CHAPTER-II

Brief Profile of Banking Sectors in India with Special Reference to West Bengal

2.1: Introduction

Since start of rapid proliferation of industries, banks are considered as financial pillars of nations. They are edifices that support and additionally construct the economic spine of country. They are both financial establishments and also social organization. Banks also serve the function of an economic intermediary. They assume much importance in acting as sources of employment generation. They favorably affect and are linked closely with economic development. Banks also are the benchmarks against which the economic position and success of any nation can be measured. Banks assume myriad roles in facilitating the nation's growth story. They also play the agency role which facilitates savings among the masses. They encourage and promote people to deposit their surplus cash. They then use that capital to give credit or loans to the borrowers at an interest. This loan dispersal happens for both individuals and also big industrial units, who then use it for production purposes. In this way, they generate money. They additionally function as their clients' agents. In a nutshell, they undertake the traditional roles of acquiring and lending, like deposits, loans, credit and debit cards, and also indulge in various modern roles like investment advice, bill payments, ATMs, phone banking, internet banking, mobile banking, and other transactional services. [1]

Indian banking sector scenario is witness to multitude transitions throughout 20th century in general, and through the previous seventy decades in particular. More precisely, implementation of various reforms which have been suggested by various committees post India's independence have ushered in an unique and novel dimension which have proliferated the quick extension of this particular sector. This has vigorously impacted the banks' climate, and such institutions have magnified manifold structurally, economically, geographically, and functionally. So, a multidimensional thrust in the development of this area is evident. Correct estimation has shown that in a vibrant economy, continuous change – that accommodates the economy's demands and incorporates novel ideas – is essential for sustenance and success.

However, before one can induce reforms for future success, the present functioning status and also past evolution history should be made known and critically analyzed. For exact forecast of probable market demands and formulation of strategies , probable future guidelines must be essentially reviewed. Further it is necessary to examine current and past policies. All these will be discussed here.

The present chapter has made an honest endeavor to analyze comprehensively the banking scenario in all its aspects – functions, past evolution, and present status. So, this particular chapter has the following objectives:

1. To give short description about banks.
2. Outline history of banking sector in India .
3. Critically examine the past and present banking scenario in West Bengal.

2.2 : Brief Description of Banks

Numerous viewpoints exist regarding synthesis of the term 'bank'; the way it is understood today. One school of thought has linked this word 'bank' to the French word 'bancus' or 'banque', which means 'bench' in English. The hypothesis put forward on the side of these argument prophases that modern day bank transactions can be linked to medieval and early Renaissance in Italy and France. Businesses have been transacted by Jews sitting on benches known as 'banque' in the market. The benches can be identified as modern – day bank counters. If any banker failed, his 'banque' used to be broken by the public into fragments, symbolising bankruptcy of that banker. Again another group of authors postulate the word bank as of German descent from, 'Banck' which indicates heaps of money or mound or joint stock fund. This word Banck got Italianized into 'banco'.

2.2.1 : Meaning of Bank

In India, the Banking Regulation Act , 1949 has given a vivid description of banks. It is first Act which was enacted to control and regulate the activities of banks. It has described bank likening it to company responsible for conduction of banking business in India. [Section 5(c)]. [Section 5(b)] This law describes the term banking as method of accepting money deposits from the common man, reimbursing of cash to them when demanded, and providing provision for withdrawal of money by cheque , draft, or order. According to this Act, a company can transact banking business, only when it has either of these following words – bank, banker or banking – in its name. Oxford Dictionary has defined a Bank as an establishment assigned as the custodians of public money which it gives to them, on the customers' demand. [2] Thus, the essential issue in banking business, is the acknowledgment of money from customers in deposit form that is repayable on order. They also create credit.

2.2.2: Functions of Bank

The Banking Regulation Act , 1949 (section 6) has provided a thorough information regarding the various functions expected from banks. The primary functions[3] are incorporated as:

1. Acquiring, raising or borrowing capital.
2. Giving, loaning or propelling cash, against some sort of security or otherwise.
3. Drawing, producing, gathering, honoring, purchasing and selling bills of trade, promissory notes, drafts, coupons, debentures, etc.
4. Being concerned with securities – transferable and non – transferable.

Besides the above primary functions, they are widely known to execute the following important activities:

1. Honour the fixed orders of clients regarding subscription, insurance, rent, electricity

and telephone bills payment, college fees.

2. Embark upon the government business in domains like : pension payment, direct tax acquirement, income and indirect taxation collection (excise duty, service tax).
3. Designate as the representative of any government or neighbourhood administration and execute and implement goods clearance and forwarding.
4. Banks also provide transport, insurance, and warehousing of goods.
5. Act as an instrument for acquiring loans and its issuance both in government and non – government sectors.
6. Banks may take on obligations of trustees and administrator of their clients and also manage their investments.
7. They also produce the letters of credit, , global money orders and money orders and travellers cheque (using both national and international currency).
8. Banks also provide for lockers and safe deposit vaults which in turn offer safe custody of valuables – paper and jewellery.
9. Accommodates fund payment through electronic funds transfer, and bank draft.
10. It facilitates consultancy and advisory services to help and sort out technical, administrative, monetary and economic issues to aid both micro enterprises and small businesses.
11. By accommodating foreign exchange transactions, banks help the exporters and importers.

The cutting edge corporate environment is a witness to some specialized bank operations that are enumerated as follows:

1. Makes available plastic money for its customers through credit and debit cards and ATM.
2. Facilitating 24 x 7 availability of money payments through ATMs.

3. Accommodating and popularizing mobile banking and net banking.

Thus the banks' functions and contributions towards economy have changed steadily with banks shouldering greater responsibilities and delivering various roles – monitor, supervisory, developmental, and promotional.[4]

2.3: History of Banking Sector

The banking history has been sub – divided into the following groups:

(a) Ancient and Medieval Period (b) Pre – Independence Era / the British Period and (c) Post – Independence Era

Post Independence era has been categorized as:

(i) 1947 – 1968 [Immediate Post Independent Era]

ii) 1969 – 1990 [Nationalization Era]

iii) 1991 – 2000 [LPG Era],

iv) 2000 – till present [The neo – Modern Era]

2.3.1: History of Banking Sector in Ancient India

This sub – continent is a silent witness to a thriving banking system from days of yore. Much literature exist that document the predominance of indigenous system of monetary transactions, in ancient India, which mimics banking practices. This finds mention within this great nation's scriptures. Evidents galore on thriving ancient banking systems in the ancient texts and scriptures, examples Vedas, Mahabharata, ManuSmriti, and Kautilya's Arthasahthra. There, a vibrant money economy is very prominently mentioned. The Manu Smriti has allusions to debt and usury. Manu, in the famous treatise, 'ManuSmriti' made commands to the sensible person to deposit his money with someone who enjoyed reputable family background, and who was versed in law, who was in possession of non – questionable good character and also had been blessed with wealthy relatives.

A term called ‘Rnam- samm’ can be found which meant repayment of debts. In this particular book, the various rules on loan sanction, repayment, and rates of interests were vividly described. From Manu’s description, estimates of a flourishing banking business in those times is found .[5] Again, we find mentions of banking profession in Kautilya’s Arthasasthra. Kautilya has been a 4th B.C. economist and advisor to the Maurya dynasty rulers – Chandragupta Maurya and Bindusara. His work Arthashastra is a famous exposition about state governance, financial policy, military strategy, and foreign policy. From the book we come to know, that giving and taking of credit were quite prevalent in that period. We also become aware that, in times of Mauryan dynasty, an instrument of financial orders was operative, which was known as ‘adesha’. Adesha was nothing but a command to a banker asking that person to give the money designated in the papers to a third party. This can be compared with the modern day description of Bill of Exchange. We find repeated mentions of the predominance of it in various Buddhists texts also.[6] From this, it becomes evident that, merchants of that period used to issue credit letters to one another.

Trade guilds had predominantly functioned as today’s bankers – by both deposit acceptance and loan payment. Many – a – times, big temples had played out as functionaries of banks. Many scriptures had singled out the ‘Vaishyas’ as the principal bankers. They had been depicted as 'Sethi' and different terminologies had additionally been in utilization to portray that caste.. We discover the notice of 'Hundi’ , which is an example of Indian Bills of Exchange .[7] So, the following references has been proven how the system of banking existed in ancient India:

1. Loan deeds called Rnapatra and Rnalekhya in the Vedic age.
2. Usage of term Rnamsam – m which meant repayment of debts.
3. Prevalence of ‘adesha’ and ‘hundi’; earliest forms of Bills of Exchange.

4. Mention of individual communities who had acted as bankers with the names: Seths Sahukars Mahajans Chettis.

2.3.2: History of Banking Sector during Mughal Period

Historical records speak of money lending and trade being financed by Multanis and Sharofs since very early Muslim rule over India. Various assortments of metallic cash were in active use during the Mughal rulers, which had provided encouragement to the local bankers of those times to set up a flourishing cash changing and lending business. The successful and most prominent bankers from amongst them were appointed as mint officers, revenue collectors, money changers to promote business and ensure good administration in the empire.

