CHAPTER - 6

BANKING

Bank:
Since a modern bank performs a variety of functions, it is difficult to
give an accurate definition of it. It is on account of this reason that different
economists have offered different definitions of a bank. Below we discuss
some important definitions of a bank.

Prof. Hart has defined the bank as follows: “A banker is one who in the
ordinary course of his business, receives money which he repays by honouring
cheques of persons from whom or on whose account he receives it”.

According to Prof. Kinley “A bank is an establishment which makes to
individuals such advances of money as may be required and safely made, and
to which individuals entrust money when not required by them for use”.

The Indian Companies Act, 1949, has thus defined the bank, “The
accepting for the purpose of lending or investment of deposits of money from
the public repayable on demand or otherwise and withdrawable by cheque,
draft, order or otherwise.”

If we scrutinise the above definitions, we find that they lay emphasis on
two important functions of the bank. Firstly, banks accept deposits from the
public. Secondly, banks advance loans to the needy businessmen. Such
definitions are, however, defective because by accepting deposits and giving
loans an institution does not become a bank.

As is well-known, the “Sahukars” in India perform these two functions,
but it does not mean that by performing these two functions they become
bankers. Hence, the above definitions of the bank are not satisfactory. A proper
and acceptable definition of a bank should describe all the important functions
performed by it. From this point of view, the following definition may be considered to be the most suitable definition of the bank.

According to this definition, “A bank is an institution which deals in money and credit”. When we say that a person deals in a commodity, what we mean is that he buys and sells the commodity. Likewise, when we say that the bank deals in money and credit, what we mean is that the bank buys and sells money and credit. By sale of money, what is meant is the giving of loans. Likewise, by purchase of money, what is meant is borrowing money from others. In both the situations, the price of money is paid in the form of interest. Thus, the function of the bank is both to give as well as to accept loans. Alongwith this, the second important function of the bank is that it buys and sells credit. In other words, the bank buys the credit of its customers and sells its own credit to them. Thus, the important function of the bank is to transfer its credit to its customers’ and the customers’ credit to itself.

The bank creates its own credit when it advances loans to its customers. these very loans later result in the creation of deposits and these deposits create the credit of the borrowers.

When a depositor draws a cheque upon the bank, then the credit of the customer is converted into the credit of the bank. Thus, the credit is transferred through the medium of loans. As said above, credit business is one of the specialities of bank. The acceptance of deposits and the giving of loans and advances - these two functions are performed by the Sahukars as well. There is however, a difference between the sahukars and the bank. The bank deals in credit whereas the sahukars have no dealings in credit. Thus, every bank performs the functions of a sahukar but every sahukar does not perform the function of a bank. Prof. Sayers, in this context, has said, “Banks are not merely surveyors of money but also in an important sense, manufacturers of money” Every bank deals in money. It borrows as well as lends money. But the bank is not merely a trade in money. On the contrary, the bank also manufactures money. In other words, the banks also create credit. Hence, the
above definition is the proper and scientific definition of the bank because it presents the various functions performed by a bank in a proper manner.¹

In Bishnupur District, there were 8 (eight) Branches of Banks of various types. Out of these banks, one is United Bank of India, one United Commercial Bank, three Manipur Rural Banks and three Co-operative Banks are operating and they play an important role for economic development in the district.

Further, these are broadly divided into three categories of Banks in the Bishnupur District, viz., Nationalised Banks, Regional Rural Banks and Co-operative Banks.

