CHAPTER - II

DEVELOPMENT OF BANK LENDING IN INDIA
1750-1950

INTRODUCTION:

Long before the advent of Europeans, the monetary affairs in India were managed by indigenous bankers and money lenders. The people engaged in this profession were scattered all over the country, and were represented by various castes such as Vaishyas, Jains, Marwaris, Chettis, Multanis, Kabulis, Pathans, Rohillas and so on.

ROLE OF INDIGENOUS BANKERS:

The business carried on by these shroffs was broadly two-fold. Firstly, there were indigenous bankers who, besides
money lending, used to accept deposits from the general public. They also acted as collectors of public revenues and the Mint Masters and at times lent large sums of money to emperors. Some of the banking houses like Gopaldas Sahu of Benaras, Arjunji Nathji and Virji Vora of Surat had combined banking with trading. Through a network of offices spread throughout the country, they financed internal trade by means of bills of exchange called hundis. Of all the banking houses, the house of Jagat Seth of Patna was the most prominent and it enjoyed considerable influence and prestige as bankers to the Moghal court and to the English East-India Company.

CONTRIBUTION OF MONEYLENDERS:

The other class of people engaged in this profession, however, specialised in moneylending. They did not accept deposits from the public; but merely lent small sums out of their own resources, to any individual who approached them for accommodation. It was lent to agriculturists against the security of standing crops or upon mortgages. Sometimes it was advanced against the security of promissory notes; but on many occasions it was lent without any security.

Lending of money by the moneylenders was attended by several malpractices. The baniyas and pathans, for example,
charged unusually high rates of interest and often appropriated the landed property of the peasants in settlement of debts. But in spite of these evils, the institution of moneylenders was quite useful to the Indian society. It has for centuries provided credit for productive purposes like agriculture, trade and crafts and has also met the financial needs of an unproductive type. The utility of the institution of moneylenders lies in the fact that they provide credit without asking the purpose for which it is required. Furthermore, unlike their European counterparts, they do not conduct a thorough and an embarrassing inquiry into the financial conditions of their borrowers. It is this simplicity in the lending methods that enabled the moneylenders to survive and grow for centuries in the Indian society. As was pointed out by the U.P. Banking Enquiry Committee Report, "The moneylender is an important element in rural life even today - an element that is often expensive and sometimes dangerous - but always necessary. Should be withhold credit, then widespread distress quickly follows".

DECLINE OF INDIGENOUS BANKERS:

In spite of its flexibility, the system of indigenous banking suffered a blow in the 18th century. In particular, the growing contact of the indigenous bankers with the Europeans proved to be disastrous. The former were unable to understand the language and the business methods followed by the
Europeans, and the political rivalries between the Indian princes and the English often brought in their train huge losses of capital to the Indian banking houses. For example, in November 1795 a sum of Rs.1,02,43,120/- was owed by the Vazir of Oundh to the house of Dwarika Das, but this amount was defaulted by the Vazir when he was defeated by the English. The English who took over the kingdom of the Vazir, also kept silent on the repayment of loan to the native creditor. The great banking house of the Jagat Seths of Patna was also destroyed in 1760-61 when Meer Kasim was defeated at Fort Monghir.

While the importance of indigenous bankers was diminishing a new class of European merchants was taking their place in the Indian money market. During the 18th century the trading activity of the East India Company was considerably expanded; and servants and officers of the East India Company had also started their private trade with the West. In course of time, this lucrative activity assumed wide proportions and there arose in Calcutta and Bombay several European agency houses. In the initial stages, the financial needs of these houses were met partly out of their savings and partly out of borrowings from the indigenous bankers. But with the gradual decline of indigenous bankers, the European agency houses found it difficult to finance the growing volume of trade. Even
the East India Company, who used to raise large sums from the house of Jagat Seths, found it difficult to fight the wars for want of finance. The need for a bank was thus keenly felt by the European commercial and military interests which were spreading fast in India since the last quarter of the 18th century.

