CHAPTER II

NATIONALISED BANKS: GENESIS, STRUCTURE AND FUNCTIONS
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I

Although the concept of banking dates back to the Babylonian civilization as early as 2000 B.C.,¹ the modern banking system owes its origin to the money dealers of Florence during the 14th century, who were engaged in receiving money on deposit and lending the money.² But, opinion varies regarding the origin of the term 'Bank'. Some say, it has been derived from the French word 'Bancue' or 'Banque' which means bench.³ Some others feel that the term 'Bank' has been derived from the German word 'Back', signifying a 'Joint Stock Fund', which was later Italianised into 'Banco', when the Germans were masters of great parts of Italy.⁴ However, a more systematic form of banking was found to be operating in Greece during the 4th century B.C. through the establishment of State Banks.⁵ The Greek system influenced Rome to the extent that certain Roman

¹ The temples of Babylon were used as banks. See The Encyclopaedia Britannica, Fourteenth Edition, Vol.3, p.67.
² See M.L. Tannan, Banking Law and Practice in India, Thacker & Co Ltd, Bombay, 1979, p.3.
³ This opinion is based upon the fact that the Jews in Lombardy, the early Bankers transacted their business on benches in the market place. See ibid, p.2.
⁴ See ibid, p.3.
temples were started to be utilised for financial
transactions. Later, the "Hellenistic Egypt, unlike Rome, imported the Greek banking system bodily."\(^6\)

Although the origin of modern banking can be traced to the money dealers in Florence, it was in England, where a perceptible development of banking system could be realised.\(^7\) A Royal Exchanger, during the reign of Edward (III), was engaged in money changing which was considered as an important function of bankers in those days. Later on, due to constant influx of gold from America (in the Elizabethan Age) and the growth of foreign trade, the ground for modern banking was prepared. The Bank of England was started in 1694\(^8\) particularly because of the financial difficulties of William (III), who was carrying on war with France. The growing public distrust of goldsmiths also added to the cause.\(^9\) The passing of Bank Charter Act, 1844 thereafter brought greater development.

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\(^6\) Ibid, p.67.
in the banking system in England.  

EVOLUTION OF BANKING IN INDIA

Banking system in India owes its origin to the ancient civilisation. India had developed the system of giving and taking of credit in one form or the other during early Vedic period. It has been observed that the transition from money lending to banking had occurred even before Manu. The establishment of "Hundi" was in vogue during the days of Mahabharata. Banking system in India was developed both by the initiation of a few big banks (as it was in case of U.K, Australia or Japan) as well as through the emergence and operation of a large number of independent unit banks (as in U.S.A).

The early system of banking continued to function in India throughout the medieval period and even till the British consolidated their authority in the country. With the advent of occidental banking in India, the joint stock banks started expanding. Consequently, the importance of money lenders and indigenous bankers was reduced particularly with the establishment of agency houses and Presidency Banks, patronised by the East India Company.

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10 This Act was passed on July, 19, 1844. See The Encyclopaedia Britanica, Op.Cit., p.37.
12 'Hundi' is known as the inland bill of exchange. It is derived from the sanskrit root 'hund' meaning 'to collect'. See ibid, p.11.
towards the close of the seventeenth century. During the period between 1770 and 1843 four major banks were found to be in operation in India. The earliest among those was the Bank of Hindustan, established by Alexander & Company of Calcutta. And the principle of 'Limited Liability' was applied to the Joint Stock Banks in India for the first time in 1860.

Being supported by the Indian National Congress (which was established in 1885), the number of banks in India had rapidly increased. With the beginning of the Swadeshi Movement in 1905, there was again an outburst of banking activity. The agitation connected with the partition of Bengal gave a great fillip to the starting of indigenous joint stock banks.

Although the banks had "sprung up like mushrooms", most of the banks failed "due to speculation, mismanagement and fraud on the part of those responsible for their

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15 See B. Rangaswamy, Public Sector Banking in India, Publications Division, Government of India, New Delhi, 1985, p.1.
16 Those four major banks were Bank of Hindustan, Bank of Bengal, Bank of Bombay and Bank of Madras.
17 The Bank of Hindustan was started in 1770 and it was closed down in 1832.
Following the Imperial Bank of India Act (1920), the Presidency Banks were amalgamated into the Imperial Bank of India which came into existence on the 27th January, 1921. The Imperial Bank was entrusted with the power to hold government balances, to manage the public debt and Clearing Houses. However, the severe trade depression that started in 1929 and the Civil Disobedience Movement in 1931 retarded the further growth of banking institution in India till the founding of the Reserve Bank of India in 1935.

The period of the Second World War again witnessed mushroom growth of banks in India. This was due to the mobilisation of deposits at a relatively low cost owing to the availability of plentiful money and also due to the profitable investment of those funds by the banks in the government securities because of substantial requirements of war finance.

