Introduction

A sound banking system is a sine qua non for accelerating the process of economic development of a country. Banks and economic development are intertwined and inseparable to each other. In the words of the former Prime Minister Morarji Desai, “the role of commercial banks in economic development of a country needs no emphasis. Banking, when properly organised, aids and facilitates the growth of trade and hence the national economy.” ¹

In India, though the money market is still characterised by the existence of both the organised and the unorganised segments, institutions in the organised money market have grown significantly and are playing an increasingly important role. The unorganised sector, comprising the moneylenders and indigenous bankers, caters to the credit needs of a large number of persons, especially in the countryside. Amongst the institutions in the organised sector of the money market, commercial banks and cooperative banks have been in existence since the middle of seventies. Thus, with the phenomenal geographical
expansion of the commercial banks and the setting up of the Regional Rural Banks [RRBs] during the recent past, the organised sector of money market has penetrated into rural areas as well. Besides the aforesaid institutions, which mainly serve as sources of short-term credit to industry, trade, commerce and agriculture, a variety of specialised financial institutions have been set up in the country to cater to the specific needs of industry, agriculture and foreign trade.

Amongst the banking institutions in the organised sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion’s share in the total banking operations. Initially, they were established as corporate bodies with shareholdings by private individuals, but subsequently there has been a drift towards State ownership and control. Up to late sixties, they were mainly engaged in financing organised trade, commerce and industry, but since then, they are actively participating in financing agriculture, small businesses and small borrowers also.
A significant feature of the present day commercial banking in India is the coexistence of both the State or public sector and private sector in banking. Apart from the private and public sector banks, there exist the foreign commercial banks, which are branches of the Joint Stock Banks incorporated abroad. These banks, besides financing the foreign trade of the country, undertake banking business within the country as well.

One of the major functions of commercial banks is lending funds with or without security. In fact, this activity is the crux of banking. Interest on loans and advances and discount on bills constitute about 85 percent of a bank’s total earnings. In a developing economy, there is a constant demand for credit by various sectors viz. traders, industries, exports, agriculture and the like. As the money, which is provided as loans to borrowers, is public money, extra care and diligence is required on the part of the bankers in providing the loans.

In the pre-nationalisation era, the commercial banks were in the hands of a few big business houses. These
houses did not have any concern for the society and profit was their main objective. Nationalisation of fourteen commercial banks in 1969 paved the way for mass banking from class banking. This led to economic upliftment of hitherto neglected sectors such as cottage and small-scale industries, marginal farmers, women and children and traditional and village enterprises, popularly known as the priority sectors.

“The concept of priority sector came to be evolved in the late sixties to focus attention on the credit needs of certain neglected sectors of the economy, particularly in the rural areas to ensure adequate credit facilities to them. The priority sector covers agriculture, small-scale industry, setting up of industrial estates, road and water transport operators, retail trade, small business, professionals and self-employed persons, education, housing and consumption loans.”² The components of priority sectors which are eligible for loans from commercial banks is expressed in diagram No.1.1
“The financial priorities are aimed at accelerated growth of the economy with social justice. It also aimed at creating employment opportunities to the millions of people in rural and urban areas. Each sector is inter-linked. While agriculture and small sector produced goods, transport linked them with markets, retailed small business offered innumerable outlets, education improves the skills, housing provided shelters and exports brought in competitiveness and quality to products.”

There was a further shift in this direction during 1980 when another six banks were nationalised. Until 1991, the Indian Banking industry was operating in a highly regulated and protected environment. However, with the acceptance of Narasimham Committee recommendations, competition has been injected into the banking industry. New Private sector banks and foreign banks have been granted licenses with a resultant increase in the number of players in the banking sector.

Prior to nationalisation and even after nationalisation until the early nineties, the commercial bankers were
conservative in their approach and loans were provided only after a lot of scrutiny. Before nationalisation, the banker knew all his customers personally and was able to clearly determine the credibility of the customers. Therefore, there was not much need for the banker to worry regarding recovery of dues. After the liberalisation in 1991, a number of private sector banks entered into the money market to compete severely with the nationalised banks. The new generation private banks have brought about a paradigm shift in service standards and set new benchmarks in terms of application of technology, speed in the delivery of services, choices offered to customers in respect of delivery channels, décor and branch ambience and a high order of market orientation. This resulted in provision of loans to anybody, anywhere and at any time. The public sector banks could not adopt the precautionous approach regarding provision of loans followed in the early days because they will lose the race. Apart from this, the societal banking concept imposed on the commercial bankers after nationalisation in the form of priority sector lending has added more fuel to fire. Due to these reasons, there has been
a phenomenal increase in the overdues of bank credit. Overdue means loans unpaid within the stipulated time.

“The rate of recovery of loans as against their demand almost stands at about 52 per cent.” The proportion of overdues in bank credit is increasing considerably every year. Thus, recovery of overdues has become a Herculean task for the banker and the very survival of the commercial banks is based on effective recovery of overdues.

Commercial Banks—An Eagle’s view

Banking system in India

Banks constitute an important segment of the financial infrastructure of any country. They occupy an important place in the nation’s economy. A banking institution is indispensable in a modern society and it plays a pivotal role in the economic development of a country.

The Indian money market exhibits the parallel existence of both the organised and the unorganised sectors. The unorganised sector, comprising the moneylenders and indigenous bankers takes care of the credit requirements of a large number of persons, especially in the countryside.
Commercial banks and cooperative banks constitute the organised sector in the money market, which has been existing since the middle of seventies. The institutions in the organised sector have grown significantly and are playing an increasingly important role. The commercial bank, by means of setting up the Regional Rural Banks [RRBs] during the recent past has penetrated into the rural areas as well. Besides these institutions, which provide mainly short-term credit to business, there are number of specialised term lending institutions, which cater to the long-term requirements of industry, agriculture and foreign trade.

**Indigenous banking in India**

The Indigenous Banking system in India constituting moneylenders and indigenous bankers has been in existence from times immemorial. According to the Indian Central Banking Enquiry Committee, “an indigenous banker or bank is an individual or firm receiving deposits and dealing in hundies. Thus, acceptance of deposits is a necessary prerequisite for calling one an indigenous banker.” ⁵ As
such moneylenders do not accept deposits from the public and this differentiates moneylenders from indigenous bankers. Such banks run by indigenous bankers occupy an important place in the Indian financial system. These indigenous bankers lend money, act as money changers and finance internal trade by means of internal bill of exchange. They run their business as a family concern and provide loans with their own capital against securities such as gold, jewellery, land, promissory notes, etc. They also buy and sell remittances and discount hundies. They usually combine banking with trading and commission business. They generally deal with agriculturists and small traders. “The interest rate charged by them is higher than the interest charged by other banking institutions.” 6 “According to the Reserve Bank of India, about 50 per cent of the internal trade is financed by these indigenous bankers.” 7

“The indigenous bankers receive no banking education as such, though they receive practical training in their own firms and thereby acquire rich experience. Their operations are simple and free from formalities and delays. They do not have even fixed working hours. They maintain close
personal touch with their clients. They know the antecedents of all their borrowers and carefully watch their financial position after accommodating them. They know the family history of the people in the locality and understand whom to accommodate and to what extent. Their accounting and their business methods are extremely simple and moreover their methods have been tested over a long period of time.