2.3.3: History of Banking Sector during British Rule

The raw framework of modern day banking style and process in India, owes its origin, pattern, and framework to the banking structure as it had existed during the rule of British Empire. All through the early phase of eighteenth century, it was observed, that indigeneous bankers have acted as vibrant source of money lending. However, such lending was also accompanied with a very high loan fee that was sanctioned as loans, to be repaid after quick and short intervals. All that profited only the small sized businesses. In British India, caste system was a dominant precursor for determination of profession. The British found banking scenario to be mainly dotted with wealthy and the influential trading caste and class of people – the Banias, Chettys, Sahukars, Poddars, and Shroffs. These dynasties provided for the monetary needs of trade, agriculture and individuals through the ages. The loan fees had been exorbitant. Tipu Sultan has been credited with aiming for foundation of banking corporations across South India, which in those days had State support through a Central Bank at

Srirangapattanam. However his efforts did not give the ideal outcomes. So the various English agency houses themselves took the onus of providing financial help to the Company. The Marwaris and the other trading castes of that time soon followed the British agency houses' example. But they had little liquid capital and also were not having much knowledge and experience of modern European banking. So, whenever trade crisis hit the agency houses, they failed and so did that corresponding bank. [8]

Later various managing agents had emerged during those times .The Bank of Hindustan set up at Calcutta in 1770 is credited as principal bank of recent times , framed by the Agency house. Two other banks emerged in quick succession – Bengal Bank, established 1784 and General Bank of India, around 1786. The Bank of Hindustan had reportedly functioned up to 1906 after which that was abolished. Meanwhile, the rest have suffered failures. The 19th century started with a banking scenario which had received an impetus to form three banks – the Bank of Bengal (1806), Bank of Bombay (1840), and the Bank of Madras (1846). These came to be known as the Presidency Banks. They operated as autonomous units. Much later these three had been merged and consolidated as one bank, namely 'The Imperial Bank of India' on 27th January 1921.[9] So, numerous joint stock companies were established after 1813 by the British settlers in India. But those were not sustained. The Act of 1860 enabled foundation of joint stock with limited liability. So, though various banks did spring up, most failed. Banking, in this early period thus faced certain specificities, like:

1. Prevalence of failure banks in high percentage, as many of them were created without prior proper planning and infrastructure.
2. Unfavourable financial state of nation and very poor pecuniary condition of Indians.
3. Passing of Currency Act, which took away the banks' authority for issuance of notes.

The Swadeshi Movement (1906 – 1931)

This movement had been witness to the emergence of many banks which lent all help to the evolving industries. In 1916, Industrial Commission of this country had been designated by British Government which had conducted an examination of the probable avenues towards facilitating industrial development. Paucity of monetary resources had been emphasized upon as the major inhibiting factor by the Commission. The Central Banking Committee in 1931 had suggested starting an all India Industrial Finance Corporation which would consider the financial necessities of medium and small business units for a long duration. Similar suggestive guidelines were put forward by notable economists of that time. However, they were implemented only after India's Independence in 1947. Notwithstanding the poor economy, various banks had spurt up during Swadeshi Movement period. They are outlined as below: Punjab National Bank in 1905, Bank of India Ltd in 1906, Canara Bank Ltd in 1906, Indian Bank Ltd in 1907, The Bank of Baroda Ltd in 1908, and The Central Bank of India Ltd.[10]

Post 1st World War, the scarcity of funds has been acutely perceived by the industrialists. To fulfill this vacuum, the Tata Group had come forward and established Tata Industrial Bank in 1917. It was however unsuccessful and subsequently acknowledged self liquidation in August 1923. Again, during and after 2nd World War, the geo – political turbulence made a void in financial sector and also lack of concrete financial guidelines. The situation was accentuated by scarce financial funding institutions for the industries, many of which in that era were in initial phase of advancement. The only provider of such financial demands was commercial banks, which were sadly quiet insufficient. Their incapacity in filling the financial gap was largely from their apathy towards sanction of long – term loans. Thus, banking scenario of pre – Independent India was actually a climate of laissez-faire. However, a significant effort that in subsequent years had strengthened the infrastructure was inception of The Reserve Bank of India in 1935. It was accorded power and autonomy to regulate the banking scenario through any or all measures of directives, inspection, mergers, amalgamation, etc, following the accommodations of The Banking Companies Act 1949. This Act later became Banking Regulation Act 1949.[11] So, historical data reveals that at the early time of previous century, banks did progress at a quick pace, with deposits being enhanced up to 957 crores in 1948 from 82 crores in 1910. Independent India in 1948 however became the successor of an ailing banking structure, with 640 banks. Of the above, 96 were scheduled banks, and the remaining consisted of non – scheduled banks.[12]

2.3.4: Description of Banking Sector during Post – Independence Period

1. 1947 – 1968 (Pre - Nationalization Period)

On 15th August 1947, when India gained her independence from British rule, it also acceded to a banking structure which was largely influenced by those prevalent in the European world. In that era ,banks have largely concentrated on ensuring profit maximization. The three important objectives of banks were profitability, liquidity, and safety. The banks were functioning in an India – which had just awaken to ‘life and freedom’ as ‘the world slept’- and they concentrated only on steps that preserved, with dogged persistence the safety and viability for the banks’ ventures. In order to perpetuate enough liquidity for their assets, and accumulate the necessary income and returns to sustain profitability, banks, then had resorted to according temporary monetary help to business houses, capitalists, and industrialists. In exchange of that, the security was provided by bills of exchange or goods which were stored in godowns and warehouses or by other assets like government securities or gold. The main emphasis of loan sanction had been on security so as not to face failure during loan repayment from the clients. Also the economic scenario of nascent Independent India molded its banking climate and milieu which could be distinguished by various negative attributes that were not only expected but also unavoidable in those circumstances. Unsavoury rivalry amongst different banks, false and fabricated accounts by manipulation , non – structured and cumbersome process of branch expansion, were examples of various negative traits in banks of that era. All these were the result of non – availability of uniform law that governed banking transactions at that time.

The afore- mentioned reasons, forced the nascent government of free India to take major measures which were quite dramatic for those times. It was done with a plan to guarantee financial solidarity of the majority, prevent fraudulent cases and usher in uniformity of banking practices. The first among them was nationalization of RBI by RBI (Transfer of Public Ownership)Act 1948.[13] The government took ownership from 1st January 1949. The second momentous step had been legislating the important Banking Regulation Act, 1949. This aimed to improve upon the predominant banking scenario of those times and induce an environment of check and regulations on the joint – stock companies. Time and again, this particular law had been heralded as being a pioneer in providing a holistic legislation that had dealt with all vital parts of public banking scenario. RBI had been accorded specific unique forces through this law which had empowered it to exercise regulatory control over joint – stock companies.

Establishment of the Indian Banks Association (IBA) 1946 was a simultaneous development. This was highly effective to safeguard and highlight the rights and privileges of government banking institutions and also to facilitate ethical and stable banking practices and policies. The third mammoth step was The Rural Banking Enquiry Committee establishment in 1949. That Committee had discerned that then banks were predominantly located in and around towns and cities which made the neglect of banking facilities of village population rampant. The fallout had been forced dependency of agricultural workers, the farmers and the rural poor on the whims and fancies of the unscrupulous moneylenders, to overcome the monetary shortcomings and needs. The Committee had strongly recommended a vigorous branch expansion programme that The Imperial Bank needed to incorporate on a pan – India basis, in order that banking services can penetrate into rural India. It also prophesied that the particular route of branch expansion must also be followed as precedent by other Indian banks. The All India Rural Credit Survey Committee , designated by RBI made a critical evaluation about credit scenario as it existed in 1954. Based on its findings, the Committee recommended nationalization with a changed nomenclature. Hitherto, it got to be known as The State Bank of India that became effective from 1st July 1955. The newly named SBI was accorded the onus of bank office expansion with special emphasis in the villages and semi – urban areas through easy accessibility of necessary monetary help in the afore mentioned sectors. The expectation was that it would operate as a second – line central bank. [14]

During this time, various measures had been conducted that aimed at banking structural consolidation. Voluntary amalgamations, compulsory mergers and development of resources and liabilities starting with one bank then onto the next are certain examples. The system by which the RBI gained tighter influence on banks gained momentum. Towards that end, various laws have been drawn which dealt with many issues, ranging from removal of directors / officers, imposing moratorium on banks, etc. The Indian Banks Association did also respond to such changes by imposing three inter – bank agreements. Initially it was in 1958 which covered deposits' interest rates, second was in 1963 which dealt with interest rates charged on advances, and the final one was concluded in 1967 that talked of inland guarantee charges. Supported by IBA, banks, did adopt various worthwhile and relevant measures which were legally sanctioned in subsequent years. In 1960, two major misadventures rocked the Indian economic scenario. They were simultaneous failures of two major banks – Palai Central Bank and Laxmi Bank. The above two failures caused a substantial decline in the people's confidence towards banks. To placate the citizens, and boost up their confidence about the prevalent banking structure, the RBI instated the Deposit Insurance Corporation whose operations initiated on and from January 1st 1962. Initially, it was just about the public deposit ones. Schemes were initiated that offered insurance to the account deposits, to accord protection to depositors, with special emphasis on the small scale depositors. The intention was to console them against the plausible danger of theft of their savings that may arise from bank failures. So, it actually addressed the concerns for economic stability. It also had an eye towards usage of deposits to accentuate the development programs. Another noteworthy measure was initiation of Credit Authorization Scheme (CAS) for bank loan from RBI in 1965. It was necessitated by this scheme, that all banks of commercial nature, obtain a compulsory initial authorization from Reserve Bank , if they had to grant any new credit of Rs 1 crore, or more for a single borrower. This cut off was later enhanced to include Rs 2crores in 1975. This particular scheme directed the particular bank to first scrutinize the proposals of the borrowers and then send them to RBI.

The leading economists had also suggested the formation of a social check to ensure proper and smooth operations such banks. Accordingly in 1967, an important decision was incorporated by Indian Government to constitute a government body which coerced banks to indulge holistically in various economic developmental projects more seriously. For that, an enhanced degree of commitment towards the embellishment of the more deprived sectors of society like agriculture, small – scale industries, etc was desired. Stated otherwise, banks should be exposed to a greater degree of social check. This strategy of social check, in banks, was instated by late 1967. A legal validity was accorded through the Banking Law (Amendment) Act, 1968. The stated objectives of that amendment were:

1.To facilitate a more generic disbursal of bank loan schemes.