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21 See ibid, p.17.
22 On the basis of the reports of the Hilton Young Commission (1926) and the Indian Central Banking Enquiry Committee (1931), under the Chairmanship of Sri B.N. Nitra, the R.B.I. was established in 1935 to function as an effective Central Bank of the country. See S.V. Vasudevan, Theory of Banking, S. Chand & Co, Delhi, 1984, p.211.
GROWTH OF BANKING IN POST-INDEPENDENCE PERIOD

During the post-independence period several banks were closed particularly due to the problems generated by partition of the country (into India and Pakistan) and the enactment as well as implementation of the Banking Companies (Restriction of Branches) Act, 1948. There was also abuse of powers by the persons controlling banks as well as absence of measures for safeguarding the interests of the depositors. The banks thus became ineffective due to lack of uniform and codified laws. This compelled the Government of India to enact the Banking Regulation Act of 1949 which aimed at consolidating the laws governing the banks. Subsequently, the Government as well as the Reserve Bank of India appointed two important Committees, namely the Rural Banking Enquiry Committee, 1950 and the All-India Rural Credit Survey Committee (Goruala Committee), 1954 in order to assess the role of banks in advancing credits, particularly in rural sector, and suggest improvements in this direction.

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24 At the time of independence (August, 1947) there were in the Indian Union, 648 banks with 4,820 branches, deposits of Rs. 1,080 crores and Rs. 480 crores of advances. See ibid, p.5.

25 The Rural Banking Enquiry Committee was set up under the Chairmanship of Sri Purushottam Dass Thakurdas by the Government of India.

26 The All-India Rural Credit Survey Committee was set up by the Reserve Bank of India under the Chairmanship of Sri A.D. Goruala in 1951 and its report was published in 1954.
the former recommended for opening of greater number of rural branches by the Imperial Bank, the latter advocated for the creation of "one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country." On the basis of the recommendations of the Gorwala Committee, the State Bank of India Act, 1955 was enacted and accordingly the State Bank of India was established in our country and also the undertakings of the Imperial Bank of India were transferred to the State Bank of India. Further, the State Bank of India (Subsidiary Banks) Act of 1959 was passed on the basis of the suggestion of the aforesaid Committee, and accordingly nine banks were constituted as subsidiaries of the State Bank of India.

The period of 1960-67 had witnessed the compulsory as well as voluntary mergers of a number of weaker and unsound banks. The unexpected liquidation of two

29 These nine banks were the Bank of Bikaner, the Bank of Indore, the Bank of Jaipur, the Bank of Mysore, the Bank of Patiala, the Travancore Bank, the State Bank of Hyderabad and the State Bank of Saurashtra.
Important banks like, Laxmi Bank and Palai Central Bank in 1960 necessitated the insertion of a new section in the Banking Regulation Act in September, 1960 vesting in the Reserve Bank of India with the power to enforce compulsory mergers of weaker banking companies. 30

Although there was considerable growth of banks in the area of opening of new branches and mobilisation of savings, the banks were predominantly urban oriented and controlled by a few large industries or business groups. In order to well equip these banks in extending financial assistance for attainment of plan-priorities for public welfare, a number of measures have been taken by the Government of India during the post-independence period. Of those measures, the adoption of 'Social Control' scheme and 'Nationalisation of Banks' policy deserve a brief analysis at this point, as these two policies are landmarks in the development of banking system in India during the recent times.

SOCIAL CONTROL OVER BANKS

The social control of Banking was introduced by the Government of India in December 1967. As a follow up measure of the scheme, the Government of India established

30 For a detailed discussion of the bank mergers, see D.N. Ghosh, Banking Policy in India - An Evaluation, Allied Publishers, New Delhi, 1979 p.44.
the National Credit Council\textsuperscript{31} in February 1968, in order to assess the credit needs of different sectors and to direct the banks about the allocations of credit,\textsuperscript{32} because it was found that the disbursement of credit by the banks had been largely in favour of the big industry and the important sectors like agriculture, small industry, etc. were relatively neglected. Thus for the realisation of the development programmes through the banks, the social control policy was adopted. Through this, the banking sector was brought under considerable governmental supervision. The social control scheme\textsuperscript{33} proposed certain radical changes to streamline the administrative and the operational aspects of commercial banks, in order to achieve adequate diffusion of economic power and to prevent the misuse of bank credit.\textsuperscript{34} Accordingly, the Boards of Directors were reconstituted consisting of

\textsuperscript{31} The 25 member National Credit Council was constituted with Union Finance Minister as Chairman.


\textsuperscript{33} The scheme of social control over India's commercial banks was announced by Sri Morarji Desai, the Deputy Prime Minister and Finance Minister in Parliament on December 14, 1967. The Social Control was imposed through Act No.58 of 1968 which was an amending Act to the Banking Regulation Act and came into force on February 1, 1969.

representatives from specialised fields such as agriculture, rural economy, small industries, co-operation, banking, economics, etc. And a professional banker was appointed as the full time Chairman on the approval of the Reserve Bank of India. The scheme was also entrusted to ensure an equitable and purposeful distribution of credit, within the resources available, keeping in view the relative priorities of developmental needs. This policy of 'social control' over the commercial banks served as the foundation upon which the edifice of 'bank nationalisation' was built.

NATIONALISATION OF BANKS

During the post-independence period, inspite of the expansion of the commercial banks, the banks could not play the required role for achieving socio-economic progress in India. The commercial banks being owned by the private entrepreneurs, always became profit oriented. Thus, the bank credit had to flow greatly into those areas which offered the most attractive and profitable investment.

