CHAPTER - I

INDIA'S PRESENT BANKING STRUCTURE
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It is undoubtedly a difficult task to draw a complete picture of the banking system in India. The Indian banking landscape has undergone a complete metamorphosis in recent years, specially after the nationalization of major commercial banks.

Banking on modern lines in India is mainly a development of the 20th century. Even the Reserve Bank itself started functioning in 1935. India in her hoary past had her own ancient system of banking which was usually a personalised institution built around a single person or a joint family. These institutions are a peculiar product of the political and economic history of India, just as the discount houses are a unique feature of the London money market.¹

In broad terms, these two sectors, the modern and the ancient or the organised and the unorganised, constitute the banking system or the money market of India. "These two sectors are not wholly unconnected with each other, but at all times the links are somewhat tenuous."²

The organised sector consists of the Reserve Bank of India, the State Bank of India and the nationalised banks,

the scheduled banks including the foreign banks, the non-
scheduled banks and the cooperative banks. The unorganised
sector consists of the money lenders and the indigenous bankers,
known by different names in different parts of the country as
Benias, Marwaris, Shroffs, Chetties or Multanies.

THE RESERVE BANK:

The financial system in India, before the establishment
of the Reserve Bank, was woefully inadequate due to the dual
control of currency by the Government and of credit by the
Imperial Bank. The Hilton Young Commission pointed out "the
inherent weakness of a system in which the control of currency
and credit is in the hands of two distinct authorities, whose
policies may be widely divergent and in which the currency and
banking services are controlled and managed separately from one
another." Under these circumstances the necessity of a single
institution "to regulate the issue of bank notes and the
keeping of reserves with a view to securing monetary stability
in British India and generally to operate the currency and
credit system of the country to its advantage" was keenly felt
which resulted in the establishment of the Reserve Bank of India.
The establishment of a Reserve Bank free from political
influence was one of the conditions for transfer of responsibility
at the centre from British to Indian hands. Moreover, the
Imperial Bank of India failed miserably in controlling the money
market due mainly to lack of confidence of other joint-stock

3. Report of the Royal Commission on Indian currency and
finance 1926, para 85.
banks. The success of a central banking institution depends on the confidence which it inspires on the member banks and the influence which it exercises on them. The Imperial Bank which was acting as the central bank, was, for all practical purposes, a commercial bank competing with other joint-stock banks. Naturally the joint-stock banks were reluctant to approach the Imperial Bank for help. Due to all these reasons the British Government was constrained to establish a central bank, the Reserve Bank of India on April 1, 1935.

No organised money market can operate efficiently without an effective central bank. At the same time, in the absence of a central bank, a money market might develop on lines not conducive to the stability of the economic system. But ultimately it was decided to establish a central bank first, with the hope that a money market would develop around it. This attitude is exemplified by a statement in the Report of the Royal Commission on Indian Currency and Finance 1926 (para 41). "Experience in other countries shows that with the creation of a central bank, and the consequential development of a sound banking system, the bill market comes into being in a surprisingly short time."

The Reserve Bank was originally constituted as a shareholders institution with a share capital of Rs. 5 crores, divided into 5 lakhs fully paid-up shares of Rs. 100 each. The capital has remained unchanged to this day. In post-war years several European central banks, including the Bank of England and the Bank of France, were nationalised. In February 1947 the decision to nationalise the Reserve Bank of India was taken.
In terms of the Reserve Bank (Transfer to Public Ownership) Act, 1948, the entire share capital of the Bank was acquired by the Central Government against compensation to the shareholders at Rs. 118-10-0 per share of Rs. 100. From January 1, 1949, the Reserve Bank has become a fully state-owned institution. Under the Act, all the Directors of the Central Board, including the Governor and the Deputy Governors, and all members of the Local Boards are appointed by the Central Government.

The Reserve Bank performs all functions which central banks in other countries do, such as note issuing authority, bankers' bank and banker to Government. It is generally agreed that a central bank's objectives should be to promote or facilitate a high growth rate, full employment, price stability and a viable external payments position. "In terms of this objective the Reserve Bank was specifically called upon to fulfill the following functions -

1. Management of money.
2. Providing banking facilities to Government.
3. Acting as banker to other banks.
4. Administration of exchange control.
5. Collection and publication of financial statistics."