2. To stop malafide utilization of bank resource.

3. To channelize a substantial amount of credit volume towards the priority sector.

4.To utilise the banks as weapons for development.

To achieve stated objectives, the restructuring of banking establishments was the felt necessity.[15] The new plan of things guaranteed that either all the directors of bank or a minimum of 51 per cent enjoyed specialized expertise in agriculture, rural finance, and small scale industries. Another key strategy was selection of a professional banker as a full time chairman. The government set up the National Credit Council in Dec 1967 to motivate banks to exercise social control. Towards that end, the IBA made various suggestions to induce a necessary shift of the banks' loan disbursement policies. In the altered scheme of things, the loans sanctioned to the directors and the major commercial houses by them were substantially decreased, the Agricultural Finance Corporation Ltd was launched and programs were developed to finance small – scale industries, etc. Another substantial development was the operating international banks, in the nation which received guidelines to formulate Advisory boards in India. They had their accounts audited by Indian auditors. During this time, the economists felt that it was urgent to boost up the national finance through overseas trade. The 'Export Risk Insurance Corporation' established in 1957 was reinstated as 'Export Credit and Guarantee Corporation' in 1964.

The objectives were:

1. First, it meant to give insurance to exporters against exchange controls and multiple currency practices.
2. Second, it aimed to dispose of the information vacuum regarding credit capability of importers.
3. Thirdly, it aimed to guarantee banks about many different loans that exporters expected from them.

Starting from 1968, subsidized rates for credit had been designated by Indian government for motivated export credit of banks. The Indian Government, in return reimbursed the banks for these reduced rates by offering them an endowment of 1.5 % per year on their outstanding volume of overseas credit. If the banking sector, prior to 1969, is thoroughly evaluated, then profit maximization, safeguarding assets and maintaining liquidity come across as predominant targets of that time period. The analysis drawn by examining the banking scenario of that time had been roughly categorized keeping in mind the following facets:

1. Number of banks in operation before 1969.
2. The total count of banks' offices preceding nationalization.
3. Sectors targeted through bank finances before nationalization.
4. The geographical segmentation of banks before 1969

Table: 2.1

Number of Commercial Banks in India Before Nationalization of Banks

Group of Banks	1951	1956	1961	1966	1968
Indian Scheduled Commercial Banks	76	72	67	61	58
Foreign Banks	16	17	15	15	15
Non – Scheduled Banks	474	334	210	27	17
All Commercial Banks	566	423	292	103	90

Sources: Compiled from RBI, Various Statistical Tables relating to Banks in India, Various Issues.

From table 2.1 , we see 566 banks in operation and existence in 1951. It followed a diminishing pattern and became 423, 292, 103 and 90 in subsequent years that is 1956, 1961, 1966, and 1968 respectively.

Table : 2.2

Number of Offices

Group of Banks	1951	1956	1961	1968
State Bank of India	**643**	**850**	**1436**	**3379**
Other Scheduled Banks	**2004**	**2116**	**2954**	**5104**
Non – Scheduled Banks	**1504**	**1101**	**622**	**207**
All Commercial Banks	**4151**	**4067**	**5012**	**8690**

Sources: RBI Bulletin, Various Issues

Again from Table: 2.2 , manifold rise in count of offices of banks from 1951 to 1968 becomes evident. The maximum count of offices, in 1951 was 4151, which increased to 4067, 5012 and 8690 in 1956, 1961 and 1968 respectively.

Table: 2.3

Sectoral Distribution of Scheduled Commercial Bank Credit in India, 1951 - 1968 (Amount in Rs Lakhs)

Sectors	Dec 31	Dec 31	Oct 27	Mar 31	Mar 31
	1951	1955	1964	1965	1968
INDUSTRY	194.91 (33.4%)	220.96 (34.3%)	668.92 (54.2%)	1287.32 (61.5%)	2067.5 (67.5%)
COMMERCE	308.11 (52.8%0	323.17 (50.1%)	413.54 (33.7%)	631.01 (30.1%)	587.70 (19.2%)
AGRICULTURE	12.97 (2.2%)	11.30 (1.8%)	5.50 (0.4%)	3.95 (0.2%)	67.10 (2.2%)
PERSONAL AND PROFESSIONAL	42.90 (7.4%)	55.38 (8.6%)	106.27 (8.6%)	122.41 (5.8%)	113.40 (3.7%)
ALL OTHERS	24.39 (4.2%)	34.12 (5.3%)	33.48 (2.7%)	50.05 (2.4%)	228.70 (7.4%)
TOTAL	583.28	644.94	1227.7	2094.74	3064.40

Source: RBI Bulletin, Different Issues

It is ascertained through a careful analysis of historical data, that during 1951 – 1968, the banks had concentrated on giving monetary aid for certain specific economic sectors. The selection criterion was that they targeted only those economic activities which sort of guaranteed them maximal profit returns. The outcome was a heavily misbalanced sectoral appropriation of bank finances.

Evidently the above data points that banks were favourably biased towards business houses for sanctioning loans in 1951 – 1968. The combined share of bank loans received by trade and commerce had been 86.2%, 84.4 %, 87.9 %, 91.6%, and 86.7 % in 1951, 1955, 1961, 1965, and 1968 respectively. In 1951, industry received 33.4% of credit which increased to 67.5% in 1968. But the credit to commerce sector saw a gradual decline from 52.8% to 19.2% in 1968. However, bank loan towards agriculture remained very minuscule, the maximum being 2.2%. Again data had demonstrated that bank loans for personal and professional purposes was very less. It had actually decreased from 7.4% in 1951 to 3.7% in 1968. Bank loans to miscellaneous activities had increased from 4.2 % in 1951 to 7.4% in 1968. Thus, this shows that in that particular period they were very conservative in credit sanction.

Table: 2. 4

Security – wise Distribution of Scheduled Commercial Bank Advances in India

SECURITY	**Dec 31**	**Dec 31**	**Oct 27**	**June 25**	**June 28**
	1951	**1955**	**1961**	**1965**	**1968**
A. Secured Advances	**516.75** **(88.6%)**	**543.09** **(84.2%)**	**1053.21** **(85.8%)**	**1768.92** **(85.4%)**	**2739.65** **(88.4%)**

B. Unsecured Advances	**66.53** **(11.4%)**	**101.86** **(15.8%)**	**174.49** **(14.2%)**	**301.76** **(14.6%)**	**359.71** **(11.6%)**

Source: RBI Bulletin, Different Issues

During that period, only industries and commerce centers could afford to confirm the high security assets that banks demanded against credit sanctions. Data clarifies that banks disapproved of unsecured advances. The above table shows us the percentage distribution of secured and unsecured advances.

Data reveals that secured advances formed most of the total credit given in that period. Data shows that in 1951, 88.6% of credit advanced had been secured while 11.4% of advances had been unsecured. The corresponding data in 1955 had been 84.2% and 15.8% respectively for secured and unsecured advances. In 1961, that data had become 85.8% and 14.2% respectively. In 1965, corresponding figures were 85.4% and 14.6%. Finally, the values were 88.4% and 11.6% for both secured and unsecured advances respectively. Thus, it transpires that they were very averse to unsecured advances in that era.

Table: 2.5

Geographical Location of Bank Branches in July 1969

Geographical Centre	**Number of Bank Offices at the End of June 1969**	
	Absolute Number	**Percentage to Total**
1. Rural	**1832**	**22.4%**

2. Semi – Urban	3322	40.1%
3. Urban	1447	17.5%
4. Metropolitan / Port Towns	1661	20.0%
5. Total	8262	100%

Source: RBI - Annual Report and Trend and Progress of Banking in India, 1971. Supplement to RBI Bulletin, August, 1971

Note: Rural Centres: Sectors whose populations are within 10,000.

Semi – Urban Centres: Sectors whose population are over 10,000 and up to 10, 00, 00

Urban Centres (a) Metropolitan towns: Geographical sectors with population over 10, 00,000

(b) Others: Geographical sectors with population over 100,000 and up to 10, 00,000.

The data reveals that in 1969, branches of rural division constituted only 22.4% of the total. Again if we compare the sectoral aspect of credit given, it is seen that in 1968, banks had accredited a total loan volume of Rs 3064.40 lakhs. But they had allotted a meager 2.2% of it towards agriculture. Thus, a very obvious neglect of rural agriculture based economy is evident. The banks at that era discerned that there was paucity of scope to earn profits by engaging in banking businesses in the village areas. This affected the scarcity of functional offices in the villages and sub - urban localities.

From various records, we can aptly conclude that the overall banking scenarios from 1948 to 1969 were plagued with numerous ills. They are listed as below:

1. Majority of branches were put in industrial, commercial and cities with an utter neglect of village areas.
2. Bank credit scenarios were hugely favourably tilted towards the developed areas and localities. Less developed states like Uttar Pradesh, Madhya Pradesh, Bihar, and Orissa had fewer bank branches than Gujarat, Haryana, Kerala ad Tamil Nadu – the more developed ones.
3. Banks tended to serve mainly the large businesses and wholesale trade while ignoring the small and retail business units.
4. Existence of inadequate national banking networks were well perceived by middle of 1968.

Thus, from these preceding discussions, we can summarize the banking scenario up to 1968 as a highly unbalanced one giving rise to unequal and non – proportionate economic activities throughout the country.[16] But as we know, a balanced and sustained development curve for financial activities is highly recommended for overall growth and expansion of any nation.

2. 1969 – 1990 (Era of Nationalization)

On 19th July 1969, the winds of financial changes brought forth a historic and stupendous event in the country's horizon. 14 major Indian banks of commercial nature got nationalized. 1980 saw additional 6 banks to follow suit. With nationalization an approximate 90% of resources of banks came under the gambit of direct government supervision. It was cited as significant step to promote credit flow towards the actual productive areas. The activities of these banking institutions, before 1969 mainly harped on traditional tenets of commercial banking. Emphasis was on profit maximization. Post 1969, their primary governing objectives became socio – economic up gradation for the masses.[17] The first seed of nationalization have been sowed in 1948 after R.B.I. was nationalized. Post that scenario, total enforcement of nationalization for all banks was being vigorously discussed in both academic and political circles.