Further, the banking system was localised in a few metropolitan and urban cities whereas the potential rural areas were left neglected and remained unbanked. The deployment of credit by the banking system was confined to industry and trade, ignoring the vital interests of priority and neglected sectors like agriculture, retail

trades, small-scale industries, etc. Enormous concentration of economic powers prevailed in a few big business houses who were in effective control of the banks, leading to the emergence of industrial monopolies.

The measures implemented under the Social Control Scheme were found to be inadequate in achieving the target in promoting welfare of the weaker sections of the community. The banking system, therefore, could not accelerate agricultural development as well as development of small industries in the country. The social control policy also failed in raising of employment opportunity, encouraging new entrepreneurs and in promoting exports in the country. All these prompted the Government of India for the nationalisation of fourteen major commercial banks in July 1969, which is a landmark in the economic and banking history of India. The Statement of Objects and


38 The President of India promulgated an ordinance called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 on 19th July, 1969 in terms of which the Central Government acquired fourteen major commercial banks with deposits of not less than Rs. 50 crores each. The Ordinance was replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969.
Reasons appended to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969 clearly mentions:

"The banking system touches the lives of millions and had to be inspired by larger social purpose and has to subserve national priorities and objectives such as rapid growth in agriculture, small industries, exports, raising of employment levels, encouragement of new entrepreneurs and the development of the backward areas. For this purpose it is necessary for government to take direct responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking system."

Further, Smt. Indira Gandhi, the then Prime Minister of India had declared while announcing the nationalisation of banks:

"Sometime ago, we had adopted social control over banks. What is sought to be achieved through the present to nationalise the major banks is to accelerate the achievement of our objectives. The purpose of expanding bank credit to priority areas which have hitherto been somewhat neglected as also the removal of control by a few, provision of adequate credit for agriculture and small industry and exports, the giving of a professional bent to bank management, the encouragement of new classes of entrepreneurs and 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 the speedy achievement of these objectives."  

Our discussion in the preceding paragraphs makes it clear that in order to serve the developmental needs of all sectors of the economy in "conformity with the national policy and priorities," 41 fourteen major commercial banks were nationalised by the government. Through this, the central government acquired full control over these banks and also acquired their deposits as well as liabilities. The following Table No.II.4 represents the names of banks nationalised and their position at the time of nationalisation.


<table>
<thead>
<tr>
<th>S1. Name of the Banks</th>
<th>Deposits (Rs. in crores)</th>
<th>Advances (Rs. in crores)</th>
<th>Number of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Central Bank of India</td>
<td>442</td>
<td>303</td>
<td>564</td>
</tr>
<tr>
<td>2. Bank of India</td>
<td>358</td>
<td>243</td>
<td>274</td>
</tr>
<tr>
<td>3. Punjab National Bank</td>
<td>358</td>
<td>257</td>
<td>570</td>
</tr>
<tr>
<td>4. Bank of Baroda</td>
<td>283</td>
<td>176</td>
<td>373</td>
</tr>
<tr>
<td>5. United Commercial Bank</td>
<td>203</td>
<td>136</td>
<td>349</td>
</tr>
<tr>
<td>6. Canara Bank</td>
<td>148</td>
<td>109</td>
<td>325</td>
</tr>
<tr>
<td>7. United Bank of India</td>
<td>147</td>
<td>107</td>
<td>175</td>
</tr>
<tr>
<td>8. Dena Bank</td>
<td>132</td>
<td>76</td>
<td>234</td>
</tr>
<tr>
<td>9. Union Bank of India</td>
<td>115</td>
<td>74</td>
<td>241</td>
</tr>
<tr>
<td>10. Allahabad Bank</td>
<td>114</td>
<td>82</td>
<td>153</td>
</tr>
<tr>
<td>11. Syndicate Bank</td>
<td>110</td>
<td>90</td>
<td>307</td>
</tr>
<tr>
<td>12. Indian Bank</td>
<td>79</td>
<td>60</td>
<td>218</td>
</tr>
<tr>
<td>13. Bank of Maharashtra</td>
<td>78</td>
<td>55</td>
<td>153</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,626</strong></td>
<td><strong>1,813</strong></td>
<td><strong>4,134</strong></td>
</tr>
</tbody>
</table>

It is revealed from Table No.II.1 that the 14 major commercial banks which were nationalised during July, 1969 had 4,134 branches with deposits of ₹2,626 crores and total advances of ₹1,813 crores.

However, the objectives of bank nationalisation policy could not be fully realised as the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969 was declared null and void by the Supreme Court in the case of R.C. Cooper Vs. Union of India (1970). This led the Government of India to enact the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 in order to serve its own purpose of achieving rural development through the nationalised banks. With the nationalisation of the banks there occurred considerable change in the system of lending. And the emphasis was shifted from the credit-worthiness of persons to the credit-worthiness of the purpose. Later on a co-ordinated branch expansion policy was carried out in bringing the nationalised banks closer to the rural people.


43 Following Supreme Court's decision, the President promulgated another ordinance (No.3 of 1970) on 14.2.1970 which was replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (No.5 of 1970).
The second phase in nationalisation of banks took place when the President of India promulgated an ordinance on 15th April, 1980 "to provide for the acquisition and transfer of the undertakings of certain banking companies" in order to "control the heights of the economy, to meet progressively and serve better the needs of development of the economy and to promote welfare of the people." With the promulgation of the ordinance, six more commercial banks in the private sector (each with demand and time liabilities of not less than ₹200 crores) were nationalised. The position of these six commercial banks in terms of their deposits, advances, and number of branches at the time of nationalisation is presented in the following Table No.II.2.