The indigenous bankers receive deposits from the public and pay interest on them. The rate of interest varies from 3 per cent to 9 per cent and depends upon certain factors such as the amount of depositors, the condition of the market and even their personal relations with the depositors. However, they rely primarily upon their own capital and comparatively to a very small extent, upon the deposits from the public. They do not permit withdrawals by cheques. The withdrawals are as a rule in cash. In time of necessity, indigenous bankers supplement their resources by borrowing from commercial banks on demand promissory notes or by discounting hundies endorsed by them.
The clients of the indigenous bankers generally consist of the riots, small industrialists and traders. Generally, they find it difficult to establish direct contact with the riots and finance them through local moneylenders. They directly deal with the small industrialists and traders. In this connection, they perform a large number of banking functions such as buying and selling, remittance, discounting hundies and giving loans against stock-in-trade. They lend money on promissory notes on the personal security of the borrower or on the mortgage of land, house, etc.”

“The Banking Commission [1972] has pointed out that they are much sought after because of their flexibility, absence of formalities and promptness. The Commission has also noted that “if they are linked with the Reserve Bank, the entire financial system in the country will get strengthened.”

Commercial Banking System in India

“Amongst the banking institutions in the organised sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion’s share in the total
banking operations. Initially, private individuals established them as corporate bodies with their shareholdings. But subsequently, there has been a drift towards State ownership and control.” 10 Up to late sixties, they were mainly engaged in financing organised trade, commerce and industry, but since then they are actively participating in financing agriculture, small businesses and small borrowers also.

Commercial banks in India may broadly be classified based on two criteria: [i] Ownership and [ii] Statutory. On the ownership basis, the banks may be classified into two groups, namely public sector commercial banks and private sector commercial banks. On the statutory basis, the banks are of two types: Scheduled banks and non-scheduled banks.

[i] “Scheduled banks: Scheduled banks are one which is registered in the Second schedule under Section 42 [6] of the Reserve Bank of India Act, 1934. The following conditions should be fulfilled by a bank for inclusion in the schedule:

[a] The bank concerned must be carrying on a business of banking in India.
[b] The bank must have a paid-up capital and reserves of an aggregate value of not less than Rs.5 lakhs.

[c] It must satisfy the RBI that its affairs are not being conducted in a manner detrimental to the interest of the depositor.”

“The scheduled banks have the following obligations:

[i] To maintain an account with the Reserve Bank of India and to keep cash reserve as prescribed by the Reserve Bank.

[ii] To submit a weekly return about its financial affairs to the Reserve Bank.

[iii] To keep accounts ready for periodical inspection by the Reserve Bank and

[iv] To comply with directions given by the Reserve Bank from time to time.”

Presently, the RBI has prescribed a minimum capital of Rs.100 crore for starting a new commercial bank. “The scheduled commercial banks have variety of privileges like refinance facility, currency chest facility and they can obtain finance from the Reserve Bank of India while in
temporary finance difficulty.” 13 “Scheduled Banks may be classified into two groups: Indian Scheduled Banks and Foreign scheduled banks. The Indian Scheduled Banks are those, which have their registered offices in India and are registered in the second schedule of the Reserve Bank of India. As against this, foreign scheduled banks comprise those commercial banks which are registered in the said schedule but have their registered offices outside India.” 14

[ii] “Non-scheduled bank: A non-scheduled bank is one which is not included in the Second schedule of the RBI Act, 1934. Such banks are mainly engaged in money-lending, discounting and collecting bills and do several agency services. They have no refinance and rediscounting facilities from the Reserve Bank of India.” 15 The above information is depicted in a chart No. 1.2 as follows:
Evolution of Public sector banking through bank nationalisation

Public sector banks came into existence due to the impact of nationalisation. The growth of public sector in banking took place in four stages:

[i] “Nationalisation started in 1948, one year after Independence, when the Central Bank of the country, the Reserve Bank of India [RBI], was brought under Government ownership.” 16


The pioneering attempt of introducing public sector banking in India was made on 1st July, 1955 by the Government of India when it nationalised the Imperial Bank of India and converted it into the State Bank of India [SBI]. Later on, during 1959-60, seven of the subsidiaries of SBI [Appendix A] were also nationalised to form the SBI group.
Subsequently, on 19th July, 1969, fourteen major Indian scheduled banks [with deposits of over Rs.50 crores] were nationalised by the Government with the objective of developing the economy in conformity with national priorities. Finally, on 15th April 1980, the Government nationalised six more scheduled banks each with deposits of Rs.200 crore or above. Thus, from 1980 onwards Government came to own twenty-eight banks including the SBI and seven subsidiaries. Subsequent to the merger of the New Bank of India with the Punjab National Bank in September 1993, the total number of public sector banks came down to twenty seven.

Nationalisation of commercial banks altered the ownership pattern in favour of public sector and provided wide-ranging powers to the Government to influence the banking policy and orientation. At the time of nationalisation, the socio-economic objectives were explicitly laid down and the banks were asked to contribute to the maximum possible extent towards economic and social development of the country. It was realised that the traditional banking ethics were not compatible with the
needs of economic development and that balanced development was not possible without strengthening the hold of commercial banks in the backward and neglected areas.

Prior to nationalisation and even after independence, the banking sector remained in private hands. Large industries who had their control in the management of the banks were utilising major portion of financial resources of the banking system for their personal development and as a result, low priority was accorded to priority sectors. The main purpose of nationalisation of commercial banks was to make them as an instrument of economic and social change.

**Private sector banking**

“Private sector banks are those which are owned by group of shareholders who elect their directors for managing the bank.” ¹⁷ The word ‘The’ and ‘Limited’ will suffix their names. They came into existence to supplement the performance of Public sector banks and serve the needs of the economy better. Since public sector banks are Government owned, they lacked initiative to make profits
and improve their financial health. Nationalisation of commercial banks killed the competitive environment, which is essential for making profits.