LENDING POLICIES OF EARLY EUROPEAN BANKS

The lead to establish a bank was, however, taken by the well known agency house of M/s Alexander & Company when in 1770 it opened the doors of the Bank of Hindostan. This bank was, however, a mere department of M/s Alexander and Company and was wound up when the parent company went into liquidation in 1832. The earliest bank, unconnected with trading activity, was the Bengal Bank, and it was formed in 1764. In 1786, another bank, called the General Bank of India, was started in Calcutta on the joint stock principle.

The business conducted by the early European Banks was largely of a non-banking character. The Bank of Hindostan, for example, had announced in the Calcutta Gazette, dated October 11, 1792 that it would receive applications for a lottery, the profits of which were to be utilised for building a Town Hall in Calcutta. The early banks also lent large sums to a single party, and suffered huge losses when the borrowing firm failed in a trade disaster. As a
result of such imprudent policies they had to be closed down shortly after inception. Thus, the General Bank of India went into liquidation in March, 1791 and the Bengal Bank too, followed the same course in November 1791. The Benaras Bank formed in 1845 was also very shortlived because it lent money to its Directors to enable them to pay the unpaid calls on its shares.

LENDING BY PRE IDENCY BANKS

Extinction of the General Bank of India in 1791 created the same old problem for the East India Company. The company had to look again for an agency that could undertake to collect and transmit the company’s revenues from the ryots to the Government Treasury at Calcutta. Attempts were, therefore, made to form a bank that could serve as a banker to the East India Company. Accordingly on May 1, 1806 the Bengal Presidency Bank was formed and this was followed by the establishment of the Bombay Presidency Bank in 1840 and the Madras Presidency Bank in 1843.

The lending policy pursued by the Presidency banks was a strange admixture of prudence and recklessness. Thus, as a measure of caution the charter of the Bengal Presidency Bank prevented it from engaging in foreign exchange business. It also prevented the Bank from lending more than $1 lac to a single party except to the Government. Lending against
the security of immovable property was also forbidden. Despite these provisions, the Bank advanced ₹3.5 lacs, in 1828, to Rajkisan Dutt against the security of notes which subsequently turned out to be forgeries. Similarly, in 1829, when most of the Calcutta agency houses were suffering from trade crisis, the Bank advanced to ₹2.25 lacs to M/s Alexander & Company against the mortgage of immovable property. When the borrowing firm failed in 1832, the Bank had actually to manage indigo factories notwithstanding the provisions of its charter which prohibited the Bank from engaging in any trading activity. The Government Directors kept silent and did not inform the Government of this affair. The Governor-General, too, took 'an amazingly lenient view of the extraordinary failure of the Government Directors to perform their obvious duty.'

On account of such reckless lending, the Presidency Bank of Bengal had to suffer huge losses from time to time. As we are told, "The amount written off as bad debt from 1829 to 1835 was ₹4.5 lacs exclusive of that involved in connection with the Rajkisan Datta Forgeries."** The Bombay Presidency Bank also landed itself into trouble, when it made speculative advances to the Bombay merchants during the cotton boom of 1862. This bank was actually wound up in 1868 and restarted in the same year.

* Sir James Brunyate : Account of the Presidency Banks (1900)
** Findlay Shirras : Indian Finance & Banking Macmillan & Co., Ltd., London (1920) P.349
Most of the banks formed during the 19th century were thus shortlived on account of imprudent lending policies, fraudulent managements and defective systems of audit. Only a few banks, like Agra Bank, Dacca Bank and Simla Bank had a longer life up to the close of the 19th century. Application of the principle of limited liability to banks in 1860, however, resulted in the growth of joint stock banks in India. Allahabad Bank was thus formed in 1865 and the Punjab National Bank in 1894. The second half of the 19th century also saw the opening of branches of the foreign banks. It may be recalled that the charters of the Presidency Banks had prevented them from engaging in the risky business of foreign exchange. This lucrative business, which had grown considerably with the growing volume of India's foreign trade, therefore, attracted the London bankers to this country.