It had been earlier noted that territories such as that of farming and micro businesses had been continuously neglected prior to 1969. Banks used to favour large business establishments over the lesser known ones for loan financing. Other ills that had plagued them were non – competitive environment, reduced capital, inadequate productivity, etc. Even the directive of 'social control' which was initiated in 1968 suffered various weaknesses. The main being that people, who were in command of banking affairs, remained the same. That meant that people who earlier regulated banking policies still used to exercise equal influence over them. However with bank nationalization, a very big volume of resources were brought under direct government control. Nationalization mainly focused on expansion, a decrease in the existent disparity in financial performances territory – wise and thus ensuring bank's accessibility especially in villages and smaller towns. So, they have targeted agriculture, micro businesses and international business transactions. As per the policy guidelines, their nationalization did result in granting loans at a decreased loan fee for the neglected sectors than those charged for significant business houses. So, effectively, nationalization aimed for and also resulted in shift of a colossal quantity of wealth from large corporate units – which controlled the banks – to the greater civic society. It was rightly held that the entire civil society, especially, the neglected portion must be within ambit of organized banking. With nationalization, there was, as if a resurgence in banking milieu, which was characterized by social banking, mass banking and innovative forms of banking.[18] In essence, Indian Prime Minister of that time, Mrs. Indira Gandhi, had highlighted the six objectives of nationalization of banks. They are outlined here:

1. Obliterating the regulatory power of select few.
2. Preventing bank credit usage for unsubstantiated, futile and unprofitable purposes.
3. Expansion of loan facility to the previously neglected sectors, like agriculture, small business units.
4. Ushering in more efficiency and sophistication in bank administration.
5. Modernizing the banks, promoting creativity, and entrepreneurial activities.
6. Purveying necessary training facilities and a standardized work environment for the entire bank workforce.

Thus, the fourteen banks which were nationalized and brought under direct Government control in 1969 were: Allahabad Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Central Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, UCO Bank, Union Bank of India, and United Bank of India. Banks nationalized in 1980 were : Andhra Bank, Corporation Bank, The New Bank of India, Oriental Bank of Commerce, Punjab and Sind Bank, and Vijaya Bank.

With nationalization, central government became the complete owner for commercial banks. As government banks, the main focus had become the upliftment of public interest. Major areas of bank concern became the unbanked and underdeveloped regions. The territorial disparity between various states and between villages and cities - regarding availability of banking facilities - were addressed to, by forming several branch offices. Nationalization also accommodated savings accounts opening by people of lower income group. Development initiatives were enacted at the centre and state level through which a substantial percentage of funds were assembled through banks through raising the Statutory Liquidating Ratio (SLR) to an enhanced level and involving banks in Government projects. Banks also supervised various loans to be sanctioned to different Government programs, such as food grain procurement, and acquisition of raw cotton and raw jute at a subsidized interest. 40 % of banks’ credits became channelised towards the priority sector.

Therefore, we can easily summarize the dual significant benefits of nationalization. They were: 1. Expeditious growth of bank offices, and

2. Mobilizing and emphasizing loans according to priorities.

Thus, nationalization had significantly resulted in formation of a remarkably sophisticated banking system that was positively defined by broad and expanded branch network, massive deposits and sweeping credit transactions. As outlined by RBI, while providing suggestions on branch licensing, the insistence and attention had been on establishment in the villages and semi – urban areas, down- trodden regions and the under banked localities.

The Gadgil Study Group and Nariman Committee advocated formation and execution of Lead Bank Scheme. Consequently, the R.B.I launched it at the close of 1969. This scheme propagated that lead roles had to be entrusted to banks – private and government– for specific districts. Banks which had comparatively more offices in villages and which enjoyed numerous resources were considered for that project. Any bank, which had successfully penetrated the village localities and economy of any particular district through establishing various rural offices were assigned the ‘lead role’ for that district. That institution needed to possess sufficient resources – both capital and man – power. So, all districts were placed under one lead bank. It was expected that the ‘lead bank’ would synchronize the activities of all credit institutions and guarantee payment of huge amount loans to farmers and small businesses of that area.

With R. G. Saraiya providing his able guidance, the Banking Commission, in 1972 envisaged various protocols towards enactment and formation of Regional Rural Banks , that primarily aimed at consolidating the co- operative structure and harmonizing the activities between cooperative and commercial banks. Accordingly, they came into existent from 1975 under the Regional Rural Banks Act, 1975. The RRBs were established to function as hubs of organized banking in villages. They were established to function as rural – centric institutions which enjoyed government support and back – up. The main motto was to act steadfastly towards deposit mobilization through the citizens and fulfilling the financial necessities of poor marginal farmers, the unorganized workers of farmland, and indigenous rural craftsman.

In 1972, Indian Government had initiated a Differential Rate of interest Scheme. Under this program, the poor people were eligible for financial assistance from banks at a subsidized rate of 4% per year for financially productive business activities. Initially, this scheme was applied to government banks. Subsequently, private banks came under its ambit. We can easily understand that a gamut of industrial and developmental projects was undertaken by banks immediately after nationalization. In the neo – economic scenario, a serious shift in banking philosophy banking for the classes to banking for the masses could be well discerned. The banks, under strict government control, continued with more increased vigour in subsequent years towards their social objective of uplifting as many people as possible from poverty and thereby reducing the count people under the poverty line. Towards that end, banks did embark upon several ambitious projects geared towards social usefulness. One significant among them was the Integrated Rural Development Programme (IRDP). It took birth in 1978 and got to be implemented throughout 1980. The program made an honest endeavour to ameliorate the pecuniary condition for the have – nots; people who are well under poverty line, by providing various concessions along with making those people beneficiaries of various pro – empowerment programs. It offered assistance to increase productivity. [19]

Another centrally sponsored program that aspired for a burgeoning of the village socio –

economic scenario was the Training of Rural Youth for Self – Employment (TRYSEM). Introduced in 1979, through the Department of Rural Development, It arranged for and administered various technical skills to the rural youth (18 – 35) who belonged to families below poverty line. It channelized their capacities towards being self –sufficient financially in various fields, such as agriculture, micro businesses and service related sectors. Even the age limit of 35 was made flexible and stretched into 45 years for widows, freed bonded labourers, ex – convicts and cured leprosy patients. Another significant scheme that had targeted the common civilians was the Self Employment Scheme for the Educated Unemployed Youth (SEEUY). The Central Government launched this scheme after prolonged deliberation with RBI, with an objective to mobilize the educated young population towards self employment generating ventures, through arenas of industry, service and business by offering various assistance and bank credits. It also provided for skill improvement training opportunities.

The establishment of National Bank for Agriculture and Rural Development (NABARD) in 1982 emerged as a milestone for the country's economic landscape. The expectation was that it would facilitate and consolidate various rural development ventures by the government. The nationalized banks participated vigorously in the above programs, right from planning until execution and worked in co- operation with the centre towards fulfilling the societal objectives of poverty elimination and enhancement of people's living standards. As evident now from various data sources, the preceding measures were highly relevant and pertinent to the stated social objectives of nationalization. Thus, we can find that the flail banking industry grew exponentially into a flourishing and burgeoning sector that offered all the required help for the developing economy and society of the country at that times.[20] The features of Indian banks during 1969 – 1991 are described below.

Table : 2.6

Growth of Commercial Banking - 1969 - 1991

As at the End of	Number of Commercial Banks	Population Per Bank office (in 1000s)	Aggregate Bank Deposit (in Rs Crore)	Aggregate Bank Credit in (Rs Crore)
June 69	**8262**	**65**	**5028.20**	**3971.0**
Mar 71	**12,013**	**46**	**7105.90**	**5263.4**
Mar 75	**18,730**	**29**	**12,637.10**	**9118.7**
Mar 81	**32,420**	**17**	**40,549**	**26551**
Mar 85	**53,385**	**13**	**77,075.00**	**50,921**
Mar 90	**59,388**	**12**	**1,66,959**	**1, 01, 453**
Mar 91	**60,190**	**11**	**1,92,542**	**1, 16,301**
Increase over 1969	**51,9287**	**-**	**1,87,513.80**	**1,12,330**
Percentage increase	**628.52 %**	**-**	**3729.24 %**	**2,828.76 %**

Source: RBI – Report on Trend and Progress of Banking in India, Different Issues.

From Table: 2.6, this is clearly ascertained that Indian banks, increased from a meager 8262 in 1969 to a whooping 60,190 in 1991. It registered an incredible increase rate of 628.5%. In direct consequence, the total count of people served per bank office fell from 65,000 to 11,000 in 1991. Along with an expansion of banking density, rapid proliferation in the volumes of both deposits and credits was also witnessed. The average bank deposit rose from Rs 5028.20 crores in 1969 to Rs 1, 87,513.80 crores in 1991. During this same time span, average bank credit registered an expansion from Rs 3971.0 crore to Rs 1, 16301 crores. The corresponding percentage increase had been 3729.24 and 2828.76 % for deposit and credit respectively.