Once again, competition was injected into the banking business with the recommendations of the Narasimham Committee I in 1991, which advocated free entry of private banks. At present, both private as well as public sector banks have to operate in an increasingly competitive environment. The competition for public sector banks is coming from the private sector banks. Despite having the advantage of a substantial presence and penetration in the rural areas, the public sector banks are under tremendous pressure to maintain their margins and to survive the competition. The customer-centric approach of private sector banks have thrown open many more challenges for the public sector banks, especially in retaining customers and expanding customer base. To retain the existing customers and to attract new customers, both the public and private sector banks are adopting various measures.
In totality, there are 183 commercial banks, as on 1\textsuperscript{st} March 2007. Of these, 179 banks are scheduled commercial banks and 4 banks are non-scheduled commercial banks. Out of the 179 scheduled commercial banks 96 banks are RRBs, 20 * banks are nationalised banks and the remaining 8 banks belong to the SBI group. In the private sector, out of the 55 private banks, 28 banks are Indian banks and 27 banks are foreign banks.

**Genesis of Commercial Banking in India**

**Banking in Ancient India**

“India had rudimentary forms of banking since the Vedic times.” 18 “Evidence regarding the existence of money-lending operations in India is found in literature of Vedic times, i.e... , 2000 to 1400 BC. The literature of the Buddhist period, example, the Jatakas and recent archaeological discoveries supply evidence of the existence of Sreesthis or bankers. From the laws of Manu, it appears that money-lending and allied problems had assumed

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* Out of the 20 nationalised banks, the New Bank of India was merged with the Punjab National Bank in the long-term interest of the depositors to reduce the number of nationalised banks to 19. At present, IDBI Limited is considered as a nationalised bank.
considerable importance in ancient India. Manu,\textsuperscript{19} who had approved money lending as a lawful occupation had also prescribed effective methods of recovering the dues.” The five means of recovery in Manu Smriti are exhibited in the following diagram 1.3:
“Banking was a side business during the Vedic period but in the Ramayana and the Mahabharata eras it became a full time business activity for the people.”  

“The famous Kautilya’s Arthasastra, which is ascribed to be dating back to the 4th century B.C, contains references to creditors and lending. For instance, it says, ‘if any one became bankrupt, debt owed to the State had priority over the creditors’. Thus, it appears that lending activities were not entirely unknown in the medieval India and the concept such as priority of claims of creditors was established business practices.”

“The seventeenth century witnessed the establishment of agency houses by the English traders. These agency houses, apart from engaging themselves in trade and commerce, also carried on with the banking business. The British Agency Houses, which combined banking business with the trading activities, were the forerunners of the modern joint stock banks established in the country on the European lines. The first joint stock bank established in the country was the Bank of Hindustan in 1770.” “After that, Bengal Bank was set up in 1784 and around 1786, General
Bank of India was established, but these banks could not provide the services due to their own crises.”  

**Banking before independence**

“Modern Commercial banking made its beginning in India with the setting up of the first Presidency Bank, the Bank of Bengal, in Calcutta in 1806. Two other Presidency Banks were set up in Bombay and Madras in 1840 and 1843 respectively. They were private shareholders’ banks, though the East India Company also contributed to the share capital of each of them. The bulk of the share capital had come from private shareholders, mostly Europeans. They were amalgamated into the Imperial Bank of India in 1921, which was nationalised into the State Bank of India in 1955.”

“The year 1860 is a land mark in the history of public banks in India, since in that year the principle of limited liability was applied to Joint Stock banks.” Since, 1860 till the end of the 19th century, a number of Indian Joint Banks came into existence. For instance, the Allahabad Bank was started at Allahabad in 1865. In 1875, the Alliance Bank of Simla was started. “The first purely Indian Joint stock bank
was the Oudh Commercial Bank which came into existence in 1889. It was followed by the Punjab National Bank in 1894 and the People’s Bank in 1901. In 1895, the famous Punjab National Bank came into existence.”

“Inspired by the Swadeshi Movement, several Indian entrepreneurs ventured into the modern banking business. During the boom period of 1906-13, thus, there was a mushroom growth of banks. Many prominent banks also came into existence during this period. These were the Bank of India [1906], the Canara Bank [1906], the Bank of Baroda [1908] and the Central Bank of India [1911].”

“The Indian joint-stock banks have had a history of checkered growth from their inception till about the middle of the twentieth century. There were long periods of slow growth interspersed with short periods of rapid growth of bank formation, followed by banking crisis, which saw the failure of banks in large numbers. For example, during the period 1913-36, 480 banks failed and another 620 banks failed over a shorter period of 1937-48. Thus, recurrent bank failures were the main feature of the growth of banking in India over this period. This was not peculiar to India as it was also the
experience of most other countries in the early stage of banking development.”  

"The progress of banking during the Second World War and its immediate aftermath was again characterized by over-rapid expansion and large scale failure of banks. When India became independent in 1947, it inherited an extremely weak banking structure with 640 banks of which only 96 were scheduled banks and the rest were small non-scheduled banks.”

The following table gives an idea of the growth of Indian joint stock banks in India since 1920:

**Growth of Indian Joint Stock Banks**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of banks</th>
<th>Deposits [in crores of Rupees]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>61</td>
<td>160</td>
</tr>
<tr>
<td>1930</td>
<td>89</td>
<td>150</td>
</tr>
<tr>
<td>1940</td>
<td>661</td>
<td>280</td>
</tr>
</tbody>
</table>


**Banking after independence**

The development in the Banking sector after independence has been discussed in three phases:
[i] **Post-independence Era [1947-1969]**

After independence, India followed a banking structure in the lines of the British Banking system. According to Mrs. Indira Gandhi, former Prime Minister of India, “the banking system was controlled by a coterie of industrialists and business magnates who had used public funds to build up private industrial empires.”  

“The banking scene in India prior to 1969 was characterized by concentration of business in metropolitan and urban centres with the major industries and wholesale trade claiming a large chunk of bank credit and the control and management of major banks being held by leading business tycoons in the country. Loans were advanced not on the basis of the viability of the scheme but on the credit-worthiness of the borrowers. The performance of a bank was judged by the amount of profit it made and the dividend it declared.”

“Between 1939 and 1945, the total volume of deposits of scheduled banks rose from Rs.260 crores to over Rs.1,020 crores. Side by side with the expansion of bank deposits, there has been a continued expansion of bank credit,
reflecting the rapid expansion of industrial and agricultural output."  

"There was no uniform law governing the banking system as an instrument of economic change started when the planning era was ushered in the fifties. Following the examples of the nationalisation of many European Central Banks after the World War II, the Reserve Bank of India was nationalised with effect from January 1, 1949."  

"The beginning of post-independence period saw the passing of Banking Regulation Act in 1949 which gave wide powers to RBI to regulate the banks and contained numerous provisions for improving the quality of bank management. "In its report submitted in 1954, the All India Rural Credit Survey Committee recommended the creation of one strong, integrated, state sponsored, state partnered commercial banking institution with an effective machinery of branches spread over the whole country. In pursuance of its recommendations, the Imperial Bank was nationalised and renamed as State Bank of India from July 1, 1955. Nationalisation of the Imperial Bank of India heralded the entry of public sector into commercial banking."  

