CHAPTER I

INTRODUCTION AND METHODOLOGY

Activities of the commercial banks in India are expanding at a rapid space during the period after independence. There is territorial as well as functional expansion of the activities of the bank. Banks which are conservative and conventional in their approach have come out from their shell and face the challenges of planned economic growth. In recent years non-conventional sectors are receiving the attention of commercial banks in India. A better understanding of the implications of financing non-conventional sector by commercial banks is possible only if one looks back the position of commercial banks during the pre-nationalisation era.

Banking in India before nationalisation

The important features of the banking scene in the post-independence era, till nationalisation of major banks in 1969 are summed up below.

1) **Decrease in the number of banks:**

The necessity of strong and economically viable banking units resulted in the decline in the number of commercial banks from 566 at the end of 1951 to 89 at the end of June 1966.
ii) **Decline in the importance of Foreign Banks**

Due to change in the banking policy after nationalisation of the Reserve Bank of India in 1948 and Imperial Bank of India in 1955, the relative importance of foreign banks in the banking system has declined.

ii) **Lop-sided growth**

There was lop-sided growth of the banking system because of continuing control of leading industrialists and traders. The banking system suffered from the following deficiencies.

a) The branches of the banks were mainly opened in the affluent and developed states and that too in urban or metropolitan areas.

b) Credit was mainly granted to large and medium industrial borrowers and wholesale trade. Vital sectors like agriculture, small-scale industries and other weaker sections of the community were ignored.

c) Security and the purpose of the proposal was the main criterion of lending.

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**Post-Nationalisation Period**

The scheme of social control was imposed on banks

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with effect from February 1, 1969. It was imposed to snap the link between a few industrial houses and banks. It resulted in setting up of national credit council for more equitable distribution of bank credit. Legislative changes were introduced in the Banking Regulation Act for making the Board of Directors of the banks more broad-based. The scheme of social-control did not have the desired effect. As a result, the government resorted to a more radical measure by nationalising 14 major banks on July 19, 1969. The objective of nationalisation was to control the commanding heights of economy and to serve the needs of the developing economy in conformity with the national objectives. In April 1980, six more banks were nationalised to achieve the above objective. As a result, banks now account for 91% of deposits in the banking system in India.

Another feature of the post-nationalisation period is the setting up of Regional Rural Banks. The operational policies of these banks are simple. These banks cater to the needs of small borrower of one or two districts to which their operations are restricted. At the end of June 1986, there were 194 Regional Rural Banks covering 342 districts.
The banking system has undergone a major structural transformation during the post-nationalisation period. There has been a phenomenal expansion of branch network, particularly in the hitherto unbanked rural areas. The policies and practices of banks are directed to the attainment of basic economic and social objectives, such as adequate economic growth, wider diffusion of economic power and channelising of available resources with due regard to the requirements of the priority sectors. The deficiencies of the commercial banking system have, of late, been discussed widely in the context of these objectives. There have been complaints that the bulk of bank advances tend to be directed to the large and medium scale industries and big established business houses, while priority sectors such as agriculture, small-scale industries and exports have not been receiving their due share.

"The banks have been called upon to assume a great variety of new responsibilities in the area of social banking for which there are no precedents or guidelines in the history of modern banking anywhere in the world. Bankers are not sitting in their offices and waiting for customers now. They instead, go out and meet
the ever widening circle of common people who earlier had no access to banking e.g. farmers small-scale entrepreneurs, artisans, rick-shaw pullers, vegetable vendors, and many others engaged in some gainful occupations even on a very small scale.¹

**Changing Role of Commercial banks:**

Banks have a crucial role to play in the context of planned economic development of a country. A new orientation to the banking system was given because of nationalisation. The banks had pressure from government to change the ageold concept of security-oriented lending and to pay more attention to the credit requirements of the neglected sectors such as small agriculturists, small-scale industrial units including those units which undertake servicing and repairing, transport operators, retail traders, artisans, professionals, students, people belonging to scheduled castes etc. These sectors are now included under priority sectors.

