 4**  
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**DEPOSIT MOBILISATION : CONCEPTUAL FRAMEWORK**

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CHAPTER - 4DEPOSIT MOBILISATION : CONCEPTUAL FRAMEWORK4.1 MEANING OF DEPOSIT MOBILISATION

Deposit is the basic raw material for the banking industry. Mobilisation of deposit is a continuous process and a sine qua non for the development of this banking industry. Just as mobilisation of the basic ingredients is needed for any other industry. It is a well established fact that the banking industry is the axis for all other industries for their vital requirements as finance. The underline factor in the development of this industry, therefore lies on a strong basis of a sound deposit growth.

Deposit mobilisation was also necessitated as banks had to perform varied social obligations for which they had to find fresh resources. The conducive economic atmosphere prevailing in the country during the late seventies and the greater awareness promoted among the banking public culminated in filling of the coffers of the banks with more and more deposits.

In order to keep their heads above water the banks need more and more funds by way of deposits so that they can invest matching funds in the non-priority sector and be able to earn profits. Survival and development

of banks are as such mainly influenced by their ability to attract deposits from different segments of the community rather than by the volume of their capital resources. Banks purchase deposits, produce and sell loans. In other words deposits are the main inputs for loan output. Hence the mobilisation of deposits is very directly needed in view of the tough competition encountered from banks inter and other financial organisations.

#### 4.2 THE ROLE OF DEPOSIT MOBILISATION

The role of deposit mobilisation efforts is this spurt is better explained by a punjabi adage 'It was in fact Ghee which made the dish tasty, but the credit was taken by the young lady in the kitchen'.

1. Walk in deposits - In majority of the cases, the depositors come into the banks which in banking parlance is now called 'walk in deposits'. These are the people among any class who are aware not to keep money at an unsafe place. They will themselves go to a bank branch and open an account at their own. No amount of canvassing etc., has brought them in. This could be from individual person or even institutional deposits since they have to have a bank account.

2. **Special schemes to suit the budget efficiency of different groups such as salary saving, insurance linked deposit, recurring deposit, special term deposit etc. These brought in large amounts to the banks as deposits.**
3. **Market surveys - Banks deputed special officers/emissaries to gulf countries to create contacts and bring in N.R.E.deposits. The relatives of the Indians living abroad were contacted to catch their remittances.**
4. **Adoption of villages for intensive coverage. Whereas this adoption is to cater to the credit needs of each and every house in the village it also means collecting of deposits.**
5. **Deployment of special officers called development officers to mobilise deposits.**
6. **Performance budgeting - Each branch now is given budgeted goals for deposits to achieve.**
7. **Publicity through advertisement - The news paper advertisements for publicity by banks in the post had got undue proportions of promotional expenditure and therefore the Government had to come heavily to control the expenditure.**

8. **Social Banking - It is very nice device through humanly approach to be nearer and endear to the people by banks. It helps image building and thereby helps in deposits securing.**
9. **Customer contact programme - The Banks now hold gatherings of their constituents. Banks top executives are invited on this occasions. It gives good opportunities to be closer to the constituents. Who feel a sense of elateness finding the banks top brass among them having to know their feel.**

#### ANNUITY OR RETIRING SCHEME

Many banks introduced new schemes with a view to cultivating savings habit amongst the public. In particular, we may mention the Annuity or the Retiring Scheme. This is suitable for persons who desires to get a lump sum payment or a regular monthly income on retirement. The person concerned has to deposit certain sum every month over a period of time to get the aforesaid benefits. The amount deposited is repayable on maturity, but the interest is paid every month. Many banks issue cash certificates for varying periods on rate of interest similar to Fixed/Term Deposits. The amount of certificates including the accrued compound interest is a repayable on maturity.

**MOBILE BANKS**

The limited business potential in a particular village may not warrant opening of a full fledged branch of a bank. With a view to assessing the potential for banking business, as also economise on costs, banks run mobile banks.

Mobile bank is a bank on wheels, offering banking services to the villages situated on the route of the mobile van on the prescribed dates at specified times. Which are well published. The mobile bank may either be an independent branch or can be attached to another branch. Where it is an independent branch. The accounts in respect of the business carried out by the mobile bank will be maintained separately and if it is attached to the parent branch, then the accounts of mobile bank will be merged with that of the parent branch. The mobile bank conducts its business at specified hours.

The mobile bank in addition to fulfilling the banking needs of villages, explores and prepares the market for banking services. In case, at a later date the bank feel the needs for opening a full fledged branch, the branch will be opened and the mobile bank will be withdrawn.

### 4.3 DEPOSIT MOBILISATION AND SAVINGS

Every society makes a system of roles fulfilling its needs. It distributes the roles among persons and groups. Deposit mobilisation is one role in a society such as ours. It is made specifically for fulfilling three needs or functions.

