CHAPTER VI

PROMOTIONAL ASPECT OF MONETARY POLICY - EXTENSION OF BANKING FACILITIES

One of the most important functions of the central bank in a developed and matured money market is to control and regulate credit. But institutional credits are lacking in vast areas in underdeveloped money markets. Quite naturally, the functions of the central banks in traditional sense are nil in such areas. These areas constitute a large sector represented particularly by agriculture, cottage and small industries. Central bank in such underdeveloped money market has a special role to play which includes but goes much beyond the ordinary functions of the central bank in a matured and developed money market. Besides, underdeveloped economies are charged with the vicious circles of low income, low savings, low capital and low productivity. Capital formation is very slow here because of the smallness of income, on the one hand, and wasteful expenditure of the people, on the other, due to the absence of any financial intermediaries to snatch away the small amount of savings generated.

A large part of the economy is within the grip of the non-monotised sector. Agriculture is of subsistence type and not assuming commercial character in strict sense. Hence, the commercial banks are not inclined to open branches in these areas. But there is no gainsaying the fact that this part of the economy is not without having any economic potential. It really needs financial assistance to activate the idle resources so long
remaining untapped. Again, much of the productive activities are of seasonal nature in such economies. This creates seasonal demands for money during the harvesting season, on the one hand, and the supply of short term fund seeking outlet for suitable and profitable employments, on the other, during the off season. This necessarily calls for a market which is lacking in these underdeveloped money markets. Here the central bank must step in. By the establishment of a Bill Market and creating other financial intermediaries it can meet their requirements more cheaply than those available by the indigenous financial agencies at the initial stage which are most dominant in underdeveloped money market. The expansion of the organised market and the creation of new financial agencies by the central bank to cater to the needs of both agricultural and industrial development in a developing economy arise out of the two factors.

First, as the indigenous agencies supply a lion's share of the total credit requirements of the market, their activities have an important bearing on the money market as a whole. To replace them is to create new financial agencies if it is to maintain a status quo in the credit situation. Secondly, in a developing economy increased monetization of economy is a logical consequence. People, especially in rural areas, are now in a position to save very little. What they saved formerly in the form of crops to be utilized in future, now saved in terms of money by selling the surplus crops or agricultural goods. This saving, because of the lack of banking facilities in the areas and the lack of banking habit, is very likely invested in wasteful purposes. Even if this saving
is in the form of hoarding of golds and other precious metals then the sellers of these precious metals may invest the proceeds out of their sale in wasteful purposes and that will pave the way to inflation. From the supply side also saving is required for the purpose of economic development. This increased saving, therefore, should be clipped off by any means. If financial institutions are created to arrest these additional savings in the rural areas then some capital is said to have increased. On the demand side, these institutions, with local deposits from the people and financial assistance from the central bank, may fill up the gap likely to be created by the extinction of indigenous agencies. Thus these new institutions are likely to induce the banking habit of the people. If the people get easy access then they will be habituated more and more. Thus new financial institutions will have two important bearings in the money market - increased saving on the one hand and accentuation of credit supply on the other.

It is in this context that we have to study the various attempts made by the monetary authority during the period of Plan to promote and develop the money market in India, especially, after the failure of the Reserve Bank of India to integrate the unorganised sector of the money market with the central money market. In the process, the promotional aspect of the monetary policy in India had been directed mainly to
(i) extend the banking facilities by opening branches of commercial banks,
(ii) reorganise and reorient the structure of credit institutions in rural areas and (iii) create some special financial institutions by the Reserve Bank itself or through its blessing. The transition was from individual
to the institution and unorganised to the organised one. Here in this chapter we shall discuss the various measures undertaken by the monetary authority for the expansion of organised banking in India.

**EXPANSION OF BANKING**

The question of extension of banking facilities to rural areas had received continuous attention by the Reserve Bank from its very inception. After the nationalisation of the Bank the Rural Banking Enquiry Committee was set up to understand the difficulties in respect of banking facilities in rural areas. The Committee in its Report in 1950 had, however, recommended for the provision of better remittance and other facilities to commercial as well as cooperative banks operating in towns and villages. It had also recommended for the expansion of branches by the commercial banks in general and the Imperial Bank of India (at present State Bank of India) in particular to places where the banking system was absent. The question of extension of banking facilities had gained further momentum in the Informal Conference in 1951.

In consequence, for the purpose of development of banking, monetary policy had been directed mainly to open branches of the commercial banks, to provide remittance remittance facilities to commercial banks and cooperative banks, as well, to offer clearing house facilities and to institute staff training of the commercial banks.

**BRANCH EXPANSION**

The policy of branch expansion was intended to prevent concentration

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2. Ibid, pp 632-33.
3. Ibid pp 632 - 35.
4. Ibid pp 632 - 33.
of branches in already overbanked areas, on the one hand, and to extend the area of banking to places which were controlled by the indigenous financial institutions, on the other, and thus, in a way, to develop the money market as a whole. Expansion of banking was not encouraged during the post-war period because of indiscriminate mushroom growth of banking followed by excess money in the market during and after the war. A more liberal policy in respect of branch expansion actually began after the recommendations of the Rural Banking Enquiry Committee followed by Informal Conference.

However, it is a matter of tragedy that in spite of the efforts made since the reports of the Rural Banking Enquiry Committee and Informal Conference on Rural credit, the progress of expansion of branches of commercial banks in semi-urban and rural areas had been very slow as is evident from Table 6.1. For several reasons commercial banks had not found it profitable to open branches in smaller towns. Among the various reasons, individual loans were small, and while the collaterals offered were not easily marketable, the risk elements in agriculture were naturally greater. The situation demanded the need for an institution which, while conducting its business on sound lines on commercial banking, would be able to consider the larger interest of the country along with its obligation to its shareholders.