There were several reasons for the banks neglecting certain sectors in the past. These reasons are summarised below:

1. ibid. p.?
i) Non-availability of tangible security:

They do not have any tangible security. However the banks are gradually giving up their traditional security approach.

ii) Doubtful repaying capacity

Their repaying capacity is doubtful and cannot be ascertained correctly. Agriculture in India to a great extent depends on seasons. The people in this profession as well as other trades are very much dis-organised.

iii) Illiteracy

People having certain occupations in villages and semi-urban centres are mostly illiterate. They do not keep proper books of account.

iv) Restrictive land laws

On account of restrictive land laws in the states, the banks are afraid of advancing money against the security of land of the agriculturists.

v) Limited number of rural branches

The number of branches of banks in rural areas had been quite negligible. The responsibility of meeting the credit needs of the rural areas had been assumed generally that of co-operatives.
However during post-nationalisation period, there have been welcome changes in the credit policy of the banks in favour of priority and neglected sectors. The significant changes are:

i) The persuasion and directions of central government and the Reserve Bank have helped to develop a sense of commitment on the part of the commercial banks to assist the priority sectors. Their outlook have changed completely.

ii) The traditional concept of security has undergone a radical change. The banks cannot completely ignore the security aspect but today they give more emphasis on desirability of purpose and economic viability of the project for which credit is needed.

iii) The bank not only finance the project of its customer but also provides services, technical or otherwise, which are necessary for the success of the project.

iv) In order to streamline the procedural aspect and early disposal of cases, the powers of branch managers have been considerably increased.

v) Institutional guarantee system has been introduced to cover the losses of banks on account of advancing money to the neglected sectors of economy.
Statement of the Problem

Commercial banks in India have been traditional in their approach and outlook. Even after independence there has been no visible change in their policies and practices. But with the advent of the planning era there arose a need for new awakening and a compulsion to involve financial institutions particularly the commercial banks in schemes of economic development. Banking has to be innovative. The hitherto neglected and uncared for sectors have to be brought into the fold of bank finance. Banks have to look beyond the security and safety of their loan to the borrower.

It is with this background that the banks have entered into the new non-conventional areas of finance. The Reserve Bank of India on its part as the central bank of the country has taken up the issue by including most of the new areas of finance under 'Priority Sector' and has provided guidelines for lending. It also fixes up from time to time targets for achievement. Therefore it will be interesting as well as important to study the performance of commercial banks in financing the non-conventional sectors. The performance of different commercial banks in a particular area may give an insight into the measure of success of the banks in
their new endeavour. The researcher has taken Thanjavur Town for the purpose of the study as it is her home town.

Objectives of the study

The Objectives of the Study are

1. To identify the areas of non-conventional sectors of bank lending.

2. To assess the volume of bank lending to non-conventional sectors by commercial banks in Thanjavur Town.

3. To study the rate of growth of lending to non-conventional sectors by commercial banks in Thanjavur Town.

4. To assess individual performance of public and private sector banks in Thanjavur Town in financing non-conventional sectors.

5. To make appropriate suggestion for improvement of finance to non-conventional sectors.

Hypotheses

The study centres round the following important hypotheses.

1. The volume of bank lending to non-conventional sectors in Thanjavur Town is low and inadequate.
2. There is a good progress of lending to non-conventional sectors by banks in Thanjavur Town during the last five years.

3. There are wide variations in the individual performance of banks. The public sector banks in Thanjavur Town play a leading role in financing non-conventional sector.

Review of literature

Financing non-conventional sector is a new area of study. There is no separate book or bulletin available for the study. However the statistical statements, relating to "financing of priority and non-conventional sectors by commercial banks in India" published in the Reserve Bank of India Bulletin are very useful for the purpose of the study. In addition statistical information is available from the "Report on currency and Finance" published by RBI. The Annual Action Plan published by the lead bank (Indian Overseas Bank for Thanjavur District) provides a store of information regarding the activities of the commercial banks in financing non-conventional sectors. There are number of published articles in commercial journals particularly in the Journal of the Indian Institute of Bankers and the State Bank of India Monthly Review, which have been made use of at appropriate places. For
theoretical framework the concerned chapters in the
text books published by recognised authors have been
consulted. In this connection particular mention must
be made of the text book by S.K. Basu on "A Review of
Current Banking Theory and Practice."