1. Nationalised Banks in Bishnupur District:

By nationalisation of banks, we mean Government take over of privately owned banks i.e., transformation of a private sector bank into a public sector bank. It implies both Government ownership and Government management of banks as different from social control which implies only Government management (regulation and control) but no Government ownership.²

The objectives of bank nationalisation in India were clearly spelt out by the then Prime Minister in her broadcast to the nation on July 19, 1969. She observed, “control over the commanding heights (of the economy) is necessary, particularly in a poor country where it is extremely difficult to mobilise adequate resources for development, and to reduce the inequalities between different groups or regions. An institution, such as the banking system which touches and should touch the lives of millions, has necessarily to be inspired by a larger social purpose and has to subserve national priorities and objectives. The purpose of expanding bank credit to priority areas which have hitherto been some what neglected as also

(i) the removal of control by a few,

² Nabakishore, H., 1989: Banking in India, Saraswati Printing Works, Imphal, p. 33
(ii) the provision of adequate credit for agricultural and small industry and exports

(iii) the giving of a professional bent to management,

(iv) the encouragement of new classes of entrepreneurs and

(v) the provision of adequate training as well as reasonable terms of service for bank staff, still remain, and will call for continuous efforts over a long time. Nationalisation is necessary for speedy achievement of these objectives."

In the light of the above statement, the objectives of bank nationalisation in India may be briefly explained as hereunder:

1. To mobilise deposits on a massive scale throughout the country in both rural and urban areas

2. To accelerate lending for productive purposes of diverse kinds irrespective of the size and social status of the borrower particularly in the hitherto neglected sectors such as agriculture, small industry and exports, and promote rapid growth thereof

3. To sustain and generate gainful employment in a direct as well as indirect manner on much larger scale than before

4. To secure a more equitable distribution of credit throughout the country through a balanced programme of branch expansion, particularly in states and areas which were unbanked or underbanked

5. To encourage new entrepreneurs and contribute to the development of all backward areas

6. To serve as active catalysts in viable development programmes in as many sectors of the economy as possible

7. To provide improved and extended service to the general public
8. To achieve the organisational and functional re-orientation of the banking system to facilitate economic growth

9. To ensure the professionalisation of banks.\(^3\)

But in the Bishnupur District, two nationalised banks are operating for promotion of socio-economic development. They are the United Bank of India and the United Commercial Bank respectively.

2. Regional Rural Banks in the Bishnupur District:

The Prime Minister of India, consequent on the declaration of the emergency in the country in June 1975, announced the economic programme which, among many other things, aimed at “devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers in the context of steps being initiated also under the programme, to liquidate rural indebtedness of those classes of people”.

A working group constituted by the Government of India under the chairmanship of M. Narashimham examined the question in detail and Regional Rural Banks Ordinance came into force with immediate effect from 26\(^{th}\) September, 1975. Later on the Regional Rural Banks Act was passed in 1976 giving legal form to the emergency ordinance. Thus, the Regional Rural Banks have now come to be established under the Regional Rural Banks Act of 1976.

The main objective of the Regional Rural Banks is the “Provision of credit and their facilities, especially to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas”\(^4\).

In the economic development of rural areas of Bishnupur District, there are three Manipur Rural Banks in different places for functioning as Regional Rural Banks in the District.

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3. Ibid, p. 35
3. Co-operative Bank in Bishnupur District:

Co-operative Banks are Credit Societies formed for the purpose of lending money to poor and middle class people at low rates of interest. They are usually non-profit organisations, loans being given only to the members of the society. Co-operative credit societies are found in the villages and also in the towns.\(^5\)

Co-operative banks may be sub-divided into
(i) State Co-operative Banks;
(ii) Central Co-operative Banks;
(iii) Primary Agricultural Credit Societies –
   (a) Farmers’ Service Societies
   (b) Large-sized Multi-purpose Societies
   (c) Grain Banks and
   (d) Primary Co-operative Banks, on the side of short and medium term credit and
iv) State Land Development Banks
v) Central Land Development Banks and
vi) Primary land Development Banks, on the long term side, as well as
vii) Urban Co-operative Banks.\(^6\) There is three Co-operative Banks in Bishnupur District. Two of them are Manipur State Co-operative Banks and the remaining one is Moirang Primary Co-operative Bank. These Co-operative Banks are also operating for socio-economic development in the district.