The Bank had already appointed, in 1951, a Committee of Direction

5. Trend and Progress of Banking in India, 1958, P 19.
Table 6.1

NUMBER OF OFFICES OF SCHEDULED AND NON-SCHEDULED COMMERCIAL BANKS

(As at the end of December)

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1956</th>
<th>1961</th>
<th>1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Bank of India and its subsidiaries</td>
<td>643</td>
<td>850</td>
<td>1,436</td>
<td>2,076</td>
</tr>
<tr>
<td>2. Other scheduled commercial banks</td>
<td>2,094</td>
<td>2,116</td>
<td>2,954</td>
<td>4,340</td>
</tr>
<tr>
<td>3. Non-scheduled commercial banks</td>
<td>1,504</td>
<td>1,101</td>
<td>622</td>
<td>221</td>
</tr>
<tr>
<td>4. All commercial banks</td>
<td>4,151</td>
<td>4,007</td>
<td>5,012</td>
<td>6,637</td>
</tr>
</tbody>
</table>

to conduct an All India Rural Credit Survey which provided the very basis for comprehensive proposals relating to rural credit and banking development. The report of the survey was a significant event for the rural economy in general, and rural credit, in particular. It had recommended an integrated scheme of rural credit which should be based on three fundamental principles of which State partnership at different levels in the sphere of credit structure of the country would be the main theme. The Committee of Direction on Rural Credit Survey which examined the question in greater detail, had recommended the setting up of a State Bank of India as one strong integrated state partnered commercial institution. This Bank was to have an effective machinery of branches spread all over the country for stimulating banking development by providing vastly extended remittance facilities for cooperative and other banks.

EMERGENCE OF STATE BANK OF INDIA

As a first step, the Finance Minister announced the government's intention to set up the State Bank of India by transferring to it the undertakings of the Imperial Bank of India. The State Bank of India came in lime light on July 1955 and took over only the offices in India of the Imperial Bank of India. It should, however, be noted that by the Statute the Reserve Bank of India was required to own not less than 50% of the share capital of

8. As we have discussed in Chapter VII.
the State Bank of India. But as a matter of fact a much larger part of the required percentage was held by the Reserve Bank. This had really reflected the spirit of the "state partnership" in the bank in strict sense of the term. Again the dividend that had accrued out of the 50\% share of the Reserve Bank in conformity with the Statute was placed in a specially created Integrated and Development Fund which was meant to compensate any loss that might arise out of the opening of new branches of the State Bank of India in rural and backward areas.\textsuperscript{11}

In the sphere of opening of branches, the State Bank of India had proved to be a notable success in 1960 with the fulfilment of the target level of 400 branches much earlier. On the scheduled date (July 1, 1960) the branches opened by the State Bank recorded as 416 and at the end of June 1961 it accounted for 438 branches. It is interesting to note again that out of the total number of 438 branches 359 branches were opened in rural areas and semi-urban areas having population of 30000 or less. This was of course a unique achievement in the history of Indian Banking. The responsibility devolved upon the State Bank was, however, unparallel as it was evident from the Reserve Bank's own observation, "There can not be the least doubt that the State Bank will not merely continue to be the foremost commercial banking institution, but will grow in size, stature and significance to expand and strengthen the Indian money market."\textsuperscript{12}

\textsuperscript{11} Ibid.
\textsuperscript{12} Ibid.
The process of branch expansion was further accelerated by the passing of the State Bank of India (Subsidiary Banks) Act, 1959 which provided for the constitution of 8 major State-associated banks as subsidiaries of State Bank of India as was recommended by the Rural Credit Survey Committee. Among the subsidiary banks the State Bank of Hyderabad was the first to appear on 1st October, 1959. It was followed by State Bank of Bikaner, the State Bank of Indore, the State Bank of Jaipur and the State Bank of Travancore which were constituted on January 1st, 1960. These were further followed by the State Bank of Mysore, the State Bank of Patiala and the State Bank of Saurashtra which were set up on March 1, April 1, and May 1 of 1960. These subsidiary banks were expected to operate in areas which were not within the domain of the Imperial Bank and, at the same time, out of the territory of the State Bank. Hence, it was proper that these subsidiaries would work as complementary to the State Bank in those areas which were not covered by the State Bank. The emergence of these subsidiaries was expected to play a prominent role in the branch expansion and banking development in the country. The whole theme was based on the recommendations of the Rural Credit Survey Committee.

The object was the creation of one strong, integrated, state-sponsored, state-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which by further expansion, can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for cooperative and other banks, thus stimulating the further establishment of such banks, and generally, in the loan operations, in so far as they have

bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expected through the Central Government and the Reserve Bank.

With this end in view, an agency agreement was made on 1st October, 1960 between the State Bank of India and its subsidiaries to establish an integrated banking and treasury set up in the country. It was settled that henceforth the branches of the subsidiaries would carry on the government business at places where there were treasuries and sub-treasuries in the areas of their operations. On behalf of the Reserve Bank and as agents of the State Bank of India they would provide the exchange and remittance facilities to the public. For the smooth running of agency functions of the subsidiaries currency chests were being gradually established. These subsidiaries, hereinafter, took a bold step for branch expansion in consultation with the Reserve Bank and the State Bank of India. The result of this step was a striking success. As at the end of 1959 the branches of the subsidiaries stood at 276. In the year 1960, 64 more branches were opened, and 4 closed bringing the total number of branches to 333. At the end of the Second Plan, out of the total 4500 offices of the scheduled banks, the number of offices of the State Bank of India and its subsidiaries had been recorded as 1438, i.e. about 31% of the sum total. The deposits of the State Bank of India and its subsidiaries excluding the P.L.480 accounted for Rs.394 crores or about one fourth of the total deposits of the scheduled banks.