Due to
the committee’s recommendations, the commercial banking system moved to the rural areas as well. “The failure of the Palai Central Bank Limited and the Laxmi Bank Limited in 1960 attracted the attention of the Government to the need for preventing such a happening in future. To protect the interests of small bank depositors, the Deposit Insurance Corporation was created on January 1, 1962. The Social Control over the commercial banking system with effect from February 1, 1969 with the main objectives of achieving a wider disposal of bank credit, preventing its misuse, directing its flow to priority areas and making it more effective instrument of economic development constitutes the most important landmark in the banking history in the country.”35

“Commercial banks have done well in the mobilisation of savings. By sustained publicity, efforts to branch out to unbanked areas and better service to customers, they have contributed greatly to the development of banking habit among the people. Since 1950-51, bank deposits have increased nearly 500 per cent or five-fold.”36
The trend of increase of deposits and credit of scheduled banks is shown below:

**Table 1.2**

**Trend of deposits and credit**

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank Deposits [Rs in crores]</th>
<th>Bank credit [Rs in crores]</th>
</tr>
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<tbody>
<tr>
<td>1951-52</td>
<td>820</td>
<td>580</td>
</tr>
<tr>
<td>1955-56</td>
<td>1040</td>
<td>760</td>
</tr>
<tr>
<td>1960-61</td>
<td>1750</td>
<td>1320</td>
</tr>
<tr>
<td>1965-66</td>
<td>2950</td>
<td>2290</td>
</tr>
<tr>
<td>1967-68</td>
<td>3890</td>
<td>3100</td>
</tr>
</tbody>
</table>

**Source:** Sundharam, K.P.M., “Money, Banking, Trade and Finance”, p.460.


“July 19, 1969 marks an important milestone in the history of the Indian Banking because on that day by a Presidential Ordinance, the 14 major Indian commercial banks, each having total deposits of not less than Rs.50 crores at the end of June, 1969 was nationalised.” 37

[Appendix A]
M. Gopalakrishnan, a professional banker states that “the striking feature of the post-nationalisation banking scene is the rapidity with which the branch network has multiplied itself. The rate of branch expansion has been unparalleled anywhere else in the world.”

“The chief objective of bank nationalisation was to spread banking facilities and thereby to create banking habit in economically backward areas and open branches particularly in rural areas with a view to promoting rapid development of these areas.”

“In this post nationalisation period the emphasis was on the opening of large number of branches in rural and semi-urban areas, backward regions and states which were hitherto under banked. Between 1969 and 1991, the total number of branches increased nearly eight fold from 8,262 to 50,220. The bulk of this increase was on account of rural branches. The share of rural and semi-urban branches combined in the total number of branches reached 76 percent in 1991 while it was only 26 percent in 1969.”

“To help the commercial banks march towards villages, the Reserve bank formulated the Lead Bank Scheme [LBS] which was introduced in December,
1969. The establishment of Regional Rural banks in the
country marks another important landmark in the banking
history of the country. The main objective of establishing
the RRBs is to provide credit and other facilities, especially
to the small and marginal farmers, agricultural labourers,
artisans and small entrepreneurs in rural areas.”

“Policies, at that time, ensured credit flows to certain important
sectors of the economy. Importantly, the Government also
used the banking sector as an instrument to finance its own
deficit. While this was facilitated through high Cash
Reserve Ratio [CRR] and Statutory Liquidity Ratio [SLR] to
keep the borrowing cost of the Government low, the interest
rate on bank loan was fixed at lower than market rates.
Along with high CRR and SLR, the operational freedom of
the banks was curtailed with high priority lending norms [as
high as 40 per cent of the total lending]. While some of
these measures were adopted to enhance social welfare, they
affected the efficiency and productivity of the banking
sector adversely. Also, due to the expansionary policy
pursued by the RBI, banks had to open a certain number of
branches in the rural areas. Many of these branches were
economically not viable due to which the number of loss making branches increased which whittled away the resources of the banking industry. Further, due to restrictions on the operations of private and foreign banks the dominance of the public sector banks prevailed, resulting in lack of competition.” 42

“After the nationalisation of 14 major banks on July 19, 1969 and establishment of RRBs, another major development in the sphere of commercial banking was the nationalisation on April 15, 1980 of six more banks in the private sector having total deposits not less than Rs.200 crores in India as on March 14, 1980.” 43 [Appendix A]. One more milestone in the development of the banking sector is the establishment of the National Bank for Agriculture and Rural Development [NABARD] on July 12, 1982 for providing credit for promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.
[iii] Post-liberalisation Era [from 1991 onwards]

“The period of reforms in Indian banking commenced in the second half of 1991. The Government of India appointed Narasimham Committee, which suggested suitable measures. The recommendations made by this high-level committee on the financial sector reforms provided the blueprint for banking reforms in India. The reforms suggested by the Narasimham Committee tried to enhance the efficiency and viability of the banking system.”

“According to Dr.C.Rangarajan, former Governor, Reserve Bank of India, the central objective of reform in the financial sector has been to improve the efficiency, competitiveness and productivity of the system.”

The main reason for the appointment of the Narasimham Committee by the Government was the unsatisfactory performance of the banks. The financial picture of the banks was very gloomy in 1991. “The operational efficiency of banking system had been unsatisfactory characterised by low profitability, high and growing non performing assets and relatively low capital. In 1992-93, the net profits of public sector banks were [-] 1.00 per cent of working funds. Several banks were
in fact not in a position to make adequate provision for doubtful debts. The paid-up capital and reserves to deposits of public sector banks was around 2.85 per cent in 1990-91, which was much lower than the international standards. The balance sheet performance of banking sector was thus a mixed one which was large in asset base, strong in widening the credit coverage, but weak as far as viability and sustainability was concerned.” 46 “Deregulation, entry of private banks, easing of Statutory Liquidity Ratio [SLR] and Cash Reserve Ratio [CRR], providing more freedom to banks for fixing interest rates on advances/deposits, recruitment policies, branch network, etc. were initiated on the recommendations of the Committee. Further, prudential norms for classification of NPAs were introduced with adoption of provisioning as per the global standards. New and exciting banking products like Flexi deposits, retail loans and forex banking were introduced. Use of internet based banking, phone banking, ATMs and other technological tools improved efficiency, economy and effectiveness in their working. 47 “A strong and efficient financial system is critical to the attainment of the
objectives of creating a market-driven, productive and competitive economy. Financial stability requires appropriate action both at the macro and micro levels in terms of institutions, markets and infrastructure. A major element of financial sector reforms in India has been a set of prudential measures aimed at imparting strength to the banking system as well as ensuring safety and soundness through greater transparency, accountability and public credibility.” 48 “These reforms are expected to have an impact on the operations of banks. With reduced statutory requirements, banks will have more funds at their disposal for commercial lending. And interest rate liberalisation is expected to bring flexibility and competition into the banking system. Competition is also infused by opening up the banking sector for the private and foreign banks. Along with these flexibilities, certain regulatory reforms were also introduced, which were meant to make strong enough the banks to face fluctuations in the economy. Overall, these reforms are aimed at improving the performance of banks.” 49

“The first phase of banking sector reforms started in November, 1991 and the second phase began in April 1998
on the basis of the Narasimham Committee’s recommendations. “In the first phase of banking reforms, the focus was on arresting quality deterioration of performance of banks judged by parameters of asset quality, profitability and net worth. The task in the second phase of reforms was to draw up strategy for enhancing the ability of banking system to meet challenges of international competition and adopt its functioning to changing environment.”