At present, financial transactions including payment of salaries of Government employees have been made/done through the United Commercial Bank which is located at the District Headquarter. However, this bank cannot cope with the increasing volume of financial transactions especially in making timely payment of salaries of the Government employees.

The name of the Banks with their location and status in Bishnupur District is presented in the Table No. 6.1.

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Table No. 6.1
The names of the Banks with their respective locations and status in
Bishnupur District, 2004

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Banks</th>
<th>Location</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United Commercial Bank</td>
<td>Bishnupur</td>
<td>Nationalised Bank</td>
</tr>
<tr>
<td>2</td>
<td>United Bank of India</td>
<td>Moirang</td>
<td>Nationalised Bank</td>
</tr>
<tr>
<td>3</td>
<td>Manipur Rural Bank</td>
<td>Nambol</td>
<td>Regional Rural Bank</td>
</tr>
<tr>
<td>4</td>
<td>Manipur Rural Bank</td>
<td>Kumbi</td>
<td>Regional Rural Bank</td>
</tr>
<tr>
<td>5</td>
<td>Manipur Rural Bank</td>
<td>Kwakta</td>
<td>Regional Rural Bank</td>
</tr>
<tr>
<td>6</td>
<td>Manipur State Co-operative Bank</td>
<td>Nambol</td>
<td>Co-operative Bank</td>
</tr>
<tr>
<td>7</td>
<td>Manipur State Co-operative Bank</td>
<td>Bishnupur</td>
<td>Co-operative Bank</td>
</tr>
<tr>
<td>8</td>
<td>Moirang Primary Co-operative Bank</td>
<td>Moirang</td>
<td>Co-operative Bank</td>
</tr>
</tbody>
</table>


Deposit Mobilisation:

Expansion of bank deposits has been an important feature in recent years. Planned economic development, deficit financing and increase in currency issue have led to increase in bank deposits. At the same time, banks have contributed greatly to the development of banking habit among the people through sustained publicity, extensive branch banking and relatively prompt service to the customers. Bank nationalisation gave a great fillip to deposit mobilisation, due partly to the expansion of a network of bank branches and
partly to the incentives given to savers. The trend in deposits and credit of banks of Bishnupur District is given in Table No. 6.2.

Bank deposits in Bishnupur District had increased from Rs. 287.22 lakhs as on 31/3/93 to over Rs. 473.62 lakhs as on 31/3/96. But during the next 3 years, deposits had risen to Rs. 900.79 lakhs as on 31/3/99, Rs. 1066 lakhs as on 31/3/04 but deposit had slightly decreased to Rs. 1021 lakhs as on 31/3/05.

Even now, there is necessity for awareness of the usefulness of bank services among the villagers of Bishnupur District. In the banked areas of the district, new deposits have to be attracted and existing depositors have to be motivated to increase their deposits for better standard of living.

**Factors for rapid deposit growth:**

There are many factors which have influenced deposit mobilization and multiplication in Bishnupur District.

(1) **Rapid branch expansion:**

Banking services have almost been taken to the door of the people both in rural and in urban areas. Besides, the banks have encouraged people belonging to lower and middle income groups to save and deposit their saving with banks through various innovative saving schemes.

(2) **Increase in the amount of cash with the banking system:**

Due to Government’s policy of deficit financing and creation of new money, the larger the cash reserves with the banking system, the larger is the credit they can give and larger the deposits they can multiply.

(3) **The ratio of cash reserve to deposits:**

The smaller the cash reserve ratio, the greater is the scope for lending by banks and multiplication of loans leads to multiplication of deposits. To start
with, Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR) were quite low - 3 per cent and 25 per cent respectively and banks were able to register a high rate of deposit growth. In course of time, however, when CRR and SLR were raised to statutory maximum of 15 per cent and 38.5 per cent respectively, banks came to be restricted in lending and correspondingly in deposit multiplication.