Table : 2. 7

Rural – Urban Distribution of Commercial Banks in India, 1970 – 1990

Centre	June 70	June 75	June 80	June 85	June 90
Rural	**3,062** **(30.2)**	**6806** **(36.4)**	**15,105** **(46.6)**	**28,782** **(55.4)**	**34,494** **(58.1)**
Semi – urban	**3695** **(36.5)**	**5570** **(29.7)**	**8122** **(25)**	**10,460** **(20.1)**	**11255** **(19)**
Urban	**1583** **(15.6)**	**3266** **(17.4)**	**5178** **(16.0)**	**7542** **(14.5)**	**7582** **(12.7)**
Metropolitan / Port Town	**1791** **(17.7)**	**3088** **(16.5)**	**4014** **(12.4)**	**5194** **(10.0)**	**6057** **(10.2)**
Total	**10,131** **(100)**	**18,730** **(100)**	**32,419** **(100)**	**51,978** **(100.0)**	**59,388** **(100)**

[Source: RBI – Report on Trend and Progress of Banking in India, Different Issues.

Note: Rural Centres: Territories with population of 10,000/-

Semi – urban Centres: Territories with population of 1, 00,000.

Urban Centres: (a) Metropolitan towns: Territories with population above 10, 00,000.

(b) Territories with population above 1, 00,000 and up to 10, 00,000.

The table above demonstrates the monumental enhancement of total count branches in village division from 3062 in 1970 to 34,494 in 1990. The corresponding percentage increase had been from 30.2 % to 58%. There is significant shift of village versus city branch arrangement in the nationalization period. In 1990, offices in village area formed 58.1% of total bank branches while semi – urban, urban and metropolitan port towns together formed 41.9% with individual distribution of 19.0, 12.7 and 10.2 % respectively. This effectively reduced the rural urban divide and had made way balanced economic scenario, by penetrating the rural economy.

Table : 2. 8

Regional Distribution of Bank Offices in 1969 & 1990

Region / State	**At the End of June 1969**		**At the End of June 1975**	
	Number of Offices	**Population Per Bank Office***	**Number of Offices**	**Population Per Bank Office***
1. Andhra Pradesh	**567**	**75**	**1373**	**32**
2. Arunachal Pradesh	**-**	**-**	**7**	**67**
3. Assam	**81**	**188**	**214**	**68**
4. Bihar	**273**	**207**	**796**	**71**
5. Goa	**85**	**8**	**140**	**6**
6. Gujarat	**752**	**34**	**1552**	**17**
7. Haryana	**172**	**57**	**438**	**23**

8. Himachal Pradesh	42	80	181	19
9. Jammu & Kashmir	35	114	189	24
10. Karnataka	756	38	1750	17
11. Kerala	601	35	1296	16
12. Madhya Pradesh	343	116	914	46
13. Maharasthra	1118	44	2188	23
14. Manipur	2	497	10	107
15. Meghalaya	-	-	21	48
16. Mizoram	-	-	1	332
17. Nagaland	2	205	8	65
18. Orissa	100	212	301	74
19. Punjab	346	42	961	14
20. Rajasthan	364	70	792	33
21. Sikkim	-	-	-	-

22. Tamil Nadu	**1060**	**37**	**1935**	**21**
23. Tripura	**5**	**276**	**20**	**78**
24. Uttar Pradesh	**747**	**119**	**1896**	**47**
25. West Bengal	**504**	**87**	**1090**	**41**
26. Andaman & Nicobar Islands	**1**	**82**	**5**	**23**
27. Chandigarh	**20**	**7**	**53**	**5**
28. Dadri & Nagar Haveli	**-**	**-**	**4**	**19**
29. Daman & Diu	**-**	**-**	**-**	**-**
30. Delhi	**274**	**10**	**563**	**6**
31. Lakshadweep	**-**	**-**	**4**	**8**
32. Pondicherry	**12**	**31**	**28**	**16**
Total	**8262**	**65**	**18730**	**29**

Table: 2. 8...... Continued

Region / State	**At the End of June 1990**		**Increase between 1969 and 1990**	
	Number of	**Population**	**Number of**	**Percentage**

	Offices	Per Bank Office*	Offices	Increase*
1. Andhra Pradesh	4553	12	3986	703
2. Arunachal Pradesh	66	10	59	842.9
3. Assam	1167	17	1086	1340.7
4. Bihar	4690	15	4417	1618.0
5. Goa	257	4	172	202.4
6. Gujarat	3346	10	2594	345.0
7. Haryana	1256	10	1084	630.2
8. Himachal Pradesh.	704	6	662	1576.2
9. Jammu & Kashmir	764	8	729	2082.9
10. Karnataka	4230	9	3474	459.5
11. Kerala	2829	9	2228	370.7
12. Madhya Pradesh	4295	12	3952	1152.2
13. Maharashtra	5507	12	4389	92.6

14. Manipur	**79**	**18**	**77**	**3850**
15. Meghalaya	**148**	**9**	**127**	**604.8**
16. Mizoram	**70**	**7**	**69**	**6900**
17. Nagaland	**70**	**11**	**68**	**3400**
18. Orissa	**1992**	**13**	**1892**	**1892**
19. Punjab	**2134**	**8**	**1788**	**516.8**
20. Rajasthan	**3032**	**11**	**2668**	**733.0**
21. Sikkim	**29**	**11**	**10**	**52.6**
22. Tamil Nadu	**4261**	**11**	**3201**	**302.0**
23. Tripura	**159**	**13**	**154**	**3080.0**
24. Uttar Pradesh	**8355**	**13**	**7608**	**1018.5**
25. West Bengal	**4058**	**13**	**3554**	**705.2**
26. Andaman & Nicobar Islands	**21**	**9**	**20**	**2000**
27. Chandigarh	**108**	**4**	**88**	**440.0**
28. Dadra & Nagar Haveli	**7**	**15**	**3**	**75**

29. Daman & Diu	**10**	**8**	**-**	**-**
30. Delhi	**1114**	**6**	**840**	**306.6**
31. Lakshadweep	**8**	**5**	**4**	**100**
32. Pondicherry	**69**	**9**	**57**	**475**
Total	**59,338**	**12**	**51,126**	**618.8**

Source: RBI –Report on Trade & Progress of Banking in India, Different Issues

Population Per Bank Office in 000s

The above table illustrates the offices present in various states during various times during 1969 – 1990. The offices increased their numbers in phenomenal manner post nationalization until 1990. More significantly, it demonstrated that those states which had comparatively fewer banks, as of 1969 showed the most significant percentage increase of offices in1970. If all of 1969 bank offices are considered, the number becomes 8262. That had increased to 59,388 in 1990, rendering a percentage growth of 618.8%. Predictably, number of individuals served per bank office also decreased sharply from 65,000 in 1969 to just 12,000/- in 1990.

Table : 2. 9

Sectoral Dispersal of Credit by Banks 1975 – 1990 (Rs Crore)

Sectors	**Outstanding as on the Last Friday of**			
	June 1975	**March 1980**	**March 1985**	**March 1990**
1. Agriculture and Allied Activities/ Public Food	**968.7** **(10.8)**	**2100** **(9.9)**	**5665** **(11.8)**	**2206** **(2)**

Procurement Credit				
2. Industry	5634.1	-	-	-
(a) Large & Medium	4516.6 (50.1)	8269 (38.9)	15939 (33.2)	38272 (37.3)
(b) Small Scale Industries/ Priority Sector	1117.5 (12.4)	6730 (31.7)	18409 (38.4)	40387 (39.3)
3. Trade	1499.8 (16.6)	1915 (9)	2649 (5.5)	5472 (5.3)
4. Personal Loans	319.6 (3.6)	-	-	-
5. Others	588.8 (6.5)	2221 (10.5)	5294 (11.0)	16534 (16.1)
6. Total	9011.0 (100)	21235 (100)	47956 (100)	102671 (100)

[Sources: RBI: Banking Statistics, Bombay, December, 1976.

RBI: Report on Trend and Progress of Banking in India, various issues]

Notes: 1. Numbers in parenthesis show percentage to total.

2. From 1980, by Industry, only medium and large – scale industries were meant and priority sector meant the tiny industries of small scale.

3. From 1980, agriculture is included in the priority sector

The above table gives a very clear picture of what bank nationalization stood for and aimed at. The endeavor was more equitable disbursal of wealth. The advances made through them to large and medium industries decreased steadfastly from 50.1 % in 1975 to 37.3% in 1990. Along with that, a profound increase in loans given to small scale / priority sector from 12.4% in 1975 to 39.3% in 1990 is also evident.

Table : 2 . 10

Bank Analysis of Total Advances and Credit to Priority Sector by Scheduled Commercial Banks, 1969 – 1990 (Amount in Rs Crores)

Amount	**Outstanding at the End of**				
	June 69	**Dec 75**	**June 80**	**June 85**	**June 90**
1. Total Bank Credit	**3599**	**9769**	**-**	**50369**	**1,05,497**
2. Advances to Priority Sector **(a)Agriculture**	**188**	**1024**	**3097.5**	**8081.76**	**16,439**
(b)Small Scale Industries	**286**	**1147**	**2793.2**	**7207.64**	**15672**
(c)Other Priority Sectors	**31**	**426**	**1388.0**	**4464.56**	**8419**
d) Total of (a) to (c)	**505**	**2597**	**7278.7**	**19,753.96**	**40,530**
3 Percentage of Priority	**14.01**	**26.6**	**32.5**	**39.21**	**38.5**

Sector Advances to Total Bank Credit					

[Source: RBI – Bulletin, Different Issues.

Other Priority Sectors: Road and Water Transport operators,

Retail Trade, Small Business, Professional & Self employed persons, education, housing, loans to weaker sections, SCs and STs.]

The above table clearly demonstrates that the total bank amount advanced had increased from Rs 3599 crores in 1969 to Rs 1, 05,497 crores in 1990. Also credit advanced to priority sectors had magnified manifold, starting from Rs 505 crores in 1969 to Rs 40,530 crores in 1970. Since 1960 – 1990 , it had rendered a stupendous increase from 14 percent to 38.5 percent. These enhancements are a natural outcome of the stated objectives of nationalization process that had repeatedly emphasized on priority sector upliftment.