45 The list of the twenty nationalised banks and their dates of establishment may be seen from Appendix II.
Table No.II.2
Deposits, Advances and Number of Branches of Banks Nationalised in April, 1980.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Banks</th>
<th>Deposits (Rs in crores)</th>
<th>Advances (Rs in crores)</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Punjab and Sind Bank</td>
<td>466</td>
<td>336</td>
<td>520</td>
</tr>
<tr>
<td>2</td>
<td>Andhra Bank</td>
<td>460</td>
<td>308</td>
<td>588</td>
</tr>
<tr>
<td>3</td>
<td>New Bank of India</td>
<td>391</td>
<td>237</td>
<td>402</td>
</tr>
<tr>
<td>4</td>
<td>Vijaya Bank</td>
<td>365</td>
<td>208</td>
<td>571</td>
</tr>
<tr>
<td>5</td>
<td>Oriental Bank of Commerce</td>
<td>216</td>
<td>152</td>
<td>301</td>
</tr>
<tr>
<td>6</td>
<td>Corporation Bank</td>
<td>212</td>
<td>134</td>
<td>304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>2,110</strong></td>
<td><strong>1,375</strong></td>
<td><strong>2,686</strong></td>
</tr>
</tbody>
</table>


It is revealed from Table No.II.2 that the six banks which were nationalised in April, 1980 had 2,686 branches with Rs.2,110 crores of deposits and advances of Rs.1,375 crores.

GROWTH OF BANKING IN THE POST-NATIONALISATION PERIOD.

The post-nationalisation period witnessed enormous growth in banking system and their transactions. The following Table No.II.3 represents the growth in number of banks, their deposits, credits, cash balances, investment, etc. during the period between 1969 and 1984.
Table No.II.3
Growth of Banking in India (1969-84)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Indicators</th>
<th>Year</th>
<th>1969</th>
<th>1974</th>
<th>1979</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of Commercial Banks</td>
<td></td>
<td>73</td>
<td>74</td>
<td>134</td>
<td>247</td>
</tr>
<tr>
<td>2</td>
<td>Aggregate Deposits (\text{Rs in crores})</td>
<td></td>
<td>4,842</td>
<td>11,440</td>
<td>31,316</td>
<td>70,950</td>
</tr>
<tr>
<td>3</td>
<td>Bank Credit (\text{Rs in crores})</td>
<td></td>
<td>3,585</td>
<td>7,914</td>
<td>20,859</td>
<td>47,499</td>
</tr>
<tr>
<td>4</td>
<td>Cash-in-hand and balance with Reserve Bank (\text{Rs in crores})</td>
<td></td>
<td>303</td>
<td>815</td>
<td>4,134</td>
<td>8,017</td>
</tr>
<tr>
<td>5</td>
<td>Investment in Government securities (\text{Rs in crores})</td>
<td></td>
<td>1,217</td>
<td>2,717</td>
<td>10,397</td>
<td>27,458</td>
</tr>
<tr>
<td>6</td>
<td>Cash-Deposits Ratio (%)</td>
<td></td>
<td>6.26</td>
<td>7.17</td>
<td>13.2</td>
<td>11.3</td>
</tr>
<tr>
<td>7</td>
<td>Investment Deposit Ratio (%)</td>
<td></td>
<td>25.14</td>
<td>23.75</td>
<td>33.2</td>
<td>38.7</td>
</tr>
<tr>
<td>8</td>
<td>Credit-Deposit Ratio (%)</td>
<td></td>
<td>74.05</td>
<td>69.18</td>
<td>66.6</td>
<td>67.0</td>
</tr>
</tbody>
</table>

Note: Figures relate to Commercial Banks business in India.

It is observed from Table No. II.3 that the number of Commercial Banks had increased from 73 in 1969 to 247 by the end of 1984. The aggregate deposits had increased from ₹.4,842 crores to ₹.70,950 crores in 1984 while the credit had gone up from ₹.3,585 crores in 1969 to ₹.47,499 crores in 1984. The credit deposit ratio had shown a declining trend from 74.05% in 1969 to 67.0% by the end of 1984.46

GROWTH OF BANKING IN ORISSA

In Orissa, the beginning of commercial banking was made in the early part of the twentieth century with the establishment of the Puri Joint Stock Bank in the year 1909.47 Subsequently, two other banks, namely, the Cuttack Joint Stock Bank and the Jagannath Bank were established in the year 1913 and 1919 respectively.48 Thereafter, the Imperial Bank of India established its first branch in

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46 The position of the twenty nationalised banks in respect of their deposits, advances, etc. during the period between 1969-84 are presented in Appendix-III.