Development of Commercial banks after nationalisation

Nationalisation, which was adopted as a social control measure by the Government of India had a tremendous impact on the growth of the commercial banks. There was significant growth in the number of banks and branches, especially in rural and semi-urban areas, which were hitherto unexplored so far by the banking sector. There was substantial growth in deposits and advances by bank branches.
Expansion of commercial banks

There has been a voluminous growth in the number of commercial banks in India since the nationalisation of commercial banks in 1969. The number of scheduled commercial banks has increased 2.45 times in 2007 when compared to 1969 when the banks were nationalised which can be clearly understood with the help of the table 1.3.
Table 1.3
Progress of Commercial banks in India [1969-2007]

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</tr>
</thead>
<tbody>
<tr>
<td>Scheduled banks</td>
<td>73</td>
<td>302</td>
<td>297</td>
<td>296</td>
<td>294</td>
<td>289</td>
<td>286</td>
<td>284</td>
<td>218</td>
<td>179</td>
</tr>
<tr>
<td>Non-scheduled banks</td>
<td>16</td>
<td>1</td>
<td>5</td>
<td>4</td>
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<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>89</td>
<td>303</td>
<td>297</td>
<td>301</td>
<td>298</td>
<td>294</td>
<td>291</td>
<td>288</td>
<td>222</td>
<td>183</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in.

This has been represented in the chart No.1.4:
**Branch expansion**

“The period following the nationalisation of major commercial banks witnessed an unprecedented growth in the branch network of banks. This phenomenal increase has brought about a wider spatial and functional spread of banking facilities in the country. It is not merely the increase in the number of banking offices, but their distribution over the relatively backward and hitherto unbanked areas that is significant.”

The growth of branches of Commercial banks is depicted in the below mentioned table No.1.4 as follows:
Table 1.4  
Growth of branches in Commercial banks in India [1969-2007]

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural No.</th>
<th>Rural Percent</th>
<th>Semi-urban No.</th>
<th>Semi-urban Percent</th>
<th>Urban No.</th>
<th>Urban Percent</th>
<th>Metro No.</th>
<th>Metro Percent</th>
<th>Total No.</th>
<th>Total Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>1832</td>
<td>22.4</td>
<td>3322</td>
<td>40.1</td>
<td>1447</td>
<td>17.5</td>
<td>1661</td>
<td>20</td>
<td>8262</td>
<td>100</td>
</tr>
<tr>
<td>1991</td>
<td>35042</td>
<td>58.3</td>
<td>11323</td>
<td>18.8</td>
<td>8081</td>
<td>13.4</td>
<td>5667</td>
<td>9.4</td>
<td>60113</td>
<td>100</td>
</tr>
<tr>
<td>2002</td>
<td>32423</td>
<td>49</td>
<td>14688</td>
<td>22</td>
<td>10540</td>
<td>16</td>
<td>8625</td>
<td>13</td>
<td>66276</td>
<td>100</td>
</tr>
<tr>
<td>2003</td>
<td>32315</td>
<td>49</td>
<td>14786</td>
<td>22</td>
<td>10665</td>
<td>16</td>
<td>8644</td>
<td>13</td>
<td>66410</td>
<td>100</td>
</tr>
<tr>
<td>2004</td>
<td>32080</td>
<td>47.9</td>
<td>15018</td>
<td>22.4</td>
<td>10990</td>
<td>16.4</td>
<td>8882</td>
<td>13.2</td>
<td>66970</td>
<td>100</td>
</tr>
<tr>
<td>2005</td>
<td>30755</td>
<td>44.9</td>
<td>15174</td>
<td>22.1</td>
<td>11678</td>
<td>17</td>
<td>10942</td>
<td>16</td>
<td>68549</td>
<td>100</td>
</tr>
<tr>
<td>2006</td>
<td>30776</td>
<td>44.3</td>
<td>15370</td>
<td>22.1</td>
<td>12008</td>
<td>17.3</td>
<td>11263</td>
<td>16.2</td>
<td>69417</td>
<td>100</td>
</tr>
<tr>
<td>2007</td>
<td>30633</td>
<td>42.7</td>
<td>16310</td>
<td>22.7</td>
<td>12925</td>
<td>18</td>
<td>11913</td>
<td>16.6</td>
<td>71781</td>
<td>100</td>
</tr>
</tbody>
</table>


This has been represented in chart No.1.5:
There has been a manifold increase in the number of branches after nationalisation. As a result, the number of branches has increased from 8262 in 1969 to 71781 in June 2007.

**Deposit mobilisation and Credit deployment**

Mobilising the savings of the public is one of the prime functions of commercial banks. Nationalisation has resulted in public confidence and as a result the deposits have increased spectacularly from Rs.5173 crores in 1969 to Rs.26,08,309 crores in March 2007 recording an 504 fold increase in deposits since nationalisation.

The very purpose of mobilising deposits is to deploy the amount in a profitable way. The advances made by commercial banks have substantially increased from Rs.3729 crores in 1969 to Rs.19,28,913 crores.

The table 1.5 depicts the data regarding the deposits and advances of commercial banks in India between 1969 and 2007.