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17. Trend and Progress of Banking in India, 1960, P 32.
18. Table 6.1.
The formation of these subsidiaries got special significance. These banks, by virtue of their experience, were in a position to understand better the local needs and interest and how to tackle the problems rather tactfully with the financial assistance from any central point. Now these banks, acting as direct agents of the State Bank and as indirect agents of the Reserve Bank of India, were expected to play a great role towards the development of banking atmosphere in Indian money market. Thus by constituting them as subsidiaries, instead of letting them absorbed by the State Bank, the monetary policy was intended to utilise simultaneously the experience of the personnel of these subsidiaries, on the one hand, and central financial assistance, on the other, for the extension of the banking facilities in rural and semi-urban areas.

The State Bank of India, in its second phase of expansion between July 1, 1960 and June 30, 1965 had undertaken to open 300 branches between itself and its subsidiaries in the ratio of 145 to 155. In the event they opened 309 branches.21 Even with this overfulfilment the State Bank had been asked to proceed with branch expansion in order to ensure the continuity of that programme without any slackening of pace. For this purpose, important sub-treasury centres were selected from time to time in consultation with it. However, during the process of the second expansion programme it was felt that an expansion programme of this order was inadequate as it would leave a larger number of treasuries and sub-treasuries without banking facilities. Therefore, in its third accelerated five year programme,

the State Bank had undertaken the task of opening 319 branches at non-banking treasury and sub-treasury centres. Under its third expansion programme the State Bank had opened 163 branches up to the end of December, 1966, leaving 156 branches to be opened in the last two years of the programme. Beside its expansion programme, the State Bank had continued to open branches in pursuance of its policy of expanding banking facilities in metropolitan cities and big towns. The subsidiaries of the State Bank of India did not sit idly in this plan for expansion. As on June 30, 1966 the total number of offices of the State Bank of India and its subsidiaries stood at 1,996.

BRANCH EXPANSION PROGRAMMES OF OTHER COMMERCIAL BANKS.

It is interesting to note that while the other commercial banks were not under a statutory obligation for their branch expansion, the State Bank of India was charged with a statutory responsibility to extend its branch net work by 400 in its first phase of development. Apart from discharging this responsibility, the State Bank had subsequently continued to set up the pace with regard to branch expansion. Of no less significance was the remarkable expansion of their branch net work by other commercial banks since 1957 as shown in the table No.1. Even though they were not required to do so by Statute they had endeavoured to cover an increasing area of the country with their offices. Moreover, the most striking feature of the Indian banking scene until 1961 was a lopsided distribution of banking offices with a rather heavy concentration in a few urban centres to the comparative neglect of the vast rural areas.

The process of correcting this imbalance had begun in right earnest. But any systematic policy for the expansion of commercial banks, other than State Bank of India, according to desired aim, had been lacking until 1902. It was only in August 1962 that a positive step was taken by undertaking a branch licensing policy in a more rational manner.

BRANCH LICENSING POLICY

The basic objective of the branch licensing policy of the Bank had been to regulate the opening of new offices of banks in a manner that would assist the sound development of the banking system and to enable it to cater to the expanding requirements of the country. During the period of the Third Five Year Plan the emphasis of the policy, however, was on the spread of banking facilities to unbanked and underbanked areas, notably to semi-urban and rural areas. The consideration had been given to applications for opening offices in places where banking facilities exist but could be further expanded with much economic advantage. For assisting the banks to formulate their branch expansion programmes in a systematic manner and to obtain the Reserve Bank’s permission well in advance, the Reserve Bank advised them in July, 1962, to draw up their programmes for a period of three years in stages from August 1, 1962 to July 31, 1965. To that end a list of unbanked towns in India was also prepared and supplied to banks so as to facilitate the selection of centres suitable to them. After considering the programmes of individual banks the Reserve Bank had, during the period, August 1962 to June, 1964, issued licenses for opening 373 new offices of which 147 were...

were for unbanked centres. Each bank had been encouraged to implement a coordinated programme of expansion embracing areas devoid of banking facilities and suburban areas, centres of urban areas, besides towns and cities of commercial and industrial importance, with due regard to its overall financial position, resources and earning prospects. During three years, August 1962 to July 1965, when the programme came to a close license had been issued to 47 banks for opening 615 new offices, including 231 at unbanked centres. However, 587 new offices were opened so far, of which 220 were at unbanked centres. 25

Because of the distinct advantages of the system of obtaining licenses in advance, the first expansion programme of commercial banks had been followed up by another one extending over a period of two years ending July, 1967. On consideration of these proposals as had been submitted by the banks, the Reserve Bank of India had permitted for opening 680 offices, of which 232 were in unbanked areas. Accordingly, the Bank had granted licenses for opening 649 new offices including 79 in unbanked centres. Upto the end of June 1966, banks had opened 129 new offices including 42 at unbanked centres under the second expansion programme. 26

The monetary authority had striven, in its branch licensing policy, to forge individual bank programmes of branch expansion into an integrated pattern. This was the rationale for the requirement for banks to submit to the Bank their programme of expansion over a three year period.

In granting approval for the branch expansion programmes the Bank paid greater attention to the individual bank's financial position, their actual performance and the need to bring about a balanced growth of banking offices in both the larger urban centres which admitted of further banking development and the semi-urban and rural areas where the potential for banking business might not be so readily apparent. It should also be noted here that a larger number of these semi-urban and rural branches happened to be deposit centres, indicating the fact that banking potential did exist in these areas if properly tapped.