48 The Cuttack Joint Stock Bank was merged with the United Bank of India in the year 1954 and the other two joint stock banks were liquidated by the mid-thirties. See S.N. Misra, Growth of Commercial Banking in Orissa, Anu Books, Bhubaneswar, 1984, p. 22.
Orissa at Berhmapur in the district of Ganjam in the year 1921 and its second branch at Cuttack in the very year. It was due to the interest and initiative of the Maharaja of Mayurbhanj that the Mayurbhanj State Bank could be established in 1938. Some of the banks operated in Bengal province like the Calcutta Bank, the Pioneer Bank, etc. gradually opened their branches at Cuttack, Puri, Berhampur, Balasore and other places when Orissa continued to exist as a separate province since 1936. But those banks could not flourish for a long time and were liquidated by late forties chiefly because of mismanagement. It was the enactment of the Banking Regulation Act of 1949 which had encouraged for the expansion of banking system in the State subsequently.

However, a greater expansion of banking could be possible during the post-nationalisation period in Orissa. The growth of banking in Orissa during the period from 1969 to 1984 is presented in the following Table No.II.4 followed by Diagram No.2.

49 The bank later on opened its branches at Rairangpur and Karanjia of Mayurbhanj district. It was amalgamated to State Bank of India in the year 1961. See S.N. Misra, *ibid*, p.22.

Table No.II.4
Growth of Banking in Orissa (1969-84)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of Bank offices</td>
<td>111</td>
<td>288</td>
<td>724</td>
<td>1,806</td>
</tr>
<tr>
<td>2</td>
<td>Deposits (Rs. in millions)</td>
<td>359</td>
<td>991</td>
<td>2,835</td>
<td>9,477</td>
</tr>
<tr>
<td>3</td>
<td>Advances (Rs. in millions)</td>
<td>178</td>
<td>516</td>
<td>1,819</td>
<td>9,094</td>
</tr>
<tr>
<td>4</td>
<td>Credit-Deposit Ratio (%)</td>
<td>49.6</td>
<td>52.1</td>
<td>64.2</td>
<td>95.9</td>
</tr>
<tr>
<td>5</td>
<td>Population per Bank Office (in thousands)</td>
<td>191</td>
<td>86</td>
<td>36</td>
<td>15</td>
</tr>
</tbody>
</table>


It is clearly seen from Table No.II.4 that the number of bank offices in Orissa had increased from 111 in 1969 to 1,806 in 1984. Deposits had increased from Rs.359 millions in 1969 to Rs.9,477 millions in 1984; and the advances from Rs.178 millions in 1969 to Rs.9,094 millions at the end of 1984. With the increase in the number of bank offices, population per bank office had come down from 1.91 lakhs in 1969 to only 15 thousand at the end of
Dig. No. 2 - Growth of Banking in Orissa, 1969-84.
1984. Following the expansion of the nationalised banks and the resultant decline in the population per bank office, the scope had been widened for providing effective service to the people of the State through the nationalised banks.

II

STRUCTURE AND FUNCTIONS OF NATIONALISED BANKS

Banking constitutes a part of the economic as well as the social system. Isolatedly considered, it is a system. As such, it consists of certain structures functioning in interaction with its environment. The behaviour of a banking system is both purposeful and goal oriented. Like any other social system, it has to carry out the functions of adaptation and pattern maintenance, integration and goal attainment. For this purpose, every banking system has to perform a number of functions through the mechanism that constitutes the structure of the system. Like any other economic system, the bank is subject to the input-output process by which it receives demands from the environment and responds to the demands through its output transactions. The functions which it has to perform in the output process are

51 The population group-wise distribution of the number of offices, deposits and credit in respect of 20 Nationalised Banks in Orissa and India at the end of December, 1984, have been shown in Appendix IV.
necessarily dependent on its structural arrangements.
Our objective at this point is to make a probe into the structure of the nationalised banks and the way in which they utilise their structure in performing such functions in our country.

An analysis of the structure of the nationalised banks can be made with reference to the institutional arrangements which have been provided for policy making, controlling and carrying out the various functions assigned to these banks. While the Board of Directors is in charge of policy formulation and strategy making, the management agencies like General Management, Planning Management, Functional Management and Operational Management are entrusted with general management and co-ordination of planning, staff management and operations, and also to resolve conflicts, set priorities, take overall decisions and submit proposals with recommendations to the Board of Directors. The organisational structure

The Chamberlaine Commission (1914) and the Hilton Young Commission (1926) had reviewed and reported on the banking structure in India. The Indian Central Banking Enquiry Committee (1931) had made a detailed study of the working and problems of the banking in the country. The Banking Commission appointed by the Government of India in February, 1969 under the Chairmanship of Sri R.B. Saraiya, had also studied in depth the organisational structures of the nationalised banks and in their report submitted in January, 1972 made many suggestions to suit the needs of the society.
of a nationalised bank is furnished in the following Chart No. 1.

Chart No. 1
Organisational Structure of a Nationalised Bank

Board of Directors

Chairman and Managing Director

Vigilance

Chairman's Secretariat

Executive Director

General Managers (Head Office)

Planning Personnel Accounts

Credit Inspection International Business

Deputy General Managers
(Zonal Offices)

Divisional Managers
(Divisional Offices)

Branch Managers (Branches)

It is seen from the preceding Chart No. 1 that the branch managers function at the grass root level and on the other hand, the Board of Directors is the apex body of the nationalised bank. Let us have a brief discussion on each of these structures.