The London bankers who opened their branches in India after the mid-19th century introduced an altogether new thought on bank lending. These bankers, such as Lloyds, Chartered, Grindlays belonged to the orthodox English traditions, and on their entry in India they began to follow their cautious lending policies. Bank lending in India, in the latter half
of the 19th century, therefore, came to be coloured by the orthodox principles such as safety, liquidity spread and profitability.

Most of the banks—both Indian and foreign were then clustered in the major port-towns like Bombay, Calcutta and Madras. During the British reign, these cities had acquired considerable importance as commercial and industrial centres, and the major financial activity in the country had come to be concentrated in these cities. Since this brought ready business to their doors, there was no need for the banks to open branches in other parts of the country. Eventually, bank lending in India came to be confined to the sophisticated classes in the metropolitan cities, and vast parts of the Indian territory remained uncovered by the banking and credit facilities.

Since bank credit was extended only to the commercial activity, it became short-term in character, and this characteristic was continued well into the 20th century. The Imperial Bank of India, which was the result of a merger of the three Presidency Banks in 1920, was also forbidden by its Act to lend for a period which was in excess of six months. The lending pattern of the Indian joint stock banks was also shaped accordingly, and their advances were essentially short term in character.
This conservative attitude was continued till the dawn of economic planning in 1951. With the introduction of planning, however, the lending pattern came to be refashioned. Since most of the Five Year Plans aimed at rapid industrialisation of the country, the bank credit came to be geared to the industrial activity. During the period of fifteen years from 1951 to 1966 the share of industrial advances, therefore, rose sharply, and that of the traditional advances fell substantially.

Bank lending in India was further reoriented when the social control was imposed upon the Banks in 1967. This novel method stipulated that the Banks should divert the flow of their credit to the priority sectors, viz., agriculture, small-scale industry and exports. With the nationalisation of banks in July 1969 the list of priority sectors was extended to the transport operators and weaker sections of the society. The nationalised banks have since been discharging this duty diligently and effectively. The nationalisation of banks has marked, in fact, the end of an epoch that believed in the orthodox principles of bank lending. Bank credit in India has thus been socialised, though the new philosophy of bank lending is yet to prove its metal.
Bank lending which developed in India from 1750 to 1950 was largely based on the English pattern. The persons who happened to manage the early banks were trained in the English traditions, and it was quite natural on their part to have followed the English thought while at practice in India. An account of the development of the thought on bank lending should, therefore, occupy a place in this running story of the development of bank lending in India.

Broadly speaking, the early English bankers regarded lending as an art. More precisely, it was an art to judge the people who approached banks for accommodation. Before granting a loan, a banker was therefore, required to make a discrete inquiry into the creditworthiness of the borrower viz., his character, capital, capacity to repay, the nature of his business, the amount, the purpose and the period of the loan, the security offered, and the plan of repayment.

Of all these factors, the study of the borrower was considered to be the most important one. It was quite necessary to choose the borrower judiciously so that the loan was repaid with interest within the stipulated time. Choice of the borrower naturally involved the process of selection or rejection, and this called for the faculty of judgement on the part of the banker. As remarked by an eminent banker of
the late 18th century:

"There is no necessity for becoming an intimate acquaintance of all who are disposed to be the good customer of the house. Many of them may be very unfit to be friends. It may be on the other hand, expedient to cultivate the friendship of a few respectable connections of the house; and it will not be difficult to discover which of these are, in point of private character, the most desirable guests at our table or intimate associates in our family."

This view seems to have been reaffirmed by another leading banker of the late 19th Century. According to him –

"The leading subject of the daily education of a banker is to learn whom to trust."