- 1) Creation of the saving habit
- 2) Creation of banking habit
- 3) Raising of funds for the purpose of investment.

To create saving habit and banking habit is to control the behaviour of the members of the society in money matters. Therefore, the deposit mobilisation role is a social role. On the basis of the types of sources from which deposits are mobilised. The role of mobilising deposits from the public is called deposit attraction. The other source is constituted by banks and their branches. Banks and their branches apply various tactics for attracting depositor from each other in addition to mobilising deposits from the public. The deposit alienation role can be divided into inter bank and inter bank deposit alienation. The inter bank or inter branch bank deposit alienation contributes towards maximisation of the deposits of one or the other branch but not of the bank.

Factors that affect the magnitude of a banks deposits comprise both external and internal factors. External factors refer to environmental factors within which a bank has to

operate. These factors are beyond the control and influence of management. These factors include state of economy, role of government and relative change in population. Internal factors comprise those factors which are related with internal conditions of the branch its personnel, services rendered by the bank, Fundamental policies and financial position of the bank.

The primary motives for savings for an average man were -

- 1) Security
- 2) Safety of funds
- 3) Liquidity
- 4) Reasonable return on investment.

A depositor to-day is more interested in

- 1) Interest Income
- 2) Tax benefits
- 3) Liquidity
- 4) other advantages.

The factors responsible for this change can be summed up as -

- 1) Increasing awareness of financial market and its mechanism.
- 2) Change in the value system, life style and standard of living.



- 3) Increased risk bearing capacity.
- 4) Persistent inflation.
- 5) Rapid industrialisation.
- 6) Improvements in service conditions of the salaried class
- 7) Fiscal and monetary policies of the country.
- 8) Interest rate structure and structure and the various benefits that are available in different schemes.

They will invest in bank deposits with the limited purpose of having some liquidity. Thus, gradually this segments will go out of the banking fold and it will ultimately not only have a bearing upon deposits of the banks but also on their profitability for banks would have to depend upon deposits from other subsegments of the household sector, which in turn would mean more accounts with less deposits. At the time of competition from other institutions as well as competition among the banks a good customer service has to play a major role in deposit mobilisation. Good customer service, ipso fact means creation and delivery of customer needed services in a customer satisfying manner. Good customer service depends upon two major factors. One designing services to suit customer requirements and second, good delivery of these

services to the customers. The five elements of good delivery are speed timeliness, accuracy, courtesty and concern. The movement poor customer service creeps in. In means that all is not will either with the range of services offered by banks, or the delivery of these services. For customer, impact of the latter is generally more intense than the former. A good customer service demands a team spirit among the staff member.

#### MOTIVES FOR SAVINGS

- 1) Safety of funds
- 2) Interest Income
- 3) Liquidity
- 4) Security
- 5) Convenience
- 6) Tax benefits
- 7) Extra services

#### 4.4 TECHNIQUES OF DEPOSIT MOBILIZATION

Importance of deposit mobilisation and use of currency substitutes in economic development, how larger deposits and lesser use of currency are necessary to finance increased economic activity. Deposit mobilisation require high skills - Skills of marshalling resources to provide strength and liquidity to the banks. There are various schemes or techniques developed by the rural areas, but also to reduce the cash drain, from the banks, different

methods and techniques to be employed to attract deposits and to lend would have to be different to suit the areas.

Growth of deposits is a function of numerous factors, important among which are :

- 1) Banking habit and method of discharging debts.
- 2) The level of national income and saving habit
- 3) Leakage
- 4) Availability of banking facilities
- 5) Monetary policy
- 6) Efficiency and outlook of bank
- 7) Level of competition among the financial institutions
- 8) Quality of services offered by banks and other competing financial institutions.

**1) TECHNIQUES OF BRANCH EXPANSION IN RURAL AREAS,  
MOBILE VAN AS A PUBLICITY MEDIUM :**

Good publicity plays a very important role in mobilising deposits and also in the sale of other bank services. The importance of publicity and public relations as a means of deposit mobilisation is now widely recognised.

Banks are advertising to attract the potential depositors attention by emphasising the speciality of their services, their novel features etc.

In the rural areas the problem of publicity for deposit mobilisation is more complex as the normal media of publicity such as news papers, slides in cinema halls, wall-posters etc. do not serve adequately the purpose of effective communication as most of the rural people are illiterate. In addition even if we assure that through those media we can reach them. This will infuse confidence in them, since rural people are apprehensive of new ideas in the beginning repeated contacts by studying the cost benefit analysis of the scheme one can determine whether or not the scheme is useful and profitable.

