CHAPTER - I
INTRODUCTORY

THE END OF AN EPOCH

Nationalisation of the 14 major banks in July 1969, may be regarded as a historic event in the development of commercial banking in India. It marks the end of an epoch that believed in the orthodox principles of bank lending. Prior to the nationalisation, Indian banks had remained confined to the urban and metropolitan areas. Banking services were then meant mostly for the city-dwellers; and bank lending was limited to the sophisticated few, who were generally rich and resourceful. Curiously, the vast parts of rural India, and the millions of inhabitants who formed a formidable portion of the Indian population, were left outside the purview of banking and credit facilities.
Nationalisation of banks has, however, brought about changes of a far-reaching character in the principles and practice of commercial banking in India. In the post-nationalisation period, the public sector banks have spread the network of their branches in such a manner that practically each district, each taluka, and possibly each prominent village is now covered by the banking facilities. What is more important to note is that more and more bank credit is now pumped into the rural areas. A bulk of the bank credit, which was formerly disbursed in metropolitan areas like Calcutta, Bombay and Madras, is not attempted to be more evenly spread between rural and semi-urban areas. By dispersing the credit between various regions, the public sector banks have indeed focused their attention on the goal of a balanced economic development.

A qualitative change has also occurred in the allocation of bank credit between various sectors. Prior to the nationalisation a large chunk of bank credit was made available to commerce and large scale industries. The credit extended to these traditional sectors was essentially of a short-term character and security-oriented. Term lending, for the acquisition of fixed assets, was deliberately set aside in
view of the paramount consideration of liquidity. Financing of agriculture was also overlooked as it was considered to be out of scope of commercial bank lending.

In the post-nationalisation period, however, the public sector banks have diverted a part of their credit flow to the hitherto neglected sectors. Financing of agriculture and other allied activities such as dairy, poultry, fishery, piggery, warehousing etc., now forms an integral part of bank lending. The banks have also been financing newer and newer sectors such as transport operators, professionals and self-employed, students' education and even the small craftsmen and artisans. The purpose in financing these sectors is quite clear - it is to bring about a substantial increase in the flow of goods and services, produced throughout the country.

LIQUIDATION OF UNEMPLOYMENT

Part of the flow of bank credit is also diverted to the small-scale industry and other allied manufacturing processes. Liberal bank finance is now made available to young and qualified entrepreneurs to manufacture existing items or to develop new products. By financing small scale units on an increasing scale, the public sector banks have thus been largely contributing to the solution of the problem of unemployment.
REMOVAL OF POVERTY

The nationalised banks have also taken upon the role of financing the small man. Small artisans and craftsmen, various itinerant retailers, and owners of numerous small trades have now become eligible for bank loans. The procedures of granting loans to the small man have also been considerably simplified, and the security is often dispensed with. In a large many cases, the banks have also granted loans for consumption. The purpose in advancing money to the poorer among the poor is obviously to uplift the masses from poverty and raise their living standards appreciably.

A STUDY OF THE CHANGES

With the nationalisation of banks, the orthodox principles of bank lending have thus been receded in the background. This is due to the fact that an entirely new role has been assigned to the nationalised banks. The banks are now expected to bring about a balanced economic growth by dispersing credit among various regions, various sectors and various classes of the Indian society. They are also expected to contribute to the solution of problems like unemployment and poverty, and are required to play a dominant role in the economic development of the country.
The socio-economic objectives assigned to the banks in this manner have indeed brought about changes in the advances portfolio of the Indian banks. A study of all such changes in the lending policies of banks is the theme of this work.

REVIEW OF EARLIER WORK:

The study cannot, however, have a claim to originality, mainly because this field happens to have been explored earlier. In particular, an effort to analyse the investments and advances of scheduled banks in India was made quite recently by Professor Moolchand Vaish of the Rajasthan University. In his doctoral thesis approved for the degree of Ph.D. by the Agra University, Dr. Vaish has surveyed the investments and advances of banks during the period 1951-66. The work provides useful compilation of statistics relating to the period of fifteen years; but it needs to be revised and brought up to date by analysing the changes that have taken place in the post-nationalisation period.