---

* Henry Thornton: An inquiry into the Nature & Effects of the Paper Credit of Great Britain (1802)

** George Rae: The Country Banker (1885)
  John Murray, Albemarle St. London,
A trustworthy man was of course he, who came from a respectable family and possessed good moral behaviour. According to Gilbert -

"Bankers for their own interest always have a regard to the moral character of the party with whom they deal, they inquire whether he be honest or tricky, industrious or idle, prudent or speculative, thrifty or prodigal and they will more readily make advances to a man of moderate property and good morals, than to a man of large property but of inferior reputation." *

Creditworthiness of a borrower thus depended to a great extent on the banker's confidence in the character of the borrower. The term 'Character' was taken to mean many things like family background, education, nature, behaviour, temperament and various habits like honesty, hard work, etc., The main emphasis was laid on the financial habits and discipline of the borrower. In the words of Henry Thornton-

"Banks take care to lend the sums, not to the imprudent speculator or to the spend-

hrift by whom they are in danger of suffer-
ing loss; but to those who being known to
possess some wealth and to manage their
concerns with prudence give proof that they
are likely to repay the loan." *

The term 'character' thus included the ability of the borrow­
er to run his business for profit. Obviously, those who
were prodigal and idle were left outside the purview of bank
lending. As Smith points out,

"If he uses the borrowed money as a stock
reserved for consumption, he acts the part
of a prodigal and dissipates in the maint­
enance of the idle what was destined for
the support of the industrious. He can in
this case, neither restore the capital nor
pay the interest. The man who borrows in
order to spend will soon be ruined and he
who lends to him will generally have occa­sion to repent for his folly. To borrow or
to lend for such a purpose is, therefore,
contrary to the interest of both parties."**

* Henry Thornton : An inquiry into the nature & effects of the
Paper Credit of Great Britain (1802)
George Allen & Unwin Ltd., London (1939) P.175

** Adam Smith : Wealth of Nations Vol.I.
J.R. Dent & Sons Ltd., London (1917) P.313
Although the character of the borrower occupied the place of prime importance in the classical thought, no less was the importance that was attached to the security. insistence on security was a 'sine quo non' of sound bank lending and we find the early bankers lending money only against security. Thus Edward Backwell, a prominent figure in the house of Grasshopper, appears to have lent £1,576,683-4s-10d to Charles II on the security of customs in 1669.*
Again in 1692-93, Charles Duncombe who was in partnership with the Grasshopper, appears to have lent substantial sums to William III upon security of Poll tax and hereditary and temporary excise.**

The orthodox bankers had made it an unbreakable rule of their business to insist on the security before parting with the money. In the words of George Rae,

"Let it be admitted that there are people who would be safe beyond all doubt for advances without security, nevertheless it is equally beyond cavil that none is as safe without security, as with it. The only

** George Chandler: Four Centuries of Banking B.T. Batsford Ltd., London (1964) P.87.
rule which insures safety in every case is never to make any advance without security, and the proper time to stipulate for security should be before the opening of an account, not afterwards."*

The feeling that security is everything, prevailed in India also during the early part of the 20th century. Oral evidence given by the Managing Director of the Central Bank of India Ltd., before the Central Banking Enquiry Committee of 1931, makes an interesting reading:

Chairman : Have you any idea as to why these concerns do not get loans from banks?

Pochkhanwala : It all depends on the security and the surplus that the banker may have.

Khaitan : You say, everything depends on security?

Pochkhanwala : Yes.

Chairman : You think that the security plays a great part?

Pochkhanwala : Yes.