Table 1.5
Deposits and advances of commercial banks in India
[1969-2007]
[Rupees in Crores]

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposits</th>
<th>Advances</th>
<th>Credit deposit ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>5173</td>
<td>3729</td>
<td>72.1</td>
</tr>
<tr>
<td>1991</td>
<td>200036</td>
<td>132510</td>
<td>66.2</td>
</tr>
<tr>
<td>2002</td>
<td>1100454</td>
<td>637943</td>
<td>57.9</td>
</tr>
<tr>
<td>2003</td>
<td>1304347</td>
<td>741770</td>
<td>56.9</td>
</tr>
<tr>
<td>2004</td>
<td>1533052</td>
<td>856685</td>
<td>55.9</td>
</tr>
<tr>
<td>2005</td>
<td>1708610</td>
<td>1092008</td>
<td>63.9</td>
</tr>
<tr>
<td>2006</td>
<td>2109049</td>
<td>1507077</td>
<td>71.5</td>
</tr>
<tr>
<td>2007</td>
<td>2608309</td>
<td>1928913</td>
<td>74</td>
</tr>
</tbody>
</table>


This table has been represented in chart No.1.6:
The Credit deposit ratio [CDR] is one of the measuring rods of the financial performance of commercial banks. “Credit deposit ratio is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits. The credit deposit ratio reveals the efficiency with which the commercial and financial intermediaries are tapping savings from the available sources and channelising them into various productive activities of the economy.” 52 The CDR was 72.1 per cent in 1969 i.e. at the time of nationalisation. In 1991, it reduced to 66.2 per cent. It further reduced to 57 per cent after which it gradually increased to 74 per cent in 2007.

The Credit deposit ratio has been worked out by using the following formula:

\[
\text{Credit deposit ratio} = \frac{\text{Total loans and advances}}{\text{Total deposits}} \times 100
\]

The commercial banks have been facing innumerable changes and challenges after the introduction of financial reforms in 1991. The coexistence of public sector, private
sector and foreign banks has generated competition in banking sector leading to a significant improvement in efficiency and customer service and the mantra of today is the *Survival of the fittest*.

**Statement of the Problem**

Credit is a very scarce resource particularly in a country like India. This is very much true in case of priority sector loans where the Government plays a very important role in provision of credit to the economically weaker sections of the society, which have all along been neglected by the security oriented banking system. “In a prudential economy, both lending and recovery are like breathing out and breathing in. The one is not possible without the other.”\(^5^3\) In other words, without recovery the banking cycle is not complete. Recovery of priority sector loans is the persistent problem faced by the commercial bankers. While inadequate and improper allocation of credit endangers the basic socio-economic philosophy of the country, mounting overdues of credit endangers the very foundation on which the banking system rests. The problem of overdues is
phenomenal in respect of priority sectors. This has not only curtailed the recycling of funds, but also imposed on the banks’, statutory provisioning against sub-standard, doubtful and bad debts. The timely recovery of funds lent, is a must for continuous recycling of funds. Piling of overdues results in poor recycling of funds, which in turn depicts poor recovery management by the commercial banks. Non-repayment of loans by borrowers, on the one hand, lead to blocking up of funds in the hands of few, and ultimately the benefits of credit cannot be passed on to a large section of people who are in dire need of credit. Mounting of overdues, on the other hand, weakens the corporate strength of the commercial banks. Therefore, a judicious deployment of credit and timely repayment of credit are very important for healthy and effective functioning of any banking system. The present study becomes essential now to find out the measures adopted by the commercial banks for recovering the priority sector loans.
Scope of the study

The study is confined to Tiruchirappalli district. Areas outside Tiruchirappalli district are not covered in this study. For comparative analysis, only the public sector and private sector have been taken into consideration. The cooperative banks, Regional Rural Banks, foreign banks and Local Area Banks are beyond the purview of the study. The researcher has confined her study only to recovery of priority sector loans. The other loans disbursed by commercial banks are not covered in the study. Even though, there are 22 banks in the public sector and 13 banks in the private sector, only 4 banks from the public sector and 4 banks from the private sector have been chosen for the study. Only 200 borrowers have been chosen for the study.

Objectives of the study

The primary objective of the study is to evaluate the recovery performance of commercial banks regarding priority sector loans in Tiruchirappalli district and to make a comparison of the recovery performance of public sector banks with that of the private sector banks.
The following are the objectives of the study:

1. To study about the inception and development of commercial banks in India.

2. To create a general awareness about the priority sector loans provided by commercial banks and the measures adopted by the bankers in recovering the loans.

3. To make a comparative study about the priority sector loans demanded by public and private sector commercial banks and to find out the extent to which such loans have been recovered in Tiruchirappalli District.

4. To make a comparison of the repayment performance of borrowers of public and private sector banks in Tiruchirappalli district.

5. To find out the reasons for poor recovery of priority sector loans by the commercial bankers and non-payment of priority sector loans by borrowers within the stipulated time.

6. To give suggestions to the bankers for improving the recovery performance.
**Hypotheses**

Hypotheses framed for deciding the repayment performance of borrowers

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variable</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>[i]</td>
<td>Sex</td>
<td>There is no significant relationship between sex and repayment performance</td>
</tr>
<tr>
<td>[ii]</td>
<td>Education</td>
<td>Education does not have any influence on the repayment performance</td>
</tr>
<tr>
<td>[iii]</td>
<td>Family size</td>
<td>Family size does not determine the repayment performance of the borrower</td>
</tr>
<tr>
<td>[iv]</td>
<td>Marital status</td>
<td>There is no significant relationship between marital status and repayment performance</td>
</tr>
<tr>
<td>[v]</td>
<td>Number of earning members in the family</td>
<td>Repayment performance of the borrower does not depend on the number of earning members in the family</td>
</tr>
<tr>
<td>[vi]</td>
<td>Age</td>
<td>Age of the borrower does not have any influence on repayment performance</td>
</tr>
<tr>
<td>[vii]</td>
<td>Family structure</td>
<td>There is no significant relationship between family structure and repayment performance</td>
</tr>
<tr>
<td>[viii]</td>
<td>Monthly income of the family</td>
<td>Repayment performance does not depend on the monthly income of the family</td>
</tr>
<tr>
<td>[ix]</td>
<td>Status of employment</td>
<td>Status of employment does not determine the repayment performance of the borrower</td>
</tr>
<tr>
<td>[x]</td>
<td>Adequacy of loan</td>
<td>Adequacy of loan does not determine the repayment performance of the borrower</td>
</tr>
</tbody>
</table>
Conceptual Definitions

Clarity of various concepts used in a study is very much required for a meaningful scientific study. It facilitates the researcher to have a better understanding and perception of the problems under investigation, as important concepts used in the study are made clear and any chance for misunderstanding is avoided. Such conceptualisation not only helps the researcher in the research work but also provides better understanding to anybody who goes through the thesis.

1. Demand: Demand refers to the aggregate of principal and interest due during the financial year under consideration. It includes overdues of previous years but excludes demand for loans written off or rescheduled.

2. "Recovery: The amount that has already been realised is called recovery. Recovery always refers to a particular period and not at a particular point of time. It is generally related to the demand for recovery during the reference period. Thus, a cent percent recovery means that the total amount due up to the reference period only has been
recovered. It does not mean that the entire loan has been
recovered, for there may be instalments of loan that are still
to fall due.” 54

3. Recovery rate: Recovery rate is defined as that part of
total demand [i.e. overdue demand plus current demand]
collected by the bank from borrowers. It excludes any
repayment made by Government institutions on behalf of
borrowers.