## 2) TECHNIQUES OF CURRENCY SUBSTITUTES :

### a) Cash Drain

One of the important objectives in selling various banking services is to reduce the use of currency, in transactions and thus reduce the cash flow from the banks. This is more true when banks are making efforts to go to non-banked or under banked areas, to sell their services. The smaller the cash drain, greater is the deposit that remains within the banking system. Further, less cash drain implies less cost for banks in handling currency and more returns in terms of better utilisation of funds.

The authorities should amend the laws if necessary - so that legal action can be taken against those persons who issue such cheques. Such measures will increase the confidence of the people on cheques. This will also encourage the traders to accept cheques in settling their transactions of different areas.

b) Travellers cheque

Bank customers travel - they go on vacation, travel on business. While travelling it may not be safe to carry large amount of cash. Travellers cheque is the answer in such situation for its safety and convenience.

c) Credit Cards and Guaranteed Cheques :

This system pre-supposes the establishment of credit line. In a country where cheque habit has not developed it is doubtful whether the credit card system can be utilised for any other purpose than drawing cash from the branches of the issuing banks.

3) TECHNIQUES OF GENERATING AUTOMATIC DEPOSIT  
INPLANT BANKING

The scheme also encourages the saving habit among these employees and enables the banks to increase their own deposits. The banks have to take positive steps to popularise this scheme i.e. to sell their services both to the employee's and employers. Under the primary task of the bank is to

promote economic activity through capital formation and capital accumulation. Bank will be able to generate self sustained growth and will be in a position to mobilize deposits out of the increased income generated by such capital formation. Thus by becoming the promoters of prosperity banks obtain the resources for further prosperity. In other words banks will grow along with the growth of producing units this will project a good image of the bank.

4) TECHNIQUES OF APPEAL CONVENIENCE ETC. :

OFFICES OPERATED BY FEMALE STAFF :

The idea behind opening branches operated by women is to provide a feminine atmosphere to attract more lady customers, such offices may also out as publicity media to popularize banking habits. Women are increasingly taking part in the various field of economic activity. Frugal housewives, working ladies, and carrer girls provide a great potential for deposit mobilization as they have reason to save money for childrens education and marriage, purchases of consumers durables etc. Further important of convenient location or convenient hours of business or both the quality of service as a technique of deposit mobilization.

5) TECHNIQUES OF INDUCEMENTS :

SAVING PROMOTION CAMPAIGNS:

Mere publicity campaign explaining the advantages of keeping deposits with the banks may not impress and induce all the potential customers to buy the banking services. The basic idea in the campaign is to offer an inducement to open accounts with the bank. While giving such gifts banks have to take into consideration the taste of the people, the cost of the gift, expected increase in the volume of deposits and advances, expected net returns from the business.

6) INTEREST RATE AS A TECHNIQUE

OF DEPOSIT MOBILISATION :

Rate of interest is a price for surrendering the savings to the financial institutions, interest is a reward for parting with liquidity. Interest also arises because people prefer present goods to future goods and hence, there is a premium on present consumption. High interest rate can bring forth the increment of savings.

The magnitude of savings varies at different rates of interest depending upon the value of discount or premium, people attach to the postponement of their present consumption. Thus interest rate can be used

as one of the techniques both in urban and rural areas to various categories of savers, if the banks know their economic characteristics.

#### 7) TECHNIQUES ADOPTED DEVELOPED COUNTRIES :

Techniques of deposit mobilisation employed in developed countries, commercial banks in developed countries are faced with continuous and often serve competition from various organized financial institutions. The banks are required to develop ways and means of ensuring continued growth of deposits for their functioning and survival. This has also resulted in greater emphasis on budgeting, planning and development of new services to achieve self imposed growth target or objectives both in deposit mobilization and credit lending.

#### 4.5 SCOPE AND LIMITATIONS OF DEPOSIT MOBILISATION :

Deposit mobilisation is a continuous process and has to be carried on at the grass root level with no letup. There are also certain limiting factors which attempt to retard the growth of bank deposits. The decision of Government to allow select public sector units with competent professional management raise deposit from the public on the lines of the private sector has threatened the banks in no small



way and induced certain pessimism amongst them.

While the idea behind the Government's move in this direction is highly laudable and can not be questioned, the timing of the move at a situation when the interest raised on bank deposits are already not very alluring to the depositors has gripped the banks with a fear that is well justified. As banks can not compete with this public sector in interest structure providing enhanced exemption for interest accruing on bank deposit from income tax would go a long way in compensating the banks it has to be born in mind that deposit with the public sector banks are used in broader avenues of national development and in performing various social obligations.

#### 4.6 CONCLUSION :

The need for proper co-ordination among the various agencies involved and Government will ensure the success of deposit mobilisation efforts of banks and also impart a more purposeful outlook to it, if we can establish a promising performance in the sphere of deposit mobilisation it would be a fitting tribute to those visionaries whose pioneering efforts instrumental for nationalisation.

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