Even though the borrower was creditworthy, and though he offered first class security, he could secure an advance only

---

* George Rae: The Country Banker (1885) John Murray, Albermarle St. London (1930)PP.36-37
for a short period, ranging from a few weeks to few months. All bank lending in the classical style, was essentially of a short term character and was made in the form of working capital to trade or commerce. The reluctance on the part of early bankers to look up their funds for a longer period, is clearly reflected in the following letter written by the Grasshopper on 7th August, 1753:

"A gentleman of our acquaintance wants to borrow £1000 at three percent upon an estate near Bury ..., but we do not choose to look up our money in mortgages."*

Again on April 13, 1779, the Grasshopper recorded when they accommodated Admiral Geary:

"We are ready to advance £1000 on the security and for the term you propose; though we in general object to lend money for so long a time."**

Restricting advances to a short period was not, however, the only way of ensuring liquidity. Liquidity was sought in the security itself. The security offered had to be

---

* George Chandler: Four Centuries of Banking
  B.T. Batsford Ltd., London (1964) P.137
** Ibid, P.156.
such as could be easily and quickly converted into cash without any loss. Security that was rigid in realisation was, therefore, discarded at the outset. We thus find Malachy Postlethwayt, asserting in 1751 that "the banks should not lend on lands; but only upon securities that might readily be converted into cash or for short period only." The emphasis on liquid security was so much that an adage was developed by the orthodox bankers, viz., "To be a banker, one must know the difference between a mortgage and a bill of exchange."*

Every banker had, therefore, to ask an important question to himself, i.e. -

"If I have to realise the security, do I get my money or do I have to buy in the security myself?"

Despite the adages and advice, the imprudent advances, upon the security of mortgages seem to have been granted from time to time. As we are told, "the typical security in a provincial bank in the 18th century was a mortgage," and

* Lloyd W. Mint : A History of Banking Theory
  University of Chicago Press (1945) P.22.

** Theodore E. Gregory : An Introduction to Finance
  Victor Gollaner Ltd., London (1932) P.60

†Dr. O. Jeidels : Central Banking Enquiry Committee, 1931
some loan transactions took many years to liquidate. Thus, the mortgage which the National Provincial Bank held in January 1748, as security for a loan of £ 1100 @ 4% to John Hainesworth of Dunham, was liquidated only 15 years later."

Advances granted upon mortgages had also brought the Indian bankers to grief. Thus, the Presidency Bank of Bengal, had granted an advance of Rs.23/- lacs to M/s Alexander & Co., upon a mortgage; and when the borrowing firm failed in 1832, the Bank had to manage the indigo factories, although its charter had prohibited the Bank from engaging in any trading activity.

The orthodox bankers thus judiciously combined the principles of safety, liquidity, profitability and spread, while lending their money at interest. These principles are well summed up in the Maxims of Thomas Martin, a senior partner in the Grosshopper. These maxims, recorded on January 22, 1746, have been, the 'Proper considerations for persons concerned in Banking Business.'

1. Some judgement ought to be made of what sum is proper to be out at constant interest.
2. Not to lend any money without application from the borr-
ower and upon alienable security that may be easily disposed off, and a probability of punctual payment without being reckoned hard by the borrower.

3. All loans to be paid when due and yet rotation not exceeding six months.

4. Not to boast of a great surplus of money.

5. To appear cautious and timorous very much to give persons in credit an esteem amongst mankind.

6. Avoid unprofitable business, especially when attended with trouble and expense.

7. It is certainly better to employ a little money at a good advantage, if lent safely, in order to have a greater cash by you, tho' possibly you may extend your credit safely.*

III. PRACTICE OF BANK LENDING

The philosophy and practice of bank lending which developed in England during the period 1750-1950, dominated the minds

* George Chandler : Four Centuries of Banking
of the Indian bankers to such an extent that until recently, bank lending in India was essentially of a short-term character, security-oriented and urban-baised. It is, therefore, necessary to analyse the practice of bank lending in India in the pre-planning period with reference to these aspects of bank lending, viz.,

a. Sectoral allocation of credit
b. Securitywise allocation of credit
c. Regionwise allocation of credit.

a. SECTORAL ALLOCATION OF CREDIT:

The purposewise classification of advances began to appear in the Reserve Bank of India Bulletin since June 1949. The classification was based on five broad categories of Industry, Commerce, Agriculture, Personal and Professionals and all others:

The sectoral allocation of credit for the year 1949 and 1950 is indicated in the following Table:
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>PARTICULARS</th>
<th>DECEMBER 1949</th>
<th></th>
<th>DECEMBER 1950</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
<td>Percentage</td>
</tr>
<tr>
<td>I.</td>
<td>INDUSTRY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cotton Textiles</td>
<td>29.13</td>
<td>6.6</td>
<td>39.33</td>
<td>8.3</td>
</tr>
<tr>
<td></td>
<td>Jute</td>
<td>21.13</td>
<td>4.8</td>
<td>21.72</td>
<td>4.6</td>
</tr>
<tr>
<td></td>
<td>Other Textiles</td>
<td>8.55</td>
<td>2.0</td>
<td>8.00</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Iron and Steel</td>
<td>7.30</td>
<td>1.7</td>
<td>7.18</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Coal Mining and Quarrying</td>
<td>3.06</td>
<td>0.7</td>
<td>3.34</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>Engineering</td>
<td>13.54</td>
<td>3.1</td>
<td>13.79</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>Sugar</td>
<td>7.50</td>
<td>1.7</td>
<td>10.52</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Public Utilities</td>
<td>5.56</td>
<td>1.3</td>
<td>5.20</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>37.42</td>
<td>8.5</td>
<td>43.28</td>
<td>9.0</td>
</tr>
<tr>
<td></td>
<td>TOTAL OF I</td>
<td>133.19</td>
<td>30.4</td>
<td>152.36</td>
<td>32.0</td>
</tr>
<tr>
<td>II.</td>
<td>COMMERCE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wholesale Trade in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Agricultural Commodities</td>
<td>50.37</td>
<td>11.5</td>
<td>60.28</td>
<td>12.7</td>
</tr>
<tr>
<td></td>
<td>b. Other goods</td>
<td>73.82</td>
<td>16.8</td>
<td>79.10</td>
<td>16.6</td>
</tr>
<tr>
<td></td>
<td>Retail Trade</td>
<td>12.91</td>
<td>2.9</td>
<td>19.73</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>Dealers in Govt. Securities &amp; Shares</td>
<td>19.17</td>
<td>4.4</td>
<td>19.14</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>Dealers in Bullion</td>
<td>11.74</td>
<td>2.7</td>
<td>17.66</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>57.17</td>
<td>13.1</td>
<td>58.22</td>
<td>12.3</td>
</tr>
<tr>
<td></td>
<td>TOTAL OF II</td>
<td>225.18</td>
<td>51.4</td>
<td>246.13</td>
<td>51.8</td>
</tr>
<tr>
<td>III.</td>
<td>AGRICULTURE</td>
<td>8.51</td>
<td>1.9</td>
<td>10.96</td>
<td>2.3</td>
</tr>
<tr>
<td>IV.</td>
<td>PERSONAL &amp; PROFESSIONALS</td>
<td>38.33</td>
<td>8.7</td>
<td>42.15</td>
<td>8.9</td>
</tr>
<tr>
<td>V.</td>
<td>ALL OTHERS</td>
<td>33.30</td>
<td>7.6</td>
<td>24.03</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td>TOTAL OF I to IV</td>
<td>438.51</td>
<td>100.</td>
<td>475.63</td>
<td>100.</td>
</tr>
</tbody>
</table>

As the Table 2.1 indicates, the short term nature of advances was prominent during this period, and it is reflected by a large portion of bank credit flowing to the Commercial Sector. It will be seen that advances to Commerce accounted for 51.4% in 1949 and 51.8% in 1950. Much of this finance was provided to the wholesale trade in agricultural and non-agricultural commodities. About 11% to 12% of the total bank credit was provided to the former; and 16% to the latter. Compared to the wholesale trade, finance provided to the retail trade occupied a small proportion of 2.9% in 1949 and 2.5% in 1950. This shows that the banks did not care much about the small parties. The traditional advances against shares and government securities also occupied a small proportion of 4.4% in 1949 and 4% in 1950.