RESULT

As a result of the branch expansion policy pursued by the Reserve Bank the total number of offices of the commercial banks had increased from 4151 in 1951 to 6637 in 1966 as shown in Table 6.1. While the total number of scheduled banks (including State Bank of India and its Subsidiaries) had increased from 2647 in 1951 to 6416, the total number of non-scheduled banks had declined from 1504 in 1951 to 221 in 1966 as it is evident from Table 6.1. This declining tendency was based mainly on two reasons — several non-scheduled banks had been converted themselves into non-banking companies and the inclusion of certain non-scheduled banks in the Second Schedule to the R.B.I. Besides, certain structural changes like amalgamation, mergers, transfer of assets and liabilities had reduced the number of non-scheduled banks to a considerable extent.27

During the period the number of centres covered by commercial banks had nearly doubled. Of the total number of offices in 1951 about 37% were in the

rural and semi-urban areas having population below 25000. Of the total number of offices at the end of 1960, the number of offices in rural and semi-urban areas stood at about 36%. However, more than 1000 offices were established during the same period in rural and semi-urban areas covering such centres more than double of pre-Plan stage. Of the increase in number of these offices in rural and semi-urban areas during the period, the State Bank of India had accounted for 62%. Of the total number of new branches opened by the S.B.I. under the Branch Expansion Programmes, 92% were opened at Treasury and sub-treasury centres. Likewise, about 73% of the branches, opened under the Expansion Programme, had been opened in rural and semi-urban areas with population below 25000.

Thus the Bank Expansion Programmes in rural and semi-urban areas had received greater impetus from the S.B.I. and its Subsidiaries. In contrast, the expansion of branches by other commercial banks was not in accordance with the social purpose. These banks had mainly concentrated their energy at metropolitan centres like Calcutta, Bombay, Madras and Delhi. These banks had 26% of their offices in cities having population over 5 lakhs, 22% of their offices in cities with population between 1 to 5 lakhs, and 20% at the centres with population below 25000. By comparison the State Bank group had 8% of their offices in cities with population over 5 lakhs, 10% in cities with population between 1 to 5 lakhs and 69% at centres with population below 25000. In spite of the efforts made by the monetary authority the extension of banking facilities in rural areas still remained inadequate. The system had not entered below the level of the Taluk headquarters upto the end of our study. One village one bank in

29. Ibid P.136.
31. Ibid.
33. Ibid.
India was beyond imagination at the end of the period of the Plan. Not only the extension of banking system in rural areas was unsatisfactory but also the facilities availed of by the rural economy from such branches remained meagre as a result of the credit policy pursued by the commercial banks. The smaller centres did not receive sufficient credit according to the needs, or even according to the contribution made by them by way of deposits. Of the total deposits, the small centres contributed about 18%, while they received 19% of the total advances of the commercial banks as at the end of 1965. Metropolitan cities, on the other hand, had received 63% of the total advances by contributing only 48% of the total deposits. While the vast rural areas received only 10% of the total bank credit, cities with population over 1 lakh enjoyed 64% of the total bank credit. Moreover, while credit deposit ratio stood at 90% in metropolitan cities, it stood at 38% at the smaller centres with population below 50,000. In metropolitan cities like Madras, Calcutta and Ahmedabad the credit deposit ratio was actually more than 100%. All these suggest that funds had flown from rural to the urban areas, especially to the metropolitan cities with the help of the commercial banks. Thus commercial banks rather helped not to divert credit from cities to the rural areas, but from rural to the cities.

REMITTANCE FACILITIES:

Beside granting licences readily for opening branches wherever banking facilities were absent or inadequate, the Reserve Bank had sought to promote banking development through liberalisation of the

33. Ibid., P 197.
34. Ibid.
35. Ibid.
36. Ibid.
remittance facilities. In the opinion of the Rural Banking Enquiry Committee, a lowering of rates on remittances would lower the cost of operation of branches and thus would encourage their establishment. Such a measure was expected to contribute to a quicker adjustment between the demand for and the supply of the short term funds in rural and urban areas as well. In consequence to this policy and recommendations, the rates of exchange on remittance issued on behalf of the commercial banks, cooperative societies and sometimes indigenous bankers and its agencies had been reduced from September 1, 1951. The rate of remittances up to Rs. 5,000 was reduced from 1/10% to 1/32% and that on remittances exceeding Rs. 5,000 was brought down from 1/32% to 1/64%. The Bank had also accepted the recommendations of the Rural Banking Enquiry Committee suggesting that the State Government should be allowed to retain the commission earned on remittances issued at a premium in treasuries and sub-treasuries and had given effect to it from September 1, 1951. This was only to enable the State Governments to meet a portion of the cost of carrying out these reforms. Moreover, the Government of India had, at the instance of the Reserve Bank, requested the State Governments to raise the limits of drawing at or on treasuries and sub-treasuries from the normal levels of Rs. 25,000 and Rs. 5000 per day to at least Rs. 35,000 and Rs. 10,000 per day so that these cheaper rates of remittance might be of real benefit to banking institutions and the public in the outlying areas.

38. Ibid.
With effect from September 1 of the same year the Scheduled Banks' Regulations had also been amended to extend the facilities available to scheduled banks "for the transfer of funds through the offices and agencies of the Reserve Bank. By the same amendment, the scheduled banks were allowed to transfer funds to any account of the Reserve Bank from any branch of the Imperial Bank of India (State Bank). In doing so it was immaterial whether or not they maintained accounts with Imperial Bank or had offices at places from which the remittances were desired. Such facilities were granted to those cooperative banks which had maintained accounts with the Reserve Bank.