"The Reserve Bank has the sole right to issue notes and it also acts as banker to the commercial banks and to some of the financial institutions including state cooperative banks, holding custody of their cash reserves and granting them

accommodation in a discretionary way. For the performance of its duties as the regulator of credit, the Bank possesses not only the usual instruments of general credit control such as Bank rate, open market operations and the power to vary the reserve requirements of banks, but also extensive powers of selective and direct credit regulation. Another important function of the Bank, and historically the oldest, relates to the conduct of the banking and financial operations of the Government. The Bank has also an important role to play in the maintenance of the exchange value of the rupee in view of the close inter-dependence of international trade and national economic growth and well-being. This is of course an aspect of the wider responsibility of the central bank for the maintenance of economic and financial stability. For the performance of this function, the bank is entrusted with the custody and management of the country's international reserves; it acts also as the agent of the Government in respect of India's membership of the International Monetary Fund. It also exercises control over payments and receipts for international transactions in conformity with the trade control which is operated by Government. 6

Another important function performed by the R.B.I. is the administration of exchange control. The R.B.I. itself does not directly regulate imports or exports. But it exercises supervision over the prescribed methods of payment for imports and repatriation of proceeds of exports, besides other transactions which entail receipt or payment in foreign exchange.

6. Reserve Bank of India; Functions and working, 1971, pp. 4-5.
The bank has licensed a number of commercial banks to deal in foreign exchange. These authorised dealers are allowed to cover spot and forward exchange transactions at market rates. The authorised dealers are permitted to open letters of credit to make remittances in payment for imports, provided the goods are covered by a valid import licence. The control on exports is designed to ensure that foreign exchange proceeds of exports are remitted to India and not retained abroad. The control is operated jointly with the customs authorities. The authorised dealers have to submit to the R.B.I. statements in the prescribed forms of foreign exchange dealings. These statements are scrutinized by the Exchange Control Department of the Bank. These statements also enable compilation of India's balance of payment data.  

"With economic development assuming a new urgency in the 'fifties, the range of the Bank's functions has steadily widened. The Bank now performs a variety of developmental and promotional functions which in the past were regarded as being outside the normal purview of central banking. The Bank's responsibilities include, apart from purely regulatory functions, the institutionalisation of savings through promotion of the banking habit and the extension of the banking system territorially and functionally and/or by the establishment or promotion of new specialised financing agencies. The Bank thus took the initiative to set up the Deposit Insurance Corporation in 1962, and the Unit Trust of India in 1964. The expansion of facilities for the

provision of agricultural credit has been a statutory obligation of the Bank since its inception, and progress in this field has been striking during the last decade and a half. Apart from furthering the development of co-operatives to provide short-term credit, the Bank has also established a separate institution - the Agricultural Refinance Corporation - for the provision of long-term finance. The Bank has also taken the initiative for widening the facilities for provision of industrial finance by assisting in the establishment of special financial agencies like the Industrial Finance Corporation of India and the State Financial Corporations and finally by setting up the Industrial Development Bank of India as its wholly-owned subsidiary. By virtue of its position as regulator of currency and credit and banker to the Government, the Bank's role as adviser to the Government on economic matters in general and on financial problems in particular has been one of growing importance.  

Over the years, extensive powers have been conferred on the Reserve Bank for supervision and control of banks. In view of several undesirable features in bank practices and in order to protect the interests of depositors, wide powers have been conferred on the Reserve Bank under the Banking Regulation Act, 1949. The existence of a large number of small weak units in the banking system led the Reserve Bank to acquire powers for compulsory amalgamation of banks in 1960. An amendment Act was passed in 1963, and effective February 1, 1964, provided further powers to the Reserve Bank, particularly to restrain

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8. Reserve Bank of India; op. cit., 1971, pp. 5-6.
control exercised by particular groups of persons over the 
affairs of banks and to restrict loans and advances as well as 
guarantees given by banks to or on behalf of any company, firm, 
association of persons or individual and gave greater control 
to the Reserve Bank over the appointment and removal of banks' 
executive personnel.

The Reserve Bank has relied on the following instruments 
for the control of money and credit in India. These are: 
variations in bank rate, open market operations, variable 
reserve ratio, moral suasion and lastly selective credit control 
by restricting loans and advances as well as guarantees given 
by banks to or on behalf of any company, firm, association of 
persons or individual.

Bank rate has been altered only very seldom. It 
remained 3 percent from 1935 to 1951. This infrequent use of 
bank rate proves that the Reserve Bank did not attach much 
importance to bank rate as an instrument of its policy. Subse-
quent changes in the bank rate show that bank rate also can act 
as a check, although not that effective, on inflationary 
tendencies.