Collection of Data

Both the Primary and the Secondary data were
obtained. Secondary data were collected from the
Annual Action Plan of banks prepared by Lead Bank Cell
of the District and also from the statistical records
and books maintained by the commercial banks.
Additional data were also collected from the lead bank

A detailed questionnaire was prepared for
collecting information from the Branch Managers and
Section Officers of the banks selected for study.

Information has also been gathered through
discussions. The Branch Managers and the Section
Officers were interviewed personally for information on
specific points.

Selection of Banks

There are 28 branches of commercial banks
operating in Thanjavur Town. Of these 15 branches
belong to Public Sector Banks and 13 branches belong to Private Sector Banks. The list of Public Sector Banks and the Private Sector Banks having branches in Thanjavur Town together with volume of deposits as on 31.12.1987 is given in Table 1.1. Among that nine banks have been selected for study.

A preliminary enquiry has shown that only these 9 banks have granted more advances to the different segments of non-conventional sectors:

The banks selected are:

PUBLIC SECTOR BANKS
1. State Bank of India
2. Indian Overseas Bank
3. Indian Bank
4. Canara Bank
5. Punjab National Bank

PRIVATE SECTOR BANKS
1. City Union Bank Limited
2. Bank of Madura Limited
3. Lakshmi Vilas Bank Limited
4. Karur Vysya Bank Limited

The first 5 top-ranking banks in that order have been selected from the public sector banks and 4
**TABLE 1.1**

Ranking of Branches of commercial banks in Thanjavur Town According to Deposits as on 31.12.1986.

(Rupees in Lacs)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>Deposits</th>
<th>% on Total Deposits</th>
<th>Rank No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indian Overseas Bank</td>
<td>6,90,823</td>
<td>29.37</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>State Bank of India</td>
<td>5,98,642</td>
<td>25.56</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Indian Bank</td>
<td>5,40,533</td>
<td>22.98</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Canara Bank</td>
<td>1,99,572</td>
<td>8.44</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Punjab National Bank</td>
<td>73,678</td>
<td>3.14</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>United Commercial Bank</td>
<td>62,474</td>
<td>2.66</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Central Bank of India</td>
<td>58,914</td>
<td>2.51</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Union Bank of India</td>
<td>40,749</td>
<td>1.73</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Bank of Baroda</td>
<td>39,730</td>
<td>1.68</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Bank of India</td>
<td>15,973</td>
<td>0.69</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Syndicate Bank</td>
<td>11,434</td>
<td>0.49</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Corporation Bank</td>
<td>9,128</td>
<td>.40</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Vijaya Bank</td>
<td>4,131</td>
<td>.19</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>State Bank of Travancore</td>
<td>4,046</td>
<td>.17</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Dena Bank</td>
<td>2,217</td>
<td>.09</td>
<td>15</td>
</tr>
</tbody>
</table>