The year 1952 was associated with further liberalisation of remittance facilities. The concession rates which were applicable to remittances issued to approved non-scheduled banks and indigenous bankers in favour of themselves were also extended to these bodies in favour of third parties. The concession rates which were also made available to telegraphic transfer and drafts in favour of third parties had been 1/10% for amounts up to Rs.5000 and 1/32% for amounts exceeding Rs.5000. It was also decided that the rate of change would be 7/6% in case of exchange on drafts for small amounts issued to an approved non-scheduled banks or indigenous banker, either in favour of itself or in favour of a third party. Moreover, the remittance facilities scheme of the Reserve Bank, under Regulation 8(4)(b) of the R.B.I. Scheduled Banks' Regulations, 1951, had been extended to a considerable extent so that the scheduled banks or state co-operative banks could remit free of charge, once a week
an amount of Rs. 5000 or more from any place at which there was an agency of the R.B.I. to any account which the bank concerned maintained with the Reserve Bank.

These facilities for free transfer of funds under Regulations 6(i)(h) of the R.B.I. Scheduled Banks' Regulations, 1951 was further extended from once a week to twice a week with effect from November 1, 1955. This was further liberalised from 1st October, 1956 by a circular from twice a week to thrice a week.

On the basis of the recommendations of the Banking Enquiry Committee 1950, the Reserve Bank had recommended the Government of India to ask the state governments to change the limits of drawing to enable greater mobility to the movements of funds from one centre to another. Following this recommendation the government of India had requested the State Governments to consider the question. In response to this request, 10 State Governments, during the year 1956-59, had agreed to raise the limits of drawing at or on sub-treasuries and treasuries from Rs.5000 and Rs.25000 to Rs.10,000 and Rs.50,000 respectively. Besides, the State Bank of India had continued to offer free remittance facilities to apex and central cooperative banks once a week for remitting funds from their headquarters to up country branches, particularly in rural areas, in addition to the remittance facilities provided by the Reserve Bank. Similar facilities

41. (i) Circular No. DDO No. Lig.8065/48A-56 dated Nov.12, 1956.
were also provided to the co-operative institutions by two subsidiary banks, namely the State Bank of Hyderabad and Bank of Mysore Ltd., in their respective areas.  

Upto the close of the year 1961, the scheduled banks and state co-operative banks were allowed by the Reserve Bank to make three remittances a week, free of charge, in amounts of Rs. 5000 or a multiple thereof, from each of their up-country branches at centres where there were agency banks, to their accounts with the offices of the Reserve Bank. With a view to further liberalising facilities during the period of the Third Five Year Plan the Reserve Bank had decided in November, 1961 to grant to scheduled banks and state cooperative banks similar facilities in the reverse direction, i.e. from the accounts maintained by them with the offices of the R.B.I. to their branches at the up country centres where there were branches of the State Bank of India or any of its Subsidiaries performing agency functions.

With effect from January 1, 1966 further liberalisation of remittance facilities had been granted in respect of both scheduled banks and cooperative banks. Among these the most important ones were:

(1) Raising of the minimum amount to Rs. 20,000 from Rs. 10,000 previously, between the banks' accounts at the offices of the Reserve Bank free of charge, and

(2) Increasing the frequency from three times a week (free of charge an amount of Rs.5000) to four times a week (free of charge, an amount of Rs.10,000).

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42. Annual Report; The Reserve Bank of India 1959, P 1028.
Policy to grant remittance facilities had worked throughout the period of the Plan for the development of the money market, especially in remitting funds from one centre to another. It had also helped to extend the area of operation of the organised sector of the market by giving an impetus for the branch expansion of the commercial banks in accordance with the recommendations of the Rural Banking Enquiry Committee.

CLEARING HOUSE FACILITIES

Expansion of banking, for its success, demands, unquestionably, extension of clearing house facilities in different parts of the country. For the purpose of widening the clearing house facilities as a part of its larger programme of expansion of banking, the Reserve Bank had opened 7 clearing centres at various centres rather at an early stage and they were managed well throughout the period of the Plan. In order to quicken the flow of the banking transactions as well as to widen the range of banking facilities provided by the banks, as a part of the larger programme of stimulating the growth of the banking habit in the country, the Reserve Bank had suggested that the State Bank and its subsidiaries should establish clearing houses at centres with a population of 1 lakh and over. In pursuance of this suggestion, the State Bank and its subsidiaries opened clearing houses at 62 and 14 centres respectively in the country up to the end of June 1966. Of the total clearing houses in the country operating at the end of June 1966, viz. 86, one had been managed by a commercial bank.

STAFF TRAINING OF COMMERCIAL BANKS

The most significant aspect of the developmental programme of banking institutions remains incomplete without the provision for satisfactory training facilities of the banking personnel. The promotional aspect of the monetary policy, especially the development of banking, necessitates the improvement of the calibre of the executive personnel of the constituent banks. For that purpose, as a first step, the R.B.I. had established a Bankers' Training College in Bombay in 1954. It was, in the context of the situation an encouraging as well as a welcome step to conduct classes for the senior bank officials, particularly the Branch Managers and those about to be promoted as Branch Managers. The College grew rapidly and had contributed towards the development of banking in India throughout the fifties. At the end of the Second Plan it had conducted 33 senior courses at which 882 candidates from different banks all over the country had received training. Besides, the year was associated with the introduction of an intermediate course in the college to provide training facilities to sub-managers, accountants etc. in which as many as 89 candidates had participated upto 30th June, 1961.45

Throughout the period of the Third Five Year Plan the R.B.I. had taken an active part for the improvement of the quality and standards of the banking personnel. It had sponsored, organised and conducted appropriate training centres for different categories of personnel in commercial and co-operative banks as well as for its own staff. The Bankers' Training College grew and continued to conduct classes for senior employees throughout the mid-sixties and into the early seventies.