The ineffectiveness of the bank rate as an instrument of 
credit control has compelled the Reserve Bank to rely to a 
greater extent on open market operations as an instrument of 
monetary control. Previously open market operations were used 
by the Reserve Bank for two purposes. One was to adjust credit 
to seasonal needs. Other banks used to sell securities in 
busy season to the Reserve Bank and purchase them back in slack
season. The other purpose was to use the open market operations to support the credit of the Government. Theoretically speaking, the purpose of open market operations is to counteract inflation or deflation in general at the initiative of the central bank. Nowadays the Reserve Bank has ceased to buy and sell securities at the initiative of the commercial banks, thereby restoring to the Reserve Bank open market operations as an effective instrument of its policy.

Moral suasion has been used by the Reserve Bank. The Shroff Committee was of the view that this instrument was used by the Reserve Bank. "Apart from using its statutory powers to assist the development of sound banking, the Reserve Bank has also sought to influence, through suasion and advice, the lending policy of commercial banks. This has been undertaken with a view to ensuring that credit is directed into those lines which have priority in the programme of development. It has also the objective of ensuring that the resources of banks are not utilized for purely speculative purposes, which might endanger the interests of depositors." 9

Lastly, in recent times, the Reserve Bank is using the statutory powers conferred on it by restricting the amount of loans and advances the banks are permitted to provide to their customers. It is evident from the activities of the Reserve Bank, that it has assumed leadership of the Indian banking system by timely making use of all these instruments of monetary and credit control such as bank rate, open market operations,

9. Shroff Committee Report, p. 42
variable reserve ratios, suasion and selective credit control either singly or as situation warrants, jointly.

STATE BANK OF INDIA AND ITS SUBSIDIARIES:

The State Bank of India was formed on the 1st of July, 1955 with the passing of the State Bank of India Act of 1955 by taking over the entire assets and liabilities of the Imperial Bank of India. It was established by the statutory amalgamation of the Imperial Bank of India and certain major State associated banks, namely Bank of Baroda, Bank of Rajasthan, Bank of Bikaner, Bank of Jaipur, Bank of Mysore, Bank of Patiala, Bank of Saurashtra, Bank of Indore, the Hyderabad State Bank and the Travancore Bank. The emergence of the State Bank of India was an important milestone on the road to the establishment of an integrated commercial banking unit with branches all over the country under effective state control.

The main purpose of nationalisation was the setting up of a strong, state-owned commercial banking institution with an effective machinery with a network of branches spread over the whole country. It was made clear by the then finance minister that the nationalisation of the Imperial Bank was not based on ideological grounds. But it was intended to acquire control over a strategic section of commercial banking with a view to developing credit facilities for areas of the national economy not well served in this respect.

Yet another major objective for which the State Bank has been established was to promote the agricultural finance and to
remedy the defects in the then existing agricultural finance. Moreover, the State Bank was expected to help the Reserve Bank in its credit policies and to check any monetary disequilibrium that was likely to develop in the money market owing to the developmental activities. The Reserve Bank, holding 55 percent of the shares of the State Bank has control over the large resources of the State Bank to make effective its credit policies and tighten its grip over the entire banking system. Besides, with the help of the State Bank, the Reserve Bank would be able to control and regulate the directions of the flow of credit.

The branch expansion programme of the State Bank of India is particularly praiseworthy. The State Bank had a statutory obligation as per the State Bank of India Act itself to open 400 new branches within five years of the establishment of the Bank. In fact that target was exceeded. Subsequently further expansion programme was undertaken with a view to provide suitable banking services to co-operative marketing and processing societies, to provide financial services to small scale industries, to provide extension of remittance facilities and to mobilise savings. To a great extent these objectives underlying the expansion programme have been accomplished. The branches covering the semi urban and rural areas have enabled the State Bank and its subsidiaries to provide cheaper remittance facilities in these areas and thereby assist the development of co-operative credit.

The achievements of the State Bank and its subsidiaries in the field of rural credit, although an out and out new field for these banks, have been creditworthy. The facilities made
available to cooperative and related institutions can be broadly
grouped into four categories, namely, general facilities,
finance for marketing and processing cooperative societies,
finance for land mortgage banks and lastly providing warehousing
finance.

Similarly, in the field of finance for small scale
industries the part the State Bank plays is commendable. The
Bank introduced 'a pilot scheme for small scale industries' in
1956. With the amendment of the State Bank of India Act in
1957, the Bank gives loans and advances for periods in excess
of 6 months but not exceeding seven years. The Bank is
authorised to subscribe and hold shares or debentures of any
financial institution notified by the Central Government.

Moreover, by an amendment of the State Bank of India Act
in 1962, the bank is empowered to grant medium term credit
against exports for periods up to seven years.