Contd..
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>Deposits</th>
<th>% on Total Deposits</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.</td>
<td>City Union Bank Limited</td>
<td>2,24,819</td>
<td>30.40</td>
<td>1</td>
</tr>
<tr>
<td>17.</td>
<td>Bank of Madura Limited</td>
<td>88,315</td>
<td>15.46</td>
<td>2</td>
</tr>
<tr>
<td>18.</td>
<td>Lakshmi Vilas Bank Ltd.</td>
<td>87,667</td>
<td>15.35</td>
<td>3</td>
</tr>
<tr>
<td>19.</td>
<td>Karur Vysya Bank Limited</td>
<td>31,536</td>
<td>5.52</td>
<td>4</td>
</tr>
<tr>
<td>20.</td>
<td>Bank of Thanjavur Limited</td>
<td>30,936</td>
<td>5.42</td>
<td>5</td>
</tr>
<tr>
<td>21.</td>
<td>Vysya Bank Limited</td>
<td>29,915</td>
<td>5.24</td>
<td>6</td>
</tr>
<tr>
<td>22.</td>
<td>Tamil Nadu Merchantile Bank Limited</td>
<td>24,357</td>
<td>4.26</td>
<td>7</td>
</tr>
<tr>
<td>23.</td>
<td>Bank of Tamil Nadu Limited</td>
<td>20,897</td>
<td>3.66</td>
<td>8</td>
</tr>
<tr>
<td>24.</td>
<td>South Indian Bank Limited</td>
<td>19,198</td>
<td>3.34</td>
<td>9</td>
</tr>
<tr>
<td>25.</td>
<td>Federal Bank Limited</td>
<td>4,992</td>
<td>0.88</td>
<td>10</td>
</tr>
<tr>
<td>26.</td>
<td>Nedungadi Bank Limited</td>
<td>4,970</td>
<td>0.87</td>
<td>11</td>
</tr>
<tr>
<td>27.</td>
<td>Catholic Syrian Bank Ltd.</td>
<td>2,644</td>
<td>0.47</td>
<td>12</td>
</tr>
<tr>
<td>28.</td>
<td>Dhanalakshmi Bank Limited</td>
<td>887</td>
<td>0.16</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>29,23,177</strong></td>
<td><strong>100.00</strong></td>
<td></td>
</tr>
</tbody>
</table>
private banks on the same basis have been selected. The ratio 5:4 between Public and Private Bank represents fairly the proportion of Public and Private Sector Banks in Thanjavur Town which is 15:13.

Period of study

The study covers a period of five years from 1983 to 1987. The data for five years have been analysed thoroughly.

Tools and Techniques used

The tools and techniques used for the purpose of study are simple statistical averages presented in the tabulated forms taking the primary data and secondary data. Trend percentages are also used for the study of growth factors.

Limitations of the study

The main limitation of the study is that only 9 banks out of 28 is selected for the study. The reason for this limited selection is that in the case of many of the banks with limited deposit resources financing of non-conventional sectors has not become popular and separate records pertaining to the different areas of finance regarding non-conventional sectors is not available with them.
For trend percentages only 5 year period is taken. The period is considered sufficient because in the case of most of the banks financing non-conventional sectors is gathering momentum only in recent years. The results of the study are based on the use of statistical percentages as the objective is only to measure the performance of commercial banks with reference to their financing non-conventional sectors.

Scheme of chapterisation

Chapter I Introduction

Chapter I is the present chapter in which the banking system in India before nationalisation and after nationalisation are dealt with. The changing role of commercial banks are also being discussed with reference to conventional and non-conventional sectors. The methodology adopted for the study is explained in this chapter.

Chapter II

This core chapter covers the concept of non-conventional sectors. It also discusses the classification of non-conventional sectors with its characteristics.
Chapter III

This chapter covers the first classification of Retail Traders. The definition, various activities financed under this sector, purpose of finance, type of finance, and lending procedure are discussed in detail.

Chapter IV

The chapter covers the aspect of financing Road and Transport operators. Various activities, type of assistance, purpose for which the finance is required by the borrowers and lending procedure are analysed fully.

Chapter V

This chapter gives the information concerning financing of professional and Self-employed persons. Meaning of this sector, various activities financed under this category, type of finance and lending procedure are studied in this chapter.

Chapter VI

This chapter deals with the aspect of weaker sections. Various activities like IRDP, DRI, Assistance to women and 20 point programme are studied by analysing the lending procedure and type of finance required.
Chapter VII

This chapter covers the consumption loans. Various activities financed under this category, type of finance, lending procedure are discussed and analysed.

Chapter VIII Summary, Findings, Suggestions and Conclusion

Summary and findings are outlined and suggestions are offered in this chapter to solve the problems faced. Conclusion reached on the basis of the findings of the study is stated briefly.