(4) **Favourable business conditions:**

Under the impact of planning, all sectors of the economy were expanding. Expansions of these sectors were helped by expansion of bank funds. At the same time, expansion of the banking sector was also brought about by this growth of the other sectors of the economy.

(5) **High rates of interest:**

The monetary authorities have continually raised the rates of interest on bank deposits and these have encouraged expansion of bank deposits. In recent years, however, commercial banks have been facing stiff competition from mutual funds, housing banks, leasing and investment companies and even the Industrial Credit Development Bank of India (IDBI) which offer higher interest rates and have tried to mobilise the savings of the households. Actually, this competition from other financial institution for the saving of the households is really getting up but the commercial banks can be expected to maintain the growth rate in the years to come since the interest rates are being decontrolled and liberalised.  

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Expansion of bank credit:

Side by side with the expansion of bank deposits, there has been continued expansion of bank credit reflecting the rapid expansion of industrial and agricultural output. The banks are also meeting the credit requirements of industry, trade and agriculture on a much larger scale than before. Just as bank deposits have expanded, bank credit too has expanded. Particularly, Bank Credit in Bishnupur District had increased from Rs. 839.98 lakhs as on 31/3/93 to Rs. 1099.63 lakhs as on 31/3/96, Rs. 1614.26 lakhs as on 31/3/99, Rs. 1388 lakhs as on 31/3/04 and Rs. 1618 lakhs as on 31/3/05 respectively.

Priority Sector Lending:

Before 1969, commercial banks had largely neglected agriculture on the ground that rural credit was to be undertaken by co-operative credit societies and Co-operative banks. Accordingly, they remained largely indifferent to the credit needs of farmers for agricultural operations and for land improvement. This was regarded as a basic reason for the failure of planning in the agricultural sector and consequently for the failure of general planning. At the same time, as the banks were owned and controlled by big industrialists before nationalisation, small industrial concerns and business units were ignored by banks. Soon after nationalisation, the commercial banks were asked to be specially concerned with the financing of priority sector of agriculture, small industry and business and small transport operators. In course of time, other priority sectors were also added, such as retail trade, professional and self-employed persons, education, housing loans for weaker sections and consumption loans.
Table No. 6.2

The trends in deposits, credits and credit deposit ratio of Banks in
Bishnupur district over the past few years

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Deposit</th>
<th>Credit</th>
<th>Credit Deposit Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>31/03/93</td>
<td>287.22</td>
<td>839.98</td>
<td>292.43</td>
</tr>
<tr>
<td>2</td>
<td>31/03/96</td>
<td>473.62</td>
<td>1099.63</td>
<td>232.17</td>
</tr>
<tr>
<td>3</td>
<td>31/03/99</td>
<td>900.79</td>
<td>1614.26</td>
<td>179.20</td>
</tr>
<tr>
<td>4</td>
<td>31/03/04</td>
<td>1066.00</td>
<td>1388.00</td>
<td>130.00</td>
</tr>
<tr>
<td>5</td>
<td>31/03/05</td>
<td>1021.00</td>
<td>1618.00</td>
<td>158.00</td>
</tr>
</tbody>
</table>

**Source:**
1. Annual Credit Plan, 1993-94: Under Service Area Approach, Bishnupur District, Manipur, p. 4
The rationale of priority sector lending was one of the causes for nationalisation of the top 14 commercial banks in 1969. However, it was the working group on the priority sector lending and the 20 point Economic programme chaired by Dr. K.S. Krishnaswami which clearly spelt out the concept, “The concept of priority sector lending is mainly intended to ensure that assistance from the banking sector flows in an increasing manner to those sectors of the economy which, though accounting for a significant proportion of the national product, have not received adequate support to institutional finance in the past”.