So, a phenomenal developmental bend in banking facilities and activities post nationalization becomes evident.[21] A vigorous proliferation in the rates of branch expansion, deposit mobilization, credit sanction with an enhanced emphasis on priority sectors have also been witnessed. Banks had routinely engaged in various poverty eradication policies that enjoyed tutelage from Government. Several modern steps were introduced : Enterprise Resource Planning, Mechanization and Computerization. ERPs were concerned with organizational structure, training and development , customer service, loan recovery, profitability and the like. A revolutionary breakthrough prior to reform had been computerization in banks. September of 1983 saw a unique agreement between Indian Bank Association and All India Bank Employees' Association on matters that subscribed to mechanization of the workplace like use of electric / electronic machineries, micro processors etc. Again the Rangarajan

Committee in 1983 envisaged and recommended various ways and methodologies pertaining to computerization. This acted as the blueprint for future extensive computerization policy that had ensued in the subsequent years.

3.1991 – 2000 [Period of Reforms]

Economists and trade analyst have widely regarded and understood that banks nationalization was phenomenal in implementing what can be termed as social banking. It emphasized upon quick branch proliferation and also highlighted priority areas that consisted of villages and that of the semi – urban localities, farming and micro level industries. It ensured increased credit facilities for these sectors at minimal rates of interest. Nationalization as a process was hugely successful in all of those areas and bank structure had really been highly consolidated by nationalization. However, apart from its strengthening aspect, nationalization was additionally dotted with various ills which had started to weaken the economy.

A major weakness had been poor standard of credit assets. Loan dispersal in the nationalized era had been conducted more as a routine mechanical matter instead of being done in an unbiased manner, considering the chances of repayment. Also such credits had been sanctioned in priority area at lower interest. The scenario where loans had been sanctioned notwithstanding the loan repayment chances, had given rise to undesirable condition of accumulation of non – performing assets of banks. Another substantial problem had been recurrent political involvement in bank decisions. These resulted in less profitability of banks. An important predisposing variable in decrease of profitability was rapid and unhindered growth of branches that saw substantial increase of fixed cost. With branch expansion, demand of staff procurement also increased. That also instigated the proliferation of the banks' operational costs. The net result was a diminishing trend of banks' profitability. The service quality also deteriorated as an inherent outcome of such a scenario.

To tackle the problems that prevailed in such scenario, a Committee on Financial Reforms (Narasimham Committee) was formed.[22] Following suggestions from this Committee, the R.B.I in 1991 initiated several banking reforms. All the reforms made a marked change of banking policies, practices, operations and services. Basically the country's banking climate got revolutionized by the reform movement. These reforms were amongst the more general economic reforms that ushered in a unique climate characterized by liberalization, privatization and globalization. It was characterized by opening the gates of economy, which transformed it from a highly restrictive and regulated market into deregulated one. Due to opening of market restrictions, new private players started to exist. That meant more competition. In an effort to attract customers they engulfed themselves in more timely and prompt services and efficient operational procedures. They had also initiated and started the journey of wooing the common citizens by offering an assortment of amenities to choose from and accommodating customer expectations like never seen earlier. Because of such intense competition, government banks did introspect and correct their faulty operational and service activities. They had to improve themselves and confront the challenging scenario they faced, with all their might. The basic takeaways from the Reform Movements had been:

1. Allocating a degree of working self – sufficiency to banks. Liberalization of entry barriers, encouraging formation of new banking entities.
2. Decrease in the legalised pre – emptions, which in turn sanctioned more funds that may have utility for market lendings.
3. Concessions in rules of investment for banks.
4. Relaxations for foreign currency investments.
5. Competition induced productivity enhancements and efficiency amplification.
6. Strengthening the banking infrastructure.

Aims of Financial Sector Reforms are outlined as follows:

1. Rectification and upgradation of the macroeconomic banking scenario. This included pecuniary policy reforms like reconciliation of interest rates, restructuring of credit programmes, and diminishing the quantity of resource pre – emptions.
2. Making weaker banks financially healthy by recapitalizing and redesigning them.
3. Creating and providing solidarity to financial infrastructure units that would supervise, audit and provide legal guidelines.
4. Framing policies that result in enhancement of managerial and administrative efficiency and continuing with exalted standard of human resources.
5. Inducing more competition of the businesses by incorporating free entry / exit of financial sector.
6. Maintaining transparency of capital and money market.

Such reforms were feasible due to different suggestions provided by various committees. It is commonly held reforms did occur in two different phases. The initiation was in 1991 under the tutelage of Narasimham Committee. It held that banks acquired resources through savings of citizens. Thus, they were the custodian of their wealth. So, the Committee insisted upon ensuring their financial health and solvency. Second phase of reforms occurred in 1998. Another Committee was formed, headed by Narasimham – the Narasimham Committee II. This Committee tried at reevaluation of policy implementations after 1991 reforms. It analyzed thoroughly the many banking perspectives as it had existed then. It had provided a plethora of guidelines covering numerous activities that dealt with the banking industry, viz. capital requirements and sufficiency, quality of assets, asset management, concept of non – performing assets, prudential standards, earning and profitability, according managerial autonomy, facilitating new banks initiation, advocating more freedom to them regarding recruitment policies and lending policies, and restructuring of banks by amalgamations and mergers. After the 1991 financial reforms, the Ghosh Committee got instituted in 1992 to observe and avoid the occurrences of fraud or any dereliction of duties by the banks. RBI worked together with government and formed various other Committees that induced in multiple positive changes within the banking scenario post market liberalization. They are the Khan Committee (1997), and the Verma Committee (1999).

Recommendations of the Narasimham Committee I.

The main guidelines that it put forward in 1991 were:

1. Entry barriers should not exist for new bank formation, provided they possessed adequate capital, and all necessities as stipulated by the R.B.I.
2. It dissuaded the Government from any more bank nationalization and also suggested similar treatment for both government and private banks.
3. It had also advised the R.B.I to be better accommodating regarding foreign banks' branch opening. Accordingly, it suggested that foreign banks must not be made to undergo extra restrictions than the Indian banks. The Committee advocated a broad configuration of such institutions. It ratified the existence and operation of three or four banks that included the SBI. They have operated across the national domain and assumed an international outlook and character. It further advocated functioning of eight to ten national banks with a 'pan – India' network of branches. Such banks were needed as participants in universal banking. There should also be some local banks that may experience restrictive functioning in a particular region. The last tier of such prophesied banking structure should be occupied by rural banks to provide for rural needs.
4. It advocated forming an asset reconstruction fund.(A.R.F). It was empowered to have authority to acquire charge of bad debts and also of various other economic

organizations at a subsidy. Decisions about discount rate were taken by autonomous auditors . The ARF got endowed with additional powers for loan recovery.

5. Special tribunals had to be constructed that will authorize the specific organizations recover from bad debts. Banks should also be provided with estimation given for each asset by a board consisting of minimum two auditors.
6. The profit – making government banks should have the opportunities to enjoy foothold in capital market and to improve share capital, by mutual funds, valuables, public sector undertakings, through human resources or through common people.
7. It recommended that licensing of branches had to be eliminated. The choice to open or close branches should be on individual banks' discretion based on commercial viability. However, it was non – applicable for those in village areas. It also advocated bank freedom in regular administrative affairs.
8. Banks were told to maintain defined capital adequacy ratio (CAR) and needed to achieve a CAR of 8 % by 1998.
9. Guidelines were implemented to frame a board that would supervise the bank's financial transactions.
10. Need of ensuring transparency in balance sheet maintenance was emphasized upon.
11. It further recommended the steady operation of rapid computerization process.

The Narasimham Committee II, 1998

The second Narasimham Committee encompassed various issues starting with bank mergers and also including conditions related to globalization, bank closures and rechecking of bank legislations. The major guidelines from Narasimham Committee II were:

1. Attempts must be aimed at rebuilding marginal banks by introducing concept of ' narrow' banking. When it is impossible, closure might be considered. 'Narrow

banking', emphasizes that the weak banks should positively invest funds only in government securities.

2. Government needed to pay attention towards initiating and optimal operations of minimum two or three international banks.
3. States or even a group of districts should have small local banks that would cater to local business requirements.
4. The Committee advised on delegating more autonomy and power to bank executives for its governance instead of being totally micromanaged through central forces.
5. Board and management function should undergo timely evaluation to facilitate maintenance of shareholders' interests by effective corporate strategy.
6. The committee issued guidelines that a minimum standard of capital adequacy should be maintained. It advocated that minimum CAR should enhance 10 percent by 2002.
7. Committee additionally wanted for coordination of NBFC's credit policies into the financial system.
8. It reemphasized the necessity of quick computerization of banking structure in totality.
9. It also suggested a thorough reanalysis of recruitment policies, training and development procedures and compensation policies.

The Ghosh Committee, 1993

This Committee was mainly concerned with prevention of monetary scams and malpractices prevalent in banks. It gave report in 1993. The main guidelines were:

1. The committee made all accounts to compulsorily have photographs of depositors or persons who would operate the accounts. This was to be followed by all account types: resident, non – resident, fixed deposits, recurrent deposits, etc.

2. Where the deposits were for a minor, guardian’s photograph had to be there. It directed banks to designate a senior bank executive as compliance officer. His designated responsibility was maintenance of compliance of R.B.I instructions to the core.
3. Very large and exceptionally large branches had to implement Concurrent Audit.
4. Additionally it recommended that R.B.I should be informed about Currency Chest transactions, that same day.
5. It authorized only the cash department to receive cash. The committee forbade the cashier from making Pass Book entries.
6. The committee prohibited the officials from exceeding his delegated authority except during emergency situations.