4. Delinquency: Delinquency refers to short-run delays in
repayment.

5. Default: Default refers to non-repayment of principal and
interest that becomes due and payable. It occurs when there
is any violation in the loan contract.

6. Non-defaulters: Non-defaulters are those borrowers who
repay their loan amount along with stipulated rate of
interest on or before the due date.

7. Defaulters: Those borrowers who do not repay the loan
amount along with interest on the due date are identified as
defaulters.
8. **Wilful defaulters:** Wilful defaulters are those who do not repay the loan amount due together with interest in spite of the fact that they have surplus income over expenditure, which is adequate for loan service.

9. **Non-wilful defaulters:** Borrowers who are willing to repay the loan amount with interest in spite of the fact that their incremental income is inadequate for loan service are non-wilful defaulters.

10. **"Outstandings:"** The principal plus interest that remains to be recovered is called outstandings. The outstandings always refer to a particular date, say as on 31st December or as on 30th June.”  

11. **"Overdues:"** The amount that is payable on a particular date but not recovered by that date is called overdue.”

12. **"Credit Deposit ratio:"** Credit deposit ratio is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits. The credit deposit ratio reveals the efficiency with which the commercial and financial intermediaries are tapping savings from the available
sources and channelising them into various productive activities of the economy.” 57

13. [i] Rural branch: Rural branch is a branch, which is located in an area with a population less than 10000 [as per 1991 census].

[ii] Semi urban branch: Semi urban branch is a branch, which is located in an area with a population on 10000 to 1 lakh.

[iii] Urban branch: Urban branch is a branch, which is located in an area with a population of 1 lakh to 10 lakhs.

[iv] Metropolitan branch: Metropolitan branch is a branch, which is located in an area with a population of 10 lakhs and more.

14. ANBC or credit equivalent of Off-Balance Sheet Exposures: This denotes the outstanding as on March 31 of the previous year. For the purpose of priority sector lending, Adjusted NBC (ANBC) denotes NBC plus investments made by banks in non-SLR bonds held in HTM category
Design of the study

Before administering the interview schedule to the 200 respondents, a pilot study was conducted by the researcher. The interview schedule was provided to 30 borrowers and the questions, which were not properly understood by them, were modified. After making necessary changes in the interview schedule, it was given to 200 borrowers for studying their repayment behaviour. Out of the 200 borrowers, 145 respondents borrowed from the public sector banks and 55 respondents borrowed from the private sector banks.

Methodology

Data Base

The present study is an empirical one based on survey method. Data were collected from both primary and secondary sources.

[i] Primary Data

Primary data were collected from the officials and borrowers of the sample units of the public and the private sector banks with the help of interview schedules. The
researcher has used interview schedule for collecting data from the borrowers as the sample respondents constituted both educated and less educated. In the interview schedule, dichotomous questions [yes or no] and multiple-choice questions were given. The responses to these questions were collected. Data was collected from the borrowers to study about the repayment performance of the borrowers during November 2009.

[ii] Secondary Data

The secondary data were collected from the following sources:

[a] Annual reports of the Sample banks,

[b] Indian Bank Association’s Bulletins,

[c] Reserve Bank of India [RBI] publications viz.,

[1] RBI Bulletins


[3] Report on Trend and progress of Banking in India

[4] Statistical tables relating to banks in India,

[d] State Bank of India Monthly Review,
[e] House magazines of the sample banks,

[f] Previous studies,

[g] Journals on Banking studies and

[h] Annual Credit Plan of the Indian Overseas Bank, the lead bank of the district and

[i] Statistical Handbook of Tamil Nadu.

The researcher took lot of pains in collecting the secondary data from the bankers because they were reluctant to reveal their status regarding the recovery of loans. The bankers were hesitant to provide the details because it may give an adverse picture about their efficiency in recovery management. In spite of all these difficulties, the researcher was able to obtain the details of loans outstanding, loans recovered and overdues for Tiruchirappalli district for the study period 2002-07. The study has been confined to 2002-07 because data regarding recovery is not available after that period due to waiver of agricultural loans.
Construction of tools

The interview schedule was used for collecting data from the borrowers. This is because the respondents constituted both literate and illiterate borrowers. For constructing the interview schedule for borrowers, previous studies were referred. Apart from the previous studies, bankers were also consulted. With the help of the information gathered, the interview schedule was prepared. After preparing the interview schedule, it was pre-tested with 30 borrowers [15 from the public sector banks and 15 from the private sector banks] and the questions, which were not properly understood by them, were modified. After making necessary changes in the interview schedule, it was given to 200 borrowers for studying their repayment behaviour.

Sampling Design

The public and the private sector bank branches in Tiruchirappalli district constitute the universe of this research work. The list of these banks was obtained from the regional office of Indian Overseas Bank.
Selection of Area

Tiruchirappalli District has been chosen for the study because it is the fourth largest city of the Indian State of Tamil Nadu [after Chennai, Coimbatore and Madurai]. Multi various crops like paddy, sugarcane, groundnut, sunflower, etc are grown in the district and agriculture is the main occupation for most of the people in the district. Apart from agriculture, there are several medium and large industrial units like BHEL, Dalmia Cements, Kothari Sugars, EID Parry Sugars, Ordinance factory and a railway workshop. The district is noted for synthetic gem cutting industries and ready-made garments. It is also famous for artificial diamonds, cigars, handloom, cloth, glass bangles and wooden and clay toys. The population as per 2001 census is 24,18,366 which constitutes 12,08,535 males and 12,09,832 females. There is humpty number of educational institutions catering to the varied interests of study community. Therefore, there is enough potential for both the banks and the customers utilising the services to develop mutually in the district. Besides, the researcher resides in this area. The
researcher has adopted convenience sampling for selecting the area.

[ii] Selection of Banks

In Tiruchirappalli District, there are 35 banks with 191 branches [as on 31st March 2005] [Vide Appendix A]. As the number of branches in the district is large in number, the researcher has adopted the purposive sampling technique to select the banks and the bank branches.

Out of the 35 banks, 4 public sector banks having more than 10 branches and 4 private sector banks having more than 6 branches were chosen for the study. The four public sector banks chosen were State Bank of India, Canara Bank, Indian Bank and Indian Overseas Bank. The four private sector banks chosen were ICICI Bank Ltd., Karur Vysya Bank Ltd., Lakshmi Vilas Bank Ltd. and South Indian Bank Ltd.