Training College, Bombay had continued to conduct different courses for the supervisory personnel of commercial banks. The College had conducted, during the last year of the Plan, three senior courses, four intermediate courses and one course each in foreign exchange, industrial finance and personnel and organisation. Since its inception in 1954, the number of bank officials who received training in different courses conducted by the college stood at 2433 as at the end of 1966.

In 1965 a new course for the managerial personnel of cooperative banks was added to the list of training courses following the enactment of the Banking Laws (applicable to the cooperative societies) Act 1965. This course was intended to equip the managerial personnel of cooperative banks with up to date knowledge and practices and procedures of modern banking. Two such courses were conducted up to the end of 1966 at the Bankers' Training College, Bombay, and the total number of officials received training in this course stood at 70.

Since August 1963, the Bank had started a Staff Training College at Madras for its own staff where training was imparted to junior supervisory staff. The college conducted during the last year of the Third Plan five final courses, each of eight weeks' duration, for improving the operational efficiency of the staff. The number of staff trained in these courses stood at 221. The college had also conducted

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47. Ibid P 654.
48. Ibid.
inspection oriented course for the staff of the Department of Banking Operations and Development and Agricultural Credit Department.

By virtue of section 35 of the Banking Regulation Act the officers of the State Co-operative banks were being given training in inspection techniques and procedures so that the R.B.I. could arrange for an inspection of a primary cooperative bank through one or more officers of the State cooperative bank in the state in which the primary cooperative banks carried on business. Two special courses for the key personnel of the apex/central co-operative banks had been organised at the Bankers' Training College at Bombay. In addition, training facilities were also provided by the Agricultural Credit Department of the Bank to Registrars of co-operative societies and other senior officers of the co-operative department of different state governments.

ESTABLISHMENT OF THE DEPOSIT INSURANCE CORPORATION

The strength of the banking system depends ultimately upon its ability to mobilise deposits. It is clear that geographical coverage is an important aspect in this respect. But equally important is the growth of depositors' confidence. For it is on this that the spread of the banking habit and the success of deposit mobilisation depends. The various regulatory provisions of Banking Legislation throughout the entire period of the Plan, as we have studied earlier, had been directed to the objective of safeguarding the interest of the depositor and inducing in him a confidence in the banking system. In this connection, one of the major institutional change that had occurred during the Third Plan was the establishment of the Deposit Insurance Corporations. Deposit insurance had subsequently extended to all commercial banks and gave full protection
to over three out of every four depositors. With these structural changes in the banking system as a whole let us now turn our attention to the very workings of the commercial banks throughout the period of the Plan.

CHIYTAL ESTIMATE OF THE WORKINGS OF THE COMMERCIAL BANKS

Over the years the resources of the banking institutions had grown quite rapidly, and naturally they were in a position to satisfy the credit claims on them without much hardship. The total number of bank deposits had increased by about 460% during the period of the Plan as shown in Table 6.2. Of these the current deposits rose by 130% while the savings deposits increased by 330% and fixed deposits by 660% during the period. This trend had definitely indicated greater achievement in the sphere of saving mobilisation by the commercial banks. As a result of the bank expansion, pursued by the monetary authority, population served by a banking office came down during the period from 87,000 to 73,000. The average per capita deposits also rose by 300% during the same period. Likewise, as a result of the extension of the banking facilities, the ratio of deposits to national income had gone up from 9% in 1951 to 10% in 1966.

The contribution made by the banks, especially in the field of industry and commerce was no less important from the point of view of the over all credit requirement in the market. The distribution of bank credit

49. L. D'Mello, op. cit. P 132.
50. The ratio of deposits to national income excluding income from agriculture rose by 12.1% during the year ending 1965-66 as shown by the Table entitled, "Deposits and National Income" in Reserve Bank of India Bulletin, February 1966.
Table - 6.2
DISTRIBUTION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS IN INDIA
BY POPULATION GROUPS

(Rs. Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Centres with population below 10,000</th>
<th>Centres with population between 10,000 and 1 lakh.</th>
<th>Centres with population over 1 lakh.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>9.2</td>
<td>116.5</td>
<td>651.3</td>
<td>777.0</td>
</tr>
<tr>
<td>1956</td>
<td>15.9</td>
<td>199.9</td>
<td>804.4</td>
<td>990.2</td>
</tr>
<tr>
<td>1961</td>
<td>49.1</td>
<td>304.3</td>
<td>1142.0</td>
<td>1455.3</td>
</tr>
<tr>
<td>1966</td>
<td>158.3</td>
<td>706.5</td>
<td>2160.3</td>
<td>2986.1</td>
</tr>
</tbody>
</table>

Note: (1) Figures for the year 1951 and 1956 relate to deposits as at the end of the year.
(2) Figures for the years 1961 and 1966 relate to month-end averages during the year.

to various sectors during the period of the Plan can best be represented by Table 6.3. As is evident from the table, the total advance made by the banks in different sectors had increased from Rs. 584.8 crores in March 1951 to Rs. 2346.8 crores at the end of the Third Five Year Plan. This is undoubtedly an impressive achievement. Of the total advances, a lion's share had been absorbed by the industrial sector which was recorded as Rs. 1471 crores at the end of March 1966. It constituted about 65% of the total advances made during the same period. Next to this sector was the position of the commerce which obtained Rs. 502.3 crores from the banks at the end of March, 1966. This sector, together with the industrial sector, had received more than 84% of the total bank credit during the last year of the Third Plan as shown in Table 6.3. It is interesting to note from the table that while the ratio of advances to industry to total had increased from 34% in March, 1951 to 37% in March, 1956, 51% in March 1961 and 63% in March 1966, the ratio of advances to commerce had declined from 36% in 1951 to 28.4% in 1961 and 21.4% in March 1966. The changes in the distributional pattern of the bank credit during the period of the Plan was the result of the increasing tempo of industrial development since 1956. In absolute terms, however, the advances to commerce had shown substantial increase.