The Government of India introduced a new scheme known as "The Management of the Nationalised Banks
(Management and Miscellaneous Provisions) Scheme, 1970 for the management of the nationalised banks.\textsuperscript{53} As per the said scheme, the Board of Directors of all the fourteen nationalised banks were appointed in December, 1972, consisting of the following members:

(a) Chairman and Managing Director;
(b) A Director representing the workmen staff of the bank;
(c) A Director representing the officers of the bank;
(d) A Director representing the depositors of the bank;
(e) Three Directors representing the interests of farmers, workers and artisans;
(f) Not more than 5 Directors having special knowledge or practical experience to be useful for the working of the bank;\textsuperscript{54}
(g) A Director representing the Reserve Bank of India; and
(h) A Director representing the Government of India.\textsuperscript{55}

\textsuperscript{53} The scheme was introduced by the Government of India after consultation with the Reserve Bank of India under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 for the purpose of better management of the nationalised banks.

\textsuperscript{54} These Directors would be industrialists, economists, financial experts, management experts, lawyers, etc., although it was not so specified in the Scheme. See R.M. Srivastava, \textit{Management of Banks}, Pragati Prakashan, Meerut, 1979-80, p. 108.

\textsuperscript{55} \textit{Ibid}, p. 108.
Apart from the above, the Government of India appointed an Executive Director since 1981 who was also taken as a member of the Board of Directors.\(^{56}\)

The Directors other than those representing the Reserve Bank of India and the Government of India were allowed to hold office for a period of three years and were also made eligible for the reappointment according to the provisions of the aforesaid scheme. On the other hand, the insolvent people, abnormal persons and convicted individuals were disallowed for the post of Directors.

The Board of Directors has been empowered to exercise functions chiefly relating to matters like formulation of bank policies, promotion of the executives, monitoring of loans and investments, and bank development.\(^{57}\)

The Managing Director is the Chief Executive Officer of a nationalised bank who also holds the office of the Chairman of the Board of Directors. He is appointed by the Government of India for a term of five years. The Chairman and Managing Director along with other Directors has been chiefly entrusted with the functions of policy making but has alone been made responsible for proper implementation of such policies.


Like the Chairman and Managing Director, the Executive Director is appointed by the Government of India. The Executive Director co-ordinates the functions of the different General Managers and sends reports regarding their performance to the Chairman and Board of Directors. Further, in the absence of the Chairman, he exercises the functions of the former.

The important wings of a nationalised bank like, planning, personnel, accounts, credit, inspection and international business are headed by General Managers at the head office level. The role of the General Managers in their respective fields includes formulating operational policies for the approval of the management, institutionalising the structure, systems and procedures to manage different departments of the bank, setting goals in their functional areas for achieving overall corporate objectives and building up management information system to exercise proper control over the lower units. The Head Office of the nationalised bank is the centre of formulating policies and corporate objectives of the bank and it transmits the same to its Zonal and Divisional Offices for implementation.

The Zonal Office is headed by a Deputy General

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Manager while the Divisional Office is headed by a Divisional Manager. The Zonal Office provides guidance to the Divisional Office and also supervises and co-ordinates the working of various divisions. The Divisional Office, on the other hand, supervises the working of the branches those come under its jurisdiction. While the Divisional Office is accountable to the Zonal Office, the Zonal Office is responsible to the Head Office in the matter of effective discharging of various functions. Both the Zonal Office and the Divisional Office maintain liaison with the Reserve Bank of India, respective State Governments and other local agencies pertaining to the various functions of the Bank.

The branch of a nationalised bank is the lowest unit in the operational line of banking. The branch is headed by a Branch Manager who has multifarious duties and responsibilities. The branch is the focal point for mobilisation of resources, deployment of credit and efficient customer service. The Branch Manager is assisted by Assistant Managers, Rural Development Officers and workmen staff like cashiers and clerks. The successful banking depends upon the efficient functioning of a branch as it operates at the grass root level.

The functions of the nationalised banks are carried on according to the policies framed by their respective Board of Directors on the basis of various statutes and enactments those are made by the Government of India from time to time. The functions exercised by the nationalised banks, however, may be broadly divided into two types, namely, (a) traditional functions and (d) development functions.

The traditional functions mainly include accepting deposits from the public, lending to individuals and business firms, discounting bills of exchange, agency services and general utility services, etc. The developmental functions, on the other hand, are directed towards advancing financial assistance (in the form of loans) to the people as per the policies formulated by the Central Government, chiefly for the upliftment of the weaker sections. With this background, let us have a brief analysis on the various functions discharged by the nationalised banks in our country in relation to rural development.

III

FUNCTIONS OF NATIONALISED BANKS IN RELATION TO RURAL DEVELOPMENT.

The nationalised banks, now-a-days are playing a

60 At present, the banking operations in India are governed by certain enactments like the Negotiable Instruments Act (1881), the Banker's Books Evidence Act (1891) and the Banking Regulation Act (1949), etc.
very significant role in the field of rural development. It has become the prime responsibility of the nationalised banks to provide rural credit and make the rural cultivators free from the clutches of the moneylenders. Before the nationalised banks were called upon for credit deployment in the rural sector, the non-institutional credit agencies were greatly exploiting the rural cultivators, through advancing loans, as the institutional credit agencies played a very insignificant role in this direction.