[iii] Selection of Branches

In aggregate, there are 93 branches in the four public sector banks chosen for the study out of which 9 branches constituting 10 per cent of the universe has been chosen for
the study. Like wise, there are 36 branches in the four private sector banks chosen for the study out of which 4 branches constituting 10 per cent of the universe has been chosen. Totally 13 branches covering 9 branches from public sector and 4 branches from private sector have been selected for the study. The branches and the borrowers selected for the study from the public sector banks were as follows:

**Public Sector Banks**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Bank</th>
<th>Total No. of branches</th>
<th>Sample size of branches</th>
<th>Sample borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank of India</td>
<td>22</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>2</td>
<td>Canara Bank</td>
<td>14</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>3</td>
<td>Indian Bank</td>
<td>26</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>4</td>
<td>Indian Overseas Bank</td>
<td>31</td>
<td>4</td>
<td>54</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>93</strong></td>
<td><strong>9</strong></td>
<td><strong>145</strong></td>
</tr>
</tbody>
</table>

*Source: Annual Credit Plan, Indian Overseas Bank, Lead Bank of Tiruchirappalli district*

Like wise, the branches and the borrowers chosen from the private sector banks were as follows:
## Private Sector Banks

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Bank</th>
<th>Total No. of branches</th>
<th>Sample size of branches</th>
<th>Sample borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICICI Bank Ltd</td>
<td>9</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>Karur Vysya Bank Ltd</td>
<td>10</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Lakshmi Vilas Bank Ltd</td>
<td>10</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>4</td>
<td>South Indian Bank Ltd</td>
<td>7</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36</strong></td>
<td><strong>4</strong></td>
<td><strong>55</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Annual Credit Plan, Indian Overseas Bank, Lead Bank of Tiruchirappalli district

**[iv] Selection of borrowers**

Totally, 200 borrowers were chosen for the study. These borrowers were interviewed with the help of an interview schedule. The researcher has adopted the non-probability sampling method in selecting the borrowers. This is because the bankers have to maintain secrecy in maintaining the borrowal accounts of their customers. According to Section 13 of the Banking Companies [Acquisition and Transfer of undertakings] Act, 1970, the commercial banks should not reveal any matter concerning
their customers. In this situation, it was not possible for the researcher to get the list of customers and their details directly from the banks. Among the non-probability sampling methods, the researcher has adopted judgment sampling for selecting the borrowers. She had to go directly to the banks in order to collect the data relating to the repayment performance of the borrowers. The researcher interviewed those borrowers who were willing to provide the required information. Collecting information from the defaulters was indeed a formidable task for the researcher. Among the 200 borrowers, there were prompt repayers and defaulters. Depending upon the reasons given by the borrowers for non-payment of their dues, the borrowers were classified into wilful and non-wilful defaulters. Non-wilful default arises due to natural calamities, loss in business or industry, misunderstanding among the members in a self-help group, family problems and loss of job. Wilful default arises due to misallocation of funds borrowed, borrowers’ expectation of waiver of loan by the Government and not willing to repay for no reason.
**Period of Study**

The study covers a period of five years from 2002-03 to 2006-07.

**Field work**

The researcher herself conducted the field survey, which was required for the study. After getting prior permission from the branch managers, the researcher collected the data from the 200 borrowers. It took nearly one month for the researcher to collect the required information from the borrowers.

**Processing of data**

After collecting the required information from the borrowers through the interview schedule, the completed schedules were edited properly to make them ready for further processing. For the purpose of codification of the data collected, the master table was prepared by the researcher in order to sum up the data found in the interview schedule. With the help of the master table, the data was classified as per the requirement of the researcher. ‘Count and tally method’ was adopted to determine the frequencies
of each classification table. All calculations were done using calculator.

**Statistical tools used**

Data collected through primary and secondary sources were classified and grouped with the help of frequency tables. The statistical tools, viz. percentages, Friedman’s test and chi-square test were used wherever necessary to establish the facts and relationship between variables and to draw inferences. Many of the calculations were made manually with the help of hand calculators. Tables, charts, diagrams and graphs were also presented to visualise the observations and inferences. For testing the actual hypotheses related to this study, the relevant statistical hypotheses were framed and tested using chi-square distribution. The statistical null hypothesis, also known as hypothesis of no difference was assumed in this study. In most of the cases, five per cent table values were compared with the calculated values of test statistics. This was done because the inferences drawn should give 95 per cent accuracy.
Limitations of the Study

The researcher took every possible effort to avoid the shortcomings and errors in the collection of the data. Great care was exercised by the researcher while bringing out the findings and arriving at the conclusions of the study. In spite of all efforts taken by the researcher, the present study has a few limitations worth mentioning as it deals with the evaluation of recovery performance of commercial banks.

[i] The study is confined to only the commercial banks, i.e., the public and the private sector banks. As such, the Cooperative banks, Regional Rural Banks, Local Area Banks and foreign banks are beyond the purview of the study.

[ii] The study relates to Recovery performance of commercial banks regarding priority sector loans only in Tiruchirappalli District.

[iii] The study of recovery performance of commercial banks have been based on the secondary data provided by the banks through the Annual reports of the respective banks and the Annual Action Plan provided by the lead bank of the district, namely, the Indian Overseas Bank. The financial
position as exhibited by the annual reports is true only for the last day of the accounting year and it may not be applicable for the remaining part of the year.

[iv] For want of time and resources, the researcher has chosen only 200 respondents using judgment sampling. The researcher faced great difficulty in collecting data from the borrowers because she had to administer the interview schedule not only to prompt repayers but also to defaulters. She was able to collect the data only with the help of the respective bankers.

[v] The collected data may reflect the attitude of the respondents based on their experiences while getting the necessary loans from the commercial banks.

[v] The opinions of the respondents were collected during November 2009 and hence there may be cognitive changes in their attitude as well as their opinions due to some external cues.

[vi] In the analysis of recovery performance of commercial banks, the total number of commercial banks in both the public sector and private sector vary between years and even
in the same year, they vary between sectors. This is due to non-availability of the complete data about the banks in the District Credit Plan prepared by the lead bank of the district, namely, Indian Overseas Bank. With this drawback, the researcher has made the analysis.

*Chapter scheme*

1. Chapter I deals with the Introduction, evolution of commercial banking, scope, objectives, hypotheses, conceptual definitions, methodology, limitations, and the chapterisation scheme of the study.

2. Chapter II gives details about the research studies previously conducted in recovery performance.

3. Chapter III gives a vivid picture about the priority sector loans and the recovery measures adopted by bankers.

4. Chapter IV provides details regarding the profile of the study area i.e., Tiruchirappalli district.

5. Chapter V makes an analysis about the lending and recovery of priority sector loans in Tiruchirappalli district and makes a comparison about the recovery performance of public sector with private sector banks in Tiruchirappalli district.

6. Chapter VI makes an analytical study about the repayment performance of borrowers in
Tiruchirappalli district and makes a comparative study about the repayment performance of borrowers of public sector banks with that of the private sector banks.

7. Chapter VII gives the summary of findings and suggestions for improving the recovery performance of commercial banks and gives a conclusion.