Table 6.4 represents the shares of industry and commerce in the increase in bank credit in different Plans, viz. 1st, 2nd and 3rd. Of the total increase in bank credit in different period of plans, the share of industry amounted to 46.8%, 70.5% and 77.6% respectively in First, Second and Third Plan periods. Similarly, the shares of the commerce recorded
### Table 6.4

**SHARES OF INDUSTRY AND COMMERCE IN THE INCREASE IN BANK CREDIT**

(Rs. in Crores.)

<table>
<thead>
<tr>
<th></th>
<th>March '50 over March '51</th>
<th>April '61 over March '60</th>
<th>March '68 over April '61</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increase in total advance</td>
<td>185.6</td>
<td>536.0</td>
<td>1040.6</td>
</tr>
<tr>
<td>2. Increase in advances to industrial sector</td>
<td>86.8</td>
<td>378.1</td>
<td>807.2</td>
</tr>
<tr>
<td>3. 2 as percent of 1</td>
<td>46.6</td>
<td>70.5</td>
<td>77.6</td>
</tr>
<tr>
<td>4. Increase in advances to commerce</td>
<td>70.4</td>
<td>92.2</td>
<td>129.1</td>
</tr>
<tr>
<td>5. 4 as percent of 1</td>
<td>37.9</td>
<td>17.2</td>
<td>12.4</td>
</tr>
</tbody>
</table>

# Table 8.3

DISTRIBUTION OF BANK CREDIT TO VARIOUS SECTORS

(In crores of Rs.)

<table>
<thead>
<tr>
<th>Sector</th>
<th>March 1951</th>
<th>March 1956</th>
<th>March 1961</th>
<th>March 1966</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage to total</td>
<td>Amount</td>
<td>Percentage to total</td>
</tr>
<tr>
<td>Industry</td>
<td>198.9</td>
<td>34.0</td>
<td>285.7</td>
<td>37.1</td>
</tr>
<tr>
<td>Commerce</td>
<td>210.6</td>
<td>36.0</td>
<td>281.0</td>
<td>36.5</td>
</tr>
<tr>
<td>Financial</td>
<td>74.0</td>
<td>12.7</td>
<td>71.9</td>
<td>9.3</td>
</tr>
<tr>
<td>Personal</td>
<td>39.7</td>
<td>7.0</td>
<td>51.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12.4</td>
<td>2.1</td>
<td>15.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Others</td>
<td>49.0</td>
<td>8.4</td>
<td>64.9</td>
<td>8.4</td>
</tr>
<tr>
<td>Total</td>
<td>584.6</td>
<td>100.0</td>
<td>770.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

as 37.9% 17.2% and 12.4% over the corresponding periods. These trends in
credit structure had signified the natural inclination of the banks to
advance more in favour of industry than that of any other sectors. But
this attitude on the part of the commercial banks had simply raised price
in the commodity market. As has been rightly observed by Mr. L. D'Hé1lo -
"`........... marketing is as essential as production of goods
and if the credit required for marketing is not given from the organised
money market, it would have been largely drawn from the unorganised money
market. Thus, indirectly perhaps the restrictive policy in regard to
credit for commerce would have given a boost to the demand and supply of
funds in the unorganised market. Also, since finance from the unorganised
market costs more, the prices of goods would have risen partly on
account of this." 51.

Incidentally, it should be noted here that in the sphere of medium-
term needs of industry commercial banks had shown a certain degree of
reluctance until up to the early fifties. The urgency of industrial finance
had stressed the need for greater commercial banks' participation in
equipment capital financing though limited to medium-term. But it was
not until 1956 that the first positive steps were taken in this direction
with the establishment of the Refinance Corporation for industry, which
had subsequently been merged with the Industrial Development Bank. During
the last few years only there had been a growing interest on the part of
commercial banks in this business and, subject to the necessity for them

51. L. D'Hé1lo, "Need for Credit Planning I", an article in State Bank
of India Monthly Review, April, 1970, p 144.
to ensure liquidity of the overall business. Indian banks have been making satisfactory progress in this regard.

In the sphere of small-scale industries increasing interest had been taken since 1956 by the State Bank of India. What had been started as the Pilot Development Project had thereafter become a part of the normal avocation of that bank. The provision of bank credit to the small industrial sector had been assisted by yet another institutional device - the operation since 1960 of the Credit Guarantee Scheme to small industry. The amount of small industrial credit had grown only during the Third Plan because of the protection afforded by the Scheme. Yet as a matter of tragedy the banks which had availed themselves of these facilities were few in number and it would have been more useful if more and more banks were to make use of the guarantee facilities so as to be in a position to provide more and more credit to deserving small-scale units. Table 6.5 and 6.6 represent the nature of contribution made by the commercial banks for the development of the small industries during the period of the Plan. The advances to small industries in relation to total advances made to industrial sector and the total bank credit, recorded as 6.2% and 3.9% respectively at the end of the Third Plan.