A comparative study of the role of the non-institutional and institutional credit agencies in the field of advancing loan to the rural cultivators during the period between 1951 and 1971 would reveal the truth which our aforesaid paragraph contains. The following Table No.II.5 shows the various sources of rural credit in the total borrowings of the cultivators during 1951 and 1971.
<table>
<thead>
<tr>
<th>Sl.</th>
<th>Credit Agency</th>
<th>Proportion of Borrowings from each agency to the total borrowings of the Cultivators</th>
<th>1951</th>
<th>1961</th>
<th>1971</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A. NON-INSTITUTIONAL AGENCY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Professional money-lenders</td>
<td></td>
<td>44.8</td>
<td>13.2</td>
<td>13.2</td>
</tr>
<tr>
<td></td>
<td>(b) Agricultural money-lenders</td>
<td></td>
<td>24.9</td>
<td>36.0</td>
<td>23.3</td>
</tr>
<tr>
<td></td>
<td>(c) Traders and commission agents</td>
<td></td>
<td>5.5</td>
<td>8.8</td>
<td>8.3</td>
</tr>
<tr>
<td></td>
<td>(d) Others</td>
<td></td>
<td>17.5</td>
<td>23.3</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>92.7</td>
<td>81.3</td>
<td>69.8</td>
</tr>
<tr>
<td>2</td>
<td>B. INSTITUTIONAL AGENCY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Government</td>
<td></td>
<td>3.3</td>
<td>2.6</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>(b) Commercial Banks</td>
<td></td>
<td>0.9</td>
<td>0.6</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>(c) Co-operatives</td>
<td></td>
<td>3.1</td>
<td>15.5</td>
<td>21.1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>7.3</td>
<td>18.7</td>
<td>30.2</td>
</tr>
<tr>
<td>3</td>
<td>Total of A + B</td>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Data beyond 1971 on the matter is not available.

Source: Compiled from All-India Rural Credit Survey (1951-52), Government of India; All-India Rural Debt and Investment Survey (1961-62); and Debt and Investment Survey, Reserve Bank of India, 1971.
It is revealed from the aforesaid Table No.II.5 that while the non-institutional credit agencies had advanced 92.7%, 81.3% and 69.8% of the total borrowings during 1951, 1961 and 1971 respectively to the rural cultivators; the institutional credit agencies had only advanced 7.3%, 18.7% and 30.2% of the borrowings for the respective above mentioned years.

The above statistical analysis makes it clear that although credit extended by the institutional agencies has gradually increased from decade to decade between 1951 and 1971, the non-institutional agencies have always advanced much higher amount of loans to the rural farmers and as such dominated over the institutional agencies on the matter throughout the period under study.

When the nationalised banks were entrusted with the task for the eradication of poverty from the rural sector and for promoting economic development of the

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### Notes

61 A number of studies highlight the extent of rural poverty in our country. Some of these studies include, Ojha's Estimate of poverty (1970), Dandekar and Rath's study on poverty in India (1971), Bardhan's study on Rural Poor (1974), Mantek Ahluwalia's study on Rural Poverty (1977), Estimate of poverty by the seventh Finance Commission (1978) and World Bank Sussex Study (1969), etc. Also for details of rural poverty in India, see P. Chaudhuri, The Indian Economy, Poverty and Development, Vikas Publishing House, New Delhi, 1982, pp.177-212.
rural masses, those had taken remarkable measures\textsuperscript{62} in these fields. Since then the nationalised banks have emerged not only as a source of rural credit, but also as agencies for rural development. Gradually, the nationalised banks through their various strategies and endeavours have emerged from a purveyor of credit to an agency for development.\textsuperscript{63}

Development functions in any form and in any direction obviously require adequate finance for their proper execution. Finance constitutes the sinews of development administration. Without sound financial base no developmental policies can be implemented. Hence, we have made an attempt to study the financial resources of the nationalised banks in the subsequent paragraphs.

FINANCIAL RESOURCES

The major financial resources of the nationalised banks are capital, reserve funds, deposits, recovery of credits, refinance from various refinancing agencies, participation certificates, call money from the market,

\textsuperscript{62} For details, see K.C. Padhy, \textit{Commercial Banks and Rural Development}, Asian Publication Services, New Delhi, 1980, p.27.

credit balances under demand drafts, mail transfers, etc. 64 While the interest on loans, discount, commission, exchange, rents, etc. constitute the chief sources of the income of the nationalised banks, the major heads of expenditure are interest paid on deposits and borrowings, salaries, allowances and provident fund of the staff members, rent, taxes, insurance, lighting, law charges, postal and telegraph charges, stationery, printing, advertisement, auditors fees and repairs to the Bank's property, etc. 65

An analysis on the structure and functions of the nationalised banks would be incomplete without a reference to the control exercised over them by the higher authorities as well as the relationship which they hold with such agencies like the Central Government and the Central Bank. Hence we have made a probe into the matter in the subsequent paragraphs.

NATIONALISED BANKS - RELATIONSHIP WITH CENTRAL GOVERNMENT AND CENTRAL BANK

The relationship between the nationalised banks and the Central Government and the Central Bank can

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65 The details of income and expenditure of the 20 nationalised banks may be seen from Appendix V.
mainly be analysed in form of control which the latter agencies possess over the former. The Government of India have very little direct control over the nationalised banks. Most of the controls by the Central Government over the nationalised banks are exercised through the Reserve Bank of India, which is the Central Bank in our country. The Central Bank is an organ of the Central Government that undertakes the major financial operations of the government and also influences the behaviour of the financial institutions of the country so as to support the economic policy of the Central Government. The chief methods of control exercised by the Reserve Bank over the nationalised banks are maintenance of liquid assets and cash reserve, inspection of branches, etc. Let us have a brief discussion on each of the aforesaid methods.