The Khan Committee, 1997

The Khan Committee was initiated by RBI in 1997. It tried to analyse and evaluate whether development of money institutions and banks were in coordination with each other. It fervently suggested a gradual and progressive adherence to the policies of universal banking. It wanted administrators to seriously contemplate about profitable mergers between banks, either between two units: one strong and one weak, or between two strong ones. The Khan Committee further worked towards forming two categories of framework – one was a function centric regulatory framework and the other was a risk centric supervisory framework. It also provided strong messages from quick dispersal of legislative reforms that would speed up debt recovery and for CRR to be decreased to international level. It also advised for gradual but total removal of SLR.

The Verma Committee, 1999

In 1999, another government nominated committee gave its recommendations that significantly altered the banking scenario in India. [23]Commonly known by the name, Verma Committee, this vehemently argued for the increased application of IT knowledge (information and technology)in banks. Even, for weak banks, the Committee argued for advancement in IT infrastructure. It dissuaded merger of unprofitable organizations but emphasized on redesigning of such banks. It also gave some controversial guidelines like voluntary retirement schemes, and withdrawal of weak commercial banks' subsidiaries.

So we see, the government forming numerous committees to revamp and consolidate banks. It did implement various guidelines and this resulted in substantial change of bank policies and practices in India.

4. 2000 – Till Present

Consequently, the operational milieus of banks have witnessed drastic transformations for the better. Nature and force of competitions have enhanced dramatically with initiation of private players in market along with foreign investments. The government banks likewise gained access to the capital market. This did evolve into a changed capital structure and also into a situation, whereby banks were forced to compulsorily adhere to market guidelines. Legal pre – emptions like CRR and SLR were reduced substantially. The banks began to enjoy considerable autonomy in its day to day operations and also in how it responded to environment changes. Post reforms, banks started entering into unorthodox territories and functions.

The common man began demanding more from banks which were also ready to accommodate various other services like personal loans for education, housing , or automobiles, equipments, financing, remittance from abroad, international letters of credit and insurance, etc. Banking sector changes had principally meant at fostering a climate of heterogeneity and financial efficiency in the business market. It fundamentally aimed at optimal disbursal of resources and also its utilization by maintaining adaptability and fluidity of operations and encouraging a climate of financial feasibility. An analysis is presented here to briefly understand about the trends of income and expenditure and banks profitability throughout the post- reform period.

Table: 2. 11

Trends of Income and Expenditure and Banks Profitability

ITEM	**Year**		
	1991 - 1992	**2017 – 18**	**2018 – 2019**
1. Income	**39418**	**1217667**	**13,23,680**
(a) Interest Income	**34739**	**10,219,68**	**11,40,727**
(b) Other Income	**4679**	**1,95,598**	**1,82,953**
2. Expenditure	**38218**	**12,5004**	**13,47,077**
(a) Interest Expended	**23575**	**6,53510**	**7,10,890**
(b) Other Operating	**8829**	**2,71470**	**3,07457**

Expenditure			
(c) Provisions and Contingencies	**5814**	**3,25,024**	**3,28,731**
3. Net Profit		**- 32438**	**-23,397**
4. Operating Profit		**292587**	**3,05333**
5. Net Interest Income		**3,68,458**	**4,29,837**

Source: RBI- Report on Trend and Progress of Banking in India, Various Issues.

Above table demonstrates income – expenditure trends during the years post the reform in Indian banks. Analysis shows the total income has expanded considerably post LPG. It had been consistently expanding in proceeding years. Side by side, subsequent increment of total expenditure is also discerned. During 2018 – 2019, interest income was additionally enhanced as the provisioning requirements have slackened and a modest credit development was evident. Expenses from interests had also risen because of exalted deposit groups. However, the earnings through non – interest sources have reduced when compared with previous years. It was because of spreading of mark – to – market losses in government security portfolio and movement of finances to investment fluctuation reserves.

2.4 : Measures Taken by Commercial Banks Post Liberalization

Post the bank reforms, various substantial measures had been undertaken by R.B.I.[24] They are described as under.

2.4.1: Computerization

This was started in early 1980s. It gained wide implementation from the 90s. In 1988, the Rangarajan committee made a tentative framework for computerization process for a five year period. The recommendations had been:

a) Emphasize on the top thirty business centres that stood for 51 percent of entire banking empire.

b) Non computerized offices had to be computerized in the phased manner in the subsequent five years.

c) Automatic Teller Machines were put at specific areas.

d) Installation of signature scanner at large branches and common scanner for smaller branches.

e) Corporate clients of high esteem should be supplied online terminals at their premises.

Following the above guidelines, computerization process had been vigorously implemented all over India, along with Core Banking Solutions (CBS). It is the particular branch plan with the end goal that the clients are empowered to adequately deal with their records from any branch, independent of their having accounts in that branch or not. CBS had made possible handling and usage of data in a centralized way, which had a positive effect in effectively working web and mobile banking.

Table : 2. 12

Computerization in Public Sector Banks

CATEGORY	FY 07	FY 08	FY 09
Fully Computerized Branches	**85.6 %**	**93.7 %**	**95.0%**

(CBS and Others)			
Branches under CBS	**44.4 %**	**67.7 %**	**79.4%**
Branches Fully Computerized Other than under CBS	**41.2%**	**26.6%**	**15.6%**
Partially Computerized Branches	**13.4 %**	**6.3%**	**5.0%**

Source: RBI Reports, Various Issues

2.4.2 : Automated Teller Machines (ATM)

Foreign banks in the early 1990s introduced ATMs in the Indian banking industry. Later on, both private and public Indian banks had also used ATMs extensively. ATMs had since then decreased the costs of bank businesses and had also acted as efficient marketing resources.

a) Multilingual ATMs: Banks had started extensive use of multilingual ATMs. This had been highly useful owing to language diversity of India, mainly for the villages, where substantial lack of awareness of English language is markedly felt.

b) Multifunctional ATMs: Such machines are effectively catering to different services like mobile recharges, ticketing, bill payment, apart from the primary function cash dispersal and providing account information.

Table : 2. 13 (a)

Branches and ATMs of Banks, in India, 2008

Bank Group	BRANCHES					ATM s		
	Rural	Semi - Urban	Urban	Metropolitan	Total	On - Site	Off – site	Total
S.B.I	5328	4545	2820	2412	15105	4582	3851	8433
Nationalized Banks	13918	8140	8440	7997	37775	8320	5035	13355
Old Private Sector Banks	808	1498	1270	874	4450	1436	664	2100
New private Sector Banks	223	870	1147	1285	3525	3879	5988	9867
Foreign Banks	NIL	2	49	226	277	269	765	1034

Table : 2. 13 (b)

Branches and ATMs of Banks (2018)

Types of Bank	BRANCHES					ATMs		
	RURAL	SEMI - URBAN	URBAN	METR0	TOTAL	On – Site	Off – site	Total
Public Sector Banks	29,201	25,397	17,677	18,546	90,821	83,259	61,839	145,098
Private Sector Banks	6,160	9,242	5,926	7,477	28.805	23,564	35,601	59,165
Foreign Banks	9	10	36	231	286	214	724	938

Table: 2.13 (c)

Branches and ATMs of Banks, (2019)

Types of Bank	BRANCHES					ATMs		
	Rural	Semi - Urban	Urban	Metro	Total	Onsite	Off site	Total
Public Sector		24,599	16,975	17,486	87,860	78,419	57,679	1,36,098

Banks	**23, 800**							
Private Sector Banks	**6,836**	**10,306**	**6760**	**8473**	**32,375**	**26,197**	**37,143**	**63,340**
Foreign Banks	**13**	**10**	**39**	**238**	**300**	**221**	**693**	**914**

SOURCE: RBI Reports, Various Issues

2.4.3: Internet Banking

It was initiated from 2000. Internet banking had been conducted in three tiers. The first tier had been informational websites that dealt only with queries. The second tier had been Simple Transactional Websites, by which customers were provided with guidelines, could avail of online facilities and get access to balance enquiries. The third and highest tier facilitates total fund transfer and value added services. At present Indian banks boast of all three tiers.

2.4.4 : Phone Banking and Mobile Banking

They are very recent additives to the procedure of bank modernization. Phone banking operates through an Interactive Voice Response System (IVRS) or telebanking the officers employed in banks. The transactions had consisted of balance enquiries, cheque cancellation and fund transfer of small amounts. Mobile banking had made Indians witness an incredible shift in standards and parameters of banking . Banks which had license and had an office in Indian soils could avail of the mobile banking services. This facility could be accessed by bank, and, credit card account holders which had KYC compliance.

2.4.5 : Electronic Fund Transfer System (EFT)

Electronic Fund Transfer System was started in 1995. It encompassed 15 centres and the clearing centres had been controlled by R.B.I. Special EFT (SEFT) had been designated to function like EFT, since 1st April, 2003. This ensured quicker fund transfer. SEFT was functional throughout computerized bank branches which were joined with each other by network that provided for message transmission in a straight through manner. (STP). The latest type of EFT to be used had been National EFT. NEFT had been acting as a link between Structured Financial Messaging Solution (SFMS) and the Indian Financial Network (INFINET). When funds are transferred by NEFT, a heightened security is ensued. NEFT is a deferred net settlement funds transfer product.

2.4.6: Real Time Gross Settlement (RTGS)

RTGS had been implemented on and from 2004. It is mostly used for repetitive transactions of minuscule amount, mainly for retail transactions. RTGS got introduced by RBI with an eye towards real time settlement.

2.4.7: Electronic Clearing Service:

It acts like retail payment process. This system is utilised to incorporate large amount payments of the same type for repeated time that are generally of small amounts. This service is generally used to enable companies and government organizations to give or partake of vast numbers of payments.