The share of bank credit flowing to the industrial sector went on increasing from 30.4% in 1949 to 32% in 1950. Even in this sector, greater emphasis was laid on the financing of large-scale industries managed by the Managing Agents. Thus, advances to the cotton textiles went on increasing from 6.6% in 1949 to 8.3% of the total bank credit in 1950. Advances to the sugar industry have also risen from 1.7% in 1949 to 2.2% in 1950.

Advances to the agricultural sector were almost negligible and formed only 2% of the total bank credit. Advances to the individuals and professionals were, however, prominent
and occupied 8.7% of the total bank credit in 1949 and 8.9% in 1950. On the whole, the pre-planning period was characterised by traditional bank lending i.e. larger share of commerce, and smaller share of industry and agriculture.

TABLE 2.2

ADVANCES OF SCHEDULED COMMERCIAL BANKS BY SECURITY IN THE PRE-PLANNING PERIOD (1949-1950)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>PARTICULARS</th>
<th>December 1949</th>
<th>December 1950</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>Percentage</td>
</tr>
<tr>
<td>1</td>
<td>Govt. &amp; Trustee Securities</td>
<td>50.45</td>
<td>11.5</td>
</tr>
<tr>
<td>2</td>
<td>Gold and Silver ornaments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Gold and Silver Bullion</td>
<td>9.60</td>
<td>2.2</td>
</tr>
<tr>
<td>4</td>
<td>Shares of Joint Stock Companies</td>
<td>52.61</td>
<td>12.0</td>
</tr>
<tr>
<td>5</td>
<td>Merchandise</td>
<td>179.32</td>
<td>40.9</td>
</tr>
<tr>
<td>6</td>
<td>Real Estate</td>
<td>22.81</td>
<td>5.2</td>
</tr>
<tr>
<td>7</td>
<td>Fixed Deposits</td>
<td>13.05</td>
<td>3.0</td>
</tr>
<tr>
<td>8</td>
<td>Other Secured Advances</td>
<td>51.98</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>TOTAL OF I</td>
<td>379.82</td>
<td>86.6</td>
</tr>
<tr>
<td></td>
<td>II. UNSECURED ADVANCES</td>
<td>58.69</td>
<td>13.4</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>438.51</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: R.B.I. Bulletins May 1951 P.328 October 1951 P.734
b. SECURITYWISE ALLOCATION OF CREDIT

The traditional insistence on security is easily seen from Table 2.2 where total secured advances formed 86.6% in 1949 and 85.7% in 1950. The range of securities, against which these advances were made, was very wide. Of these securities, advances against the security on merchandise seemed to be prominent, and their share rose from 40.9% in 1949 to 44.7% in 1950. The Scottish system of cash credit thus seemed to be very common with the Indian banks.

Next to the merchandise in importance, stood the various types of paper securities. Of such highly liquid securities, the shares of joint stock companies were more attractive; and their share accounted for 12% in 1949 and 11.2% in 1950. Advances against Government Paper stood at 11.5% in 1949 and 9.50% in 1950. The proportion of bank advances granted against the fixed deposit receipts was, however, very small and it showed a declining trend from 3% in 1949 to 2.4% in 1950. Advances against the mortgage of land were also negligible, and showed a declining trend from 5.2% in 1949 to 4.6% in 1950.