SIGNIFICANCE OF THE STUDY:

The present study, on the other hand, focuses attention on

* Moolchand Vaish: An Analysis of Investments and Advances of Scheduled Banks in India during 1951-66

Ratan Prakashan Mandir, Agra (1969)
the changes in the lending policies of banks during the period 1951-75. It seeks to explain the changes that have taken place in the philosophy and practice of bank lending in India. In particular, it analyses the changes in the purpose-wise, regionwise and securitywise allocation of bank credit. While explaining these aspects, it attempts to evaluate the change from the point of view of a practical banker. It attempts to answer questions like, whether the change was desirable; whether it has achieved the objectives of nationalisation and whether it would work well in future, so far as viability of the banking institutions is concerned.

**SOURCES OF DATA**

For analysing the changes in the lending policy, the study has drawn on the material and statistics published by the Reserve Bank of India. These publications include:

- The Reserve Bank of India Bulletins
- Reports on Currency and Finance
- Statistical Tables relating to Banks in India and
- The Trend and Progress of Banking in India.

Although the study has depended on the materials published by the Monetary Authority in India, it will be noticed that it has heavily drawn on the British talent. Since the structure of Indian banks is largely shaped by the British pattern, it is natural for the study to have drawn frequently
on the English authors. Thus, for principles of lending, it has drawn on the English economists like Sir Dennis Robertson, Professor Theodore Gregory and Professor Richard Sayers. At the same time, it has also drawn on the experiences of the eminent British bankers like Henry Thornton, J.W. Gilbart, George Rae, Reginald Mokanna, Howard Lloyd, L.C. Mather and many others.

DISCUSSIONS WITH BANKERS:

In addition, the study incorporates the opinions of a number of practical bankers. As Professor Robinson has remarked,

"Many of the traditions of banking are entirely oral, passed along by word of mouth and seldom written down. Many bankers are articulate, even eloquent, but they often hesitate to write much about their own business." *

One has, therefore, to make them speak, if they are reluctant to write. This could be achieved by arranging discussions with the bankers. The author of the study has greatly benefitted from such discussions. In particular, the author is indebted to Mr. M.K. Gupte, General Manager, Bank of Baroda, for his wise counsel. It was only after several discussions with him that the author's views on lending

were fairly crystallised. Occasionally, I have also drawn on Mr. C.P. Shah, formerly General Manager, Bank of Baroda and Chairman, Bank of India. Discussions with a few noted economists were also very rewarding. In particular, the discussions on research methodology with Professor V. M. Dandekar, Director, Gokhale Institute of Politics and Economics, and with Dr. Chitre, Professor of Money and Banking at the Gokhale Institute were quite fruitful.

ACKNOWLEDGEMENT:

I am, therefore, very grateful to the bankers and economists who have provided the necessary filament of thought. The knowledge that I gained from the speeches and works of these eminent men was, however, shaped and refined under the expert guidance and personal care of Dr. S.S. Matalik Desai, of Nowrosjee Wadia College, Poona. His constant guidance and encouragement have indeed enabled me to accomplish the chosen task. The debt which a pupil owes to the Guru is, however, such that it can never be discharged in the lifetime. I am equally indebted to Dr. D.B. Kerur of Sir Parashurambhau College, for his valuable guidance and criticism.

My thanks are also due to the Librarians who allowed me free access to their collections. Of the several libraries in Poona, I have heavily drawn on the collections of the
Brihan Maharashtra College of Commerce, Gokhale Institute of Politics and Economics, Fergusson College and Sir Parashurambhau College. The Bombay University and the Sydenham College of Commerce, Bombay were also very kind in allowing me a free access to their shelves.

The magnitude of debt I owe to my disciples is also considerable. Mr. P.R. Bhonde, my former pupil and now lecturer at the B.M. College of Commerce, and Mr. C.P. Kulkarni, the Principal Training Officer at the Bank of Baroda's Regional Training Centre, have helped me untiringly in preparing the statistical tables, bibliography etc. Assistance received from Mr. Ravi Handigol, the Accountant of my branch, in preparing the graphs and from Mr. Prakash Gavande in typing the thesis so neatly is also valuable. I wonder, however, whether I would be able to do anything more than to acknowledge their debt with affection.

I must, however, express my great obligation to the Management of our Bank for giving invaluable encouragement and motivation at every stage of the inquiry. Responsibility for the views and errors in this work is, of course, my own.

H. Y. KULKARNI

BANK OF BARODA,
BhAPATI BAPAT ROAD,
POONA - 16