2.4.8: Foreign Direct Investment

Prior to reform era, which was mainly bounded by a restrictive and regulatory environment, nation’s banking horizon was predominantly dotted with public sector banks. The scenario however changed considerably after 1991. Post LPG, foreign capital to all and any economic sectors have been welcomed at the Government level. This capital, either as FDI or as foreign institutional investments have provided the necessary resource for the progress and melioration of economy. At present, 20 % overseas investment in Public Sector Banks is allowed with Government approval. The RBI does not approve an individual entity to possess in excess of 10% investment in a bank. The total advances of Private Sector Banks in 2018 were Rs 11,592 crore which became Rs 21, 344 crore in 2019. Foreign Banks had a total deposit capital of Rs 67,833 crore in 2018 which enhanced to Rs 77809 crore in 2019.

Table: 2. 14

Operations of Foreign Banks in India

Period	**Foreign Banks Operating through Branches**	
	Number of Banks	**Number of Branches**
Mar 2014	**43**	**314**
Mar 2015	**45**	**321**
Mar 2016	**46**	**325**
Mar 2017	**44**	**295**
Mar 2018	**45**	**286**
Mar 2019	**45**	**299**

Source: RBI: Report on Trend and Progress of Banking in India, Various Issues.

Thus a clear indication is obtained that number wise, foreign banks in India, remained constant relatively. However their total capital deposits have only increased with succeeding years. These banks indulge in international best practices. The result has been an enhanced and productive banking system with regards to capital allocation, resource utilization and better risk management. This ensured a more competitive environment which ultimately benefits the end – customer with better quality products and superior service quality.

2.4.9: Pradhan Mantri Jan Dhan Yojana

It is going about as a powerful and colossally fruitful government measure towards the effective working of financial inclusion plans. Launched in 2014, it had since then achieved exemplary success towards achievement of financial goals embracing the poorest of the poor. This scheme targets Indian citizens of 10 – 65 years , and makes them eligible for monetary services like accounts, subsidies, loans insurances and pensions. Opening of accounts in banks make such people beneficiaries to vast amount of benefits available. The various benefits are listed as below:

- **a)** Eliminates the necessity for minimum balance.
- **b)** Access insurances up to Rs 1 lakh for accidents.
- **c)** Life Insurance up to Rs 30,000
- **d)** Transfer money easily.
- **e)** Direct transfer of subsidies and other benefits.
- **f)** Access to overdraft facility.

Table: 2. 15

Pradhan Mantri Jan Dhyan Yojna

(All figures in Crores) Beneficiaries as on 19/ 02/ 2020

Bank Name / Type	Number of Beneficiaries at Rural / Semi – Urban Centre / Bank Branches	Number of Beneficiaries at Urban / Metro Centre Bank Branches	Number of Rural Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts	Number of Rupay Debit Cards Issued to Beneficiaries
Public Sector Banks	16.38	13.98	16.03	30.37	91901.09	24.42
Regional Rural Banks	5.27	1.24	3.63	6.51	21083.28	3.57
Private Sector Banks	0.70	0.56	0.67	1.26	3167.74	1.15
Grand Total	22.35	15.78	20.33	38.13	116152.12	29.14

The above table gives a clear picture of the tremendous impact of PMJDY on Indian economy. Presently under this particular scheme, there are appropriately 38.13 crore beneficiaries who have banked so far, that has put up a balance of Rs 116,152 crore in the beneficiaries accounts.

2.4.10: Risk Management in Banks

BASEL: It was formed through the initiatives of Governors of Central Banks of the G – 10 nations in 1974. Those countries are Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Spain, Sweden, Switzerland, U.K and U.S.

a) BASEL 1: It had fixed a base capital that is essential to reduce credit risk financial organizations substantially. In 1988, BASEL 1 was notified which dealt mainly with loan risk through forming a differentiation procedure for bank assets. Capital adequacy is an estimate that is used for forecasting the pecuniary strength of banks. When a bank has adequate capital, it will also possess the unique advantage to bear losses, and the capacity for recovering and reinstating bank solvency. This has also decreased the banks' incentives to undergo risk. Basel committee fixed minimum bank capital at 7.25% by Dec 31, 1990 and 8% by Dec 31, 1992.

b) BASEL II: In 2004, BASEL II has dealt with various guidelines on banking rules and laws generated for supervision by the committee. It has redefined capital adequacy ratio as Ratio = Tier 1 + Tier 2 + Tier 3 Capital/ Credit Risk + Market Risk + Operational Risk

c) BASEL III: Basel III is an international controlling framework encompassing bank capital adequacy, stress testing and market liquidity ratio. Basel III = Enhanced Basel

II + Macro Prudential Overlay.

2.4.11: Mergers and Acquisitions

In 2017, SBI merged with 5 associate banks and took over Bharatiya Mahila Bank. This merger secured it a place among the top 50 global lenders. This was followed by yet another mega merger. In 2018, government made a declaration proclaiming the proposed amalgamation of Vijaya Bank and Dena Bank in 2018. This merger of three banks has become operational from 1st April 2019. This unified entity has become third in terms of lending capacity. It has gifted this entity more lending power, which has furthered its global competitive edge. In August 2019, the government revealed merger of 10 public sector lenders into four stronger and bigger banks. Accordingly from 1st April 2020, ten Public Sector Undertaking (PSU) banks have been amalgamated into four banks. This consolidation plan has been outlined as below:

i) Oriental Bank of Commerce (OBC) and United Bank of India (UBI) have been merged into Punjab National Bank (PNB). Anchor bank is PNB.

ii) Syndicate Bank merged into Canara Bank, which is Anchor bank.

iii) Allahabad Bank merged into Indian Bank, which acts as Anchor Bank.

iv) Andhra Bank and Corporation Bank merged into Union Bank of India, which is the Anchor Bank.

This amalgamation will make the customers, including depositors of merging banks as the customers of the banks into which these banks have been merged. After this , now there are 12 PSUs - 6 merged and 6 independent public sector banks. The 6 merged banks are: SBI, BOB, PNB, Canara Bank, Indian Bank, Union Bank of India. The six independent banks are: Indian Overseas Bank, UCO Bank, Bank of Maharahtra, Punjab and Sind Bank, Bank of India, Central Bank of India.

Table : 2. 16

Rank of PSU Banks after Amalgamation

Banks (Independent / Merged Anchor)	Net Assets (approx)
1. State Bank of India	Rs 52.052 billion
2. Punjab National Bank	Rs 17.940 billion
3. Bank of Baroda	Rs 16.130 billion
4. Canara Bank	Rs 15,203 billion
5. Union Bank of India	Rs 14,594 billion
6. Bank of India	Rs 9,030 billion
7. Indian Bank	Rs 8080 billion
8. Central Bank of India	Rs 4,680 billion
9. Indian Overseas Bank	Rs 3,750 billion
10. UCO bank	Rs 3,170 billion
11. Bank of Maharashtra	Rs 2,340 billion
12. Punjab and Sind Bank	Rs 1,710 billion

Thus we see that, the Indian banking environment has made giant steps towards reinforcing the banking structure and function. Increased and optimal use of Information Technology enhanced its standards and brought it closer to the ideal standards of global banking. Modern Indian bank puts forward various unique services to its clients. As such the modern banks are dissimilar to their traditional counterparts of yester years. Banks today have diversified their activities towards mutual funds, merchant banking activities, portfolio management, corporate counseling, project counseling, etc. With time, their importance has magnified, and their involvement has been prone to get more intricately linked with the daily affairs of the society at large. Banks have been, and will continue as the economic and fiscal lifeline of the nation.

2.5 : Brief profile of banks in West Bengal

The Bank of Calcutta was the first bank of India. It was set up on 2nd June 1806. The nomenclature gave way to Bank of Bengal on 2nd Jan 1809. Being extra cautionary and did not provide loans for time that exceeded three months. It was unwilling to take risks. Consequently, many businessmen of both Indian and British origin went on a bank opening spree. However, all met with failures. Noteworthy among all failures was that of Union Bank Ltd (1829 – 48). It had been initiated as a partnership between a very eminent Bengali – Prince Dwarkanath Tagore (grandfather of Nobel Laurette Rabindranath Tagore) – and British Companies. However this also collapsed. Following that incident, Bengalis as a race increasingly leaned on to other arenas of investment like real estate that was traditionally considered to be quite safe.

In the follow – up years, Kolkata or Calcutta – as it was known back then – lost its prominence and gradually became a less significant entity both economic wise and also banking territory wise. The Bank of Calcutta amalgamated with two Presidency banks – The Bank of Bombay and The Bank of Madras – on 27th January 1921. The RBI, as the primary Indian banking regulatory body, exerts control and command over The Imperial Bank of India. Consequently it became The State Bank of India. History reveals that between early 1940 and mid 1960 s, West Bengal became quite infamous for witnessing innumerable bank failures. It was because of corruption and absence of regulation. However post – nationalization, the outlook changed considerably for the better.

Table: 2. 17

Present Vital Banking Statistics of West Bengal (Amount in Rs Crores)

Serial No	Parameters	Mar 2017	Mar 2018	Mar 2019
1.	Number of Branches	8201	8228	8230
2	Total Deposits	655921	710512	762840
3	Total Advances with Rural Infrastructure Development Fund (RIDF)	418988	464580	492580
4	Credit Deposit (CD) Ratio	64	65	65
5	Priority Sector Advances	152614	168373	202660
6	Agriculture Advances	42508	47439	62130
7	Advances to SC/ST Communities	14929	17517	16430
8	Advances to Women Entrepreneurs	30175	39357	39287
9	Weaker Section Advances	42157	58918	56423
10	Minority Community Advances	25407	31323	31122

The table shows that the total count of complete loans made by all bank branches have progressively increased in 2017, 2018 and 2019. Also, priority sectors experienced successively increased loans in both absolute numbers and also as percentage to the total advances. Loans in this sector comprised 36.42% in 2017, 36.24% in 2018 and 41.14% in 2019 respectively. The agriculture section advances have also increased. Thus, we see that financial situation is very steady in West Bengal. However scope for development exist.

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