During the period advances to financial sector was recorded a sharp fall from 12.7% in March 1951 to 3.3% in March 1966 as shown by Table 6.3. Similarly the share of the personal loan fell from 7% in March 1951 to 4.0% in March 1966. The performance of the banks in the sphere of agricultural credit was a hopeless failure during the period.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>77</td>
<td>77</td>
<td>77</td>
<td>78</td>
<td>75</td>
<td>75</td>
</tr>
</tbody>
</table>

Advances to small-scale industries: 37.54, 32.08, 39.44, 47.72, 73.83, 90.78, +63.22 (+339.0%

(Figures in brackets indicate percentage changes over the period)

<table>
<thead>
<tr>
<th>Outstanding at the end of</th>
<th>Advances to small-scale industries</th>
<th>Advances to all industries</th>
<th>Total Bank credit</th>
<th>Col(1) as % of col.(2)</th>
<th>Col.(1) as % of col.(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December, 1960</td>
<td>27</td>
<td>538.58 G0</td>
<td>1100.0480</td>
<td>5.1</td>
<td>2.8</td>
</tr>
<tr>
<td>December, 1961</td>
<td>32.08</td>
<td>640.99 @</td>
<td>1227.709</td>
<td>5.0</td>
<td>2.6</td>
</tr>
<tr>
<td>December, 1962</td>
<td>39.44</td>
<td>893.96**</td>
<td>1610.70**</td>
<td>4.4</td>
<td>2.4</td>
</tr>
<tr>
<td>December, 1963</td>
<td>47.72</td>
<td>1072.53*</td>
<td>1866.75*</td>
<td>4.4</td>
<td>2.6</td>
</tr>
<tr>
<td>March, 1965</td>
<td>73.83</td>
<td>1246.20</td>
<td>2094.74</td>
<td>5.9</td>
<td>3.5</td>
</tr>
<tr>
<td>March, 1966</td>
<td>90.76</td>
<td>1470.97</td>
<td>2348.80</td>
<td>6.2</td>
<td>3.9</td>
</tr>
</tbody>
</table>

* October, 1960  October, 1961
** March, 1963  March, 1964

of the Plan. Of the total advances, the share of agriculture including plantation remained rather constant throughout the entire period of the Plan. Excluding the plantation the percentage position came to 0.5% at the end of Third Plan. As the banks were working with profit maximisation motive they were neither in the mood to open branches in rural areas nor they were inclined to advance in agricultural development. Certain amount of risks were definitely involved in advancing against agriculture. In the sphere of agriculture they had neither the expert knowledge nor the very courage required for the purpose of extension of rural credit. In the absence of their working, the indigenous financial agencies dominated the scene of the rural market not only at the initial stage of the Plan but even at the end of the Third Five Year Plan. It can not be denied that the extension of banking institutions throughout the period of the Plan had although minimised influence of the unorganised financial agencies in the sphere of industrial finance, yet they had no impact upon the agriculture.

In respect of the growth of deposits, it cannot be denied that the tremendous strides had been made by the Indian banking during the period of the Plan, especially during the Second and Third Plans. Between 1956-66 deposits of the banks had more than tripled as is evident from Table 6.2. It was undoubtedly an impressive achievement. The growth of per capita deposit, even adjusted for price increase during the same period, had also been substantial. It signified the spread of banking habit and of the growing importance of banking in financing the transactions of the economy.
This growth of banking business indicated the progress in the direction of institutionalisation of savings and credit which are undoubtedly essential aspects of the development. But whatever success had been achieved, it was helped, to a considerable extent, by Government's policy of deficit financing. In the context of such creation of credit by the Reserve Bank to finance the budget deficits of the government, it was easier for the banks to increase their deposits. In the changed situation, the task of deposit mobilisation should have considered more rigorously. Moreover, it was required to make a vigorous effort on the part of the commercial banks to expand branches in the rural and semi-urban areas not only with a view to mobilising additional deposits but also meeting the credit needs of the business and the household communities in these regions. More by attracting the resources of the lenders in the unorganised markets, the duty of the commercial banks could not be finished. They should have taken over their credit functions too. Or in other words, the banks should have entered the fields of agriculture, small industry, construction and trade much more energetically than had been done so far.

With the growing bank resources, they had satisfied the credit claims on them without much stringent scrutiny. In granting loans the banks had not even tried to devise any objective criteria for choosing the loan applications. To judge the creditworthiness of clients merely on the basis of established reputation was too shortsighted a policy from the long-run point of view. But it is a matter of tragedy that the
banks had tended to put undue weight on past success and established reputation in judging the loan applications. In considering the loan applications, the banks should have considered more the very purpose of the loan.

Mobilisation of savings and its deployment in productive and fruitful investments is the essence of economic development, and the bankers' role in the development process is vital and crucial. What was observed with regard to deposit mobilisation as well as advances had relevance also for the internal management of a bank. A bank might have devised fruitful scheme for deposit mobilisation as well as for choosing loan applications at the Head Office. But their implementation depended upon the quality of the branch network and its ability to guide, to supervise and to innovate. It was found, in the process, that the internal control system in some of our banks did not work as efficiently as desired. This impression was further strengthened by the way in which the banks had tried to implement some of the directives and instructions of the Bank even towards the close end of the Third Plan. A branch manager could not be expected to understand the spirit of the policies laid down by the Head Offices or of the Reserve Bank's directives and instructions. Necessarily, the Head offices should have an efficient internal communication system and, a control system to supervise and direct the operations of the branches in the desired directions.

Last, but not least, the clearing house procedures were inadequate in many banks. Reporting of statistical and operational data was in many cases unsatisfactory, and branch control and supervision needed to be considerably improved. There had been no systematic attempt at improving
the service to the customers, and even the procedures for encashing a cheque in most of the banks were hardly conducive to customers' satisfaction.