The maintenance of liquid assets and cash reserve is an important method of control exercised by the Reserve Bank over the nationalised banks. The

66 The direct control is exercised in respect of appointments of the Chairman and Managing Director, etc.

67 The Reserve Bank of India was brought into existence by the Reserve Bank of India Act, 1934. In terms of the Reserve Bank (Transfer to Public Ownership) Act, 1948, the entire share capital of the bank was acquired by the Government of India.

centralisation of cash reserves in the Central Bank is a source of great strength to the banking system in any country. According to Section 42(1) of the Reserve Bank of India Act, 1934, every nationalised bank is required to maintain with Reserve Bank an average daily balance of not less than 3 percent of the total of its demand and time liabilities in India. The Reserve Bank has the statutory authority to raise this ratio up to 15 percent. Further, the nationalised banks are required to maintain liquid assets equivalent to 36 percent of their net demand and time liabilities.

The government also exercises control over the nationalised banks through the provisions of inspection of such banks by the Reserve Bank of India. The Reserve Bank can inspect the nationalised banks at any time.

69 See M.H. dekock, Central Banking, Universal Book Stall, New Delhi, 1985, p.58.


71 By the end of 1984, the Cash Reserve Ratio was 9% and the Statutory Liquidity Ratio was 36%. See Statistical Supplement, IBA Bulletin, Vol.IX, No.11, November, 1987, p.325.

72 See Section 35 of the Banking Regulation Act, 1949.
in order to protect the interest of the depositors and to ensure the implementation of the national objectives.

Credit regulation is another important method of control by the Reserve Bank of India. This has been adopted for the purpose of regulating the credit functions of the nationalised banks in proper direction. Every year, the credit policy for both the busy season and slack season is announced by the Governor of Reserve Bank of India in a meeting of the Chief Executives of the nationalised banks. And the Reserve Bank of India appoints various committees, from time to time, in order to regulate the credit.

Further, the Reserve Bank of India has wide powers of control over the nationalised banks pertaining to their management, particularly in the appointment of Chairman and Managing Director and other whole time Directors of their respective Boards.

73 Busy season policy is applicable from November to April and Slack season is applicable from May to October every year.

74 Some of these Committees are Dahejia Committee (1968), Laxminarayan Committee (1973), Bhuchar Committee (1978), Tandon Committee (1974) and Chore Committee (1979), etc.

75 According to Section 35 B of the Banking Regulation Act, 1949, the appointment or re-appointment or termination of appointment of a Chairman, Managing Director or whole time Director requires the prior approval of Reserve Bank of India.
Moreover, any proposal for branch expansion by the nationalised banks is regulated by the Reserve Bank of India. The main objective of such control is to regulate the opening of new offices of the banks in such a manner as to assist the sound development of the banking system and to enable it to meet the growing requirements of the economy.\textsuperscript{76}

\textbf{SUMMARY}

This chapter chiefly deals with the evolution of banking system in India with particular reference to Orissa. However, in course of our analysis we have divided this chapter into three parts. While the first part highlights the growth of banking, the second part discusses the structure and functions of the nationalised banks and the third part deals with the functions of the nationalised banks in relation to rural development.

An analysis of the evolution of banking reveals that although the concept of banking dates back to the Babylonian civilization, its modern system owes its origin to the European countries particularly to the British. When in India the banking system was prevailing,

during the ancient period in a rudimentary form, it could be well developed in the country under the British rule. During the post-independence period, the Government of India took systematic steps for the furtherance of banking system in the country through the adoption of different policies. Two important policies, namely, 'Social Control' and 'Nationalisation of Banks' policies constituted the mile-stones in the field of bank expansion in India. Through the policy of 'Social Control' the banking sector was brought under the direct supervision of the Government. The 'Bank Nationalisation' policy, on the other hand, helped in achieving the socio-economic progress in greater degree and in expanding branch units of the banks in the rural sector through which a number of rural development schemes could be implemented. In consequence of the bank nationalisation, the number of banks could be increased from 73 in 1969 to 247 in 1984.

In Orissa, although organised system of banking was seen during the early part of the 20th century, a rapid growth of banking could be possible with the enactment of the Banking Regulation Act of 1949. However, the post-nationalisation period experienced a
quick expansion of bank offices from 111 in 1969 to 1,806 in 1984.

While analysing the structure and functions of the nationalised banks in the second part of this chapter, an elaborate discussion has been made on the Board of Directors, Chairman and Managing Director, Executive Director, Head Office, Zonal Office, Divisional Office and the Branch Office which chiefly constitute a nationalised bank.

The third part of the chapter specifically deals with the functions of nationalised banks in relation to rural development. In the course of our discussion, we have made a study into the subjects like, borrowings of the cultivators both by Institutional and Non-institutional agencies, financial resources of the nationalised banks and the relationship between the nationalised banks with the Central Government as well as with the Central Bank.