In 1980, Reserve Bank of India issued directives to the banks regarding priority sector lending and expected their co-operation and compliance:

(a) Priority sector advances should constitute 40 per cent of aggregate bank credit
(b) Out of priority sector advances, at least 40 per cent should be provided to agriculture
(c) Direct advances to the weaker sections in agriculture and allied activities in rural areas should form at least 50 per cent of the total direct lending to agriculture and
(d) Bank credit to rural artisans, village craftsmen and cottage industries should at least be 12.5 per cent of the total advances to small scale industries.\(^8\) The trend in priority sectors lending of banks of Bishnupur District is presented in the Table No. 6.3.

The total credit extended by the banks of Bishnupur District to agriculture and allied activities, small scale industries and other priority sectors increased from Rs. 126.06 lakhs in 1993-94 to Rs. 212.20 lakhs in 1995-96, Rs. 337.01 lakhs in 1996-97, Rs. 261.20 lakhs in 1999-2000 and Rs. 320.00 lakhs in 2005-06 respectively.

\(^8\) Ibid, p. 730.
Table No. 6.3

Bank performance in Bishnupur District in lending to priority sectors over past few years.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Years</th>
<th>Agriculture and allied Activities</th>
<th>Small scale industries</th>
<th>Other services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1993-94</td>
<td>812</td>
<td>90.22</td>
<td>183</td>
<td>22.34</td>
</tr>
<tr>
<td>2</td>
<td>1995-96</td>
<td>676</td>
<td>73.83</td>
<td>383</td>
<td>54.88</td>
</tr>
<tr>
<td>3</td>
<td>1996-97</td>
<td>403</td>
<td>92.29</td>
<td>184</td>
<td>94.46</td>
</tr>
<tr>
<td>4</td>
<td>1999-00</td>
<td>243</td>
<td>90.99</td>
<td>259</td>
<td>68.53</td>
</tr>
<tr>
<td>5</td>
<td>2005-06</td>
<td>898</td>
<td>150.00</td>
<td>120</td>
<td>60.00</td>
</tr>
</tbody>
</table>

*Rupees in lakhs*

**Source:**
It is clear from the table No. 6.3 that the pace of growth of advances to priority sectors in the Bishnupur District was not quite satisfactory during the period from 1993-94 to 2005-06. The relatively slow progress of advances to priority sectors is due to the fact that the bank officials from top to bottom were not imbued with the new objective of banking. At the same time, banks were also worried at the poor and unsatisfactory recovery performance of agriculture and allied activities and small scale industries in Bishnupur District.

**Average Population Served by Banks:**

There was only 37 (thirty seven) number of scheduled commercial bank offices during the year 1981. The number was more than double during the year 1991 and it was recorded as 87 (eighty seven). As on 31\textsuperscript{st} March 2002, there were only 79 scheduled commercial banking offices in the State. Out of the total number of 79 offices, 51-90 per cent was in the rural areas, 17.72 per cent in the semi-urban areas and 30.38 per cent in the urban areas. As on 31\textsuperscript{st} March 2002, the average population per bank offices of the State was 30.7 thousands and 38.59 thousands in 1981.\textsuperscript{9}

But in Bishnupur District, there were 8 (eight) banks as on 31/12/1992 and it did not change up to the end of 31/3/2004.

The average population served by a bank in the district as on 31/12/1992 was 22,597, 22,597 as on 31/3/2000 and 26,046 as on 31/3/2004 respectively. Table No. 6.4 shows the average population served by banks in Bishnupur District.

Table No. 6.4

The number of banks and average population served by a bank of Bishnupur District in different years

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particular Year</th>
<th>No. of Bank</th>
<th>Average population served by a bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>31/12/1992</td>
<td>8</td>
<td>22,597</td>
</tr>
<tr>
<td>2</td>
<td>31/3/2000</td>
<td>8</td>
<td>22,597</td>
</tr>
<tr>
<td>3</td>
<td>31/3/2004</td>
<td>8</td>
<td>26,046</td>
</tr>
</tbody>
</table>

(Population in thousands)

Sources:

Note: Average population served by a bank is counted according to census population.
REFERENCE


3. Ibid., p.35


8. Ibid., p.730