**OTHER SCHEDULED BANKS**

Scheduled banks are those that are included in the
second schedule to the Reserve Bank of India Act. Only those
banks that have a paid-up capital and reserves of an aggregate
value of not less than Rs. 5 lakhs can be included in the Second
Schedule. Other conditions are that the bank must carry on
the business of banking in India, that it must be a state co-
operative bank or an institution notified by the Central
Government or a corporation or company incorporated by or under
any law in any place outside India and lastly, that it must
satisfy the Reserve Bank that its affairs are not conducted in any manner detrimental to the interests of the depositors.

Among the Scheduled banks are the State Bank of India and its subsidiaries, the nationalised banks, other Indian Scheduled banks and the foreign banks.

In order to accelerate the adoption of the banking system to the emerging needs, the Government decided on July 19, 1969, to nationalise 14 major Indian commercial banks. With the nationalisation of these 14 banks, the public sector banks, including the State Bank of India and its subsidiaries which were already in the public sector, now cover over 80 percent of the deposits of all commercial banks.

Table - 1
Deposit and Credit - All Commercial Banks

<table>
<thead>
<tr>
<th>Position as on 18th July 1969</th>
<th>(In crores of rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Branches</td>
</tr>
<tr>
<td>1. State Bank of India and its subsidiaries</td>
<td>2465</td>
</tr>
<tr>
<td>2. 14 Nationalised banks</td>
<td>4169</td>
</tr>
<tr>
<td>3. Other Indian Scheduled Commercial Banks</td>
<td>1338</td>
</tr>
<tr>
<td>4. Foreign Banks</td>
<td>128</td>
</tr>
<tr>
<td>5. All Scheduled Commercial banks</td>
<td>8100</td>
</tr>
<tr>
<td>6. Non Scheduled Banks</td>
<td>217</td>
</tr>
<tr>
<td>7. All Commercial Banks</td>
<td>8317</td>
</tr>
</tbody>
</table>

The nationalisation of 14 major Indian banks with effect from July 19, 1969 was a far reaching measure affecting the Indian banking system as a whole. With this nationalisation, the public sector in banking, including the State Bank and its subsidiaries accounts for 83 percent of the total deposits of the banking system, 84 percent of total bank credit and 82 percent of the number of branches as the table above clearly shows.

It would be worthwhile, in this connection to trace the branch expansion programme of the various important sectors in the Indian banking system. The branch expansion scheme of the State Bank and its subsidiaries along with the 14 nationalised banks for a period of 3 years (1969-1972) points to the strong hold on and increasing importance of the public sector banks over the Indian banking structure.

Table - 2

No. of branches - bank group-wise 1969-1972
As on June ending 1969, '70, '71, '72

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>1569</td>
<td>1875</td>
<td>2286</td>
<td>2575</td>
</tr>
<tr>
<td>Subsidiaries of the S.B.I.</td>
<td>893</td>
<td>1060</td>
<td>1233</td>
<td>1383</td>
</tr>
<tr>
<td>Nationalised Banks</td>
<td>4133</td>
<td>5318</td>
<td>6668</td>
<td>7189</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5595</strong></td>
<td><strong>8253</strong></td>
<td><strong>10187</strong></td>
<td><strong>11147</strong></td>
</tr>
<tr>
<td>Other Indian Scheduled</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>130</td>
<td>131</td>
<td>127</td>
<td>127</td>
</tr>
<tr>
<td>Non-Scheduled Banks</td>
<td>217</td>
<td>193</td>
<td>121</td>
<td>105</td>
</tr>
</tbody>
</table>

It will be seen from the above table that although the percentage of public sector to private sector banks remains practically the same as between 1969 and 1972 in absolute terms the growth of public sector banking is phenomenal. When in 1969 the number stood at 6595 it increased to 11147 by the end of June 1972, showing an increase of more than 59.1 percent. During the same period the number of foreign banks in India went down from 130 to 127.

Table - 3

Statement showing the bankwise distribution of commercial bank offices in India as on 19-7-1969, 31-12-1975 and 31-3-1976

<table>
<thead>
<tr>
<th></th>
<th>No. of Branches</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19th July 1969</td>
<td>December 1975</td>
<td>March 1976</td>
</tr>
<tr>
<td>A. State Bank of India</td>
<td>1571</td>
<td>3801</td>
<td>3836</td>
</tr>
<tr>
<td>Subsidiaries of the S.B.I.</td>
<td>894</td>
<td>1802</td>
<td>1818</td>
</tr>
<tr>
<td>Total:</td>
<td>2465</td>
<td>5603</td>
<td>5654</td>
</tr>
<tr>
<td>B. Nationalised Banks</td