On the whole, however, the proportion of unsecured advances has risen from 13.4% in 1949 to 14.3% in 1950.
<table>
<thead>
<tr>
<th>States</th>
<th>Deposits ( Rs. in crores)</th>
<th>Advances ( Rs. in crores)</th>
<th>Credit Deposit Ratio</th>
<th>% of Advances to Total Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>24.02</td>
<td>10.62</td>
<td>45</td>
<td>2.4</td>
</tr>
<tr>
<td>Assam</td>
<td>4.34</td>
<td>1.07</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Bihar</td>
<td>23.83</td>
<td>8.01</td>
<td>33</td>
<td>1.7</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>14.19</td>
<td>8.35</td>
<td>57</td>
<td>1.8</td>
</tr>
<tr>
<td>Bombay(Maharashtra, Gujarat and Karnataka)</td>
<td>281.53</td>
<td>151.66</td>
<td>54</td>
<td>33.0</td>
</tr>
<tr>
<td>Mysore</td>
<td>16.97</td>
<td>9.27</td>
<td>51</td>
<td>2.0</td>
</tr>
<tr>
<td>Punjab</td>
<td>41.19</td>
<td>10.27</td>
<td>24</td>
<td>2.2</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>20.75</td>
<td>12.15</td>
<td>60</td>
<td>2.6</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>70.56</td>
<td>48.13</td>
<td>68</td>
<td>10.4</td>
</tr>
<tr>
<td>Orissa</td>
<td>1.89</td>
<td>0.98</td>
<td>50</td>
<td>-</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>65.79</td>
<td>33.98</td>
<td>51</td>
<td>7.4</td>
</tr>
<tr>
<td>West Bengal</td>
<td>179.53</td>
<td>130.47</td>
<td>72</td>
<td>28.4</td>
</tr>
<tr>
<td>Delhi</td>
<td>50.27</td>
<td>15.62</td>
<td>32</td>
<td>3.4</td>
</tr>
<tr>
<td>Others</td>
<td>63.37</td>
<td>19.39</td>
<td>30</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>858.23</strong></td>
<td><strong>459.97</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Trend and Progress of Banking in India 1968-69 P.833.
In the pre-planning period, bank lending in India was confined to the urban and metropolitan areas, and a vast territory of rural and semi-urban areas remained uncovered by the banking facilities. As a result, there was concentration of advances in a few metropolitan areas, and places like Calcutta, Bombay and Madras were the recipients of large chunks of bank credit.

It will be seen from Table 2.3 that the highest concentration was made in West Bengal and Bombay where the percentage of advances to total bank credit stood at 28.4%, 33.0% respectively. The credit-deposit ratio in these states also stood at 54 and 72 respectively. This means that a large part of the savings mobilised elsewhere in the country was poured into these states in the form of credit. The importance given by the banks to Bombay and Calcutta in the matter of allocation of credit is indeed overwhelming.

The percentage of bank advances disbursed in Madras, to total bank credit stood at 10.4. The credit deposit ratio in this state was also very high at 68. Madras too, appears to have pulled the savings mobilised in other states. The allocation of credit to the state of Uttar Pradesh was also satisfactory and the percentage of advances disbursed in this state, to total credit stood at 7.4%.
On the whole it appears that the bank credit was concentrated in metropolitan areas and other regions were neglected in the matter of allocation of credit. Banks had concentrated their credit where trade and industry were already concentrated.

IV. CONCLUSION

Commercial banking which developed in India between 1750 and 1950 was essentially 'traditional' in nature. It had grown and blossomed in the areas that were already developed, and it aimed at promoting the welfare of the upper, sophisticated classes of the Indian Society. It was based on foundations of self-interest and profit-motive; For all practical purposes, it was an outward manifestation of the thought that had filled the economic and political ideas of mankind in the 18th and the 19th century.

Judged by the standards of a free, laissez-faire society, the commercial banking prevailing in India prior to 1950, could be described as 'sound banking'. Since the ideas of economic planning and of a welfare state were yet to take shape both in political and economic thinking in the country, the principles and practice of bank lending that prevailed before 1950, could indeed be regarded as a satisfactory one. It was only after the introduction of economic planning in 1951, that the Bank lending in India prevailing then came to be described as an 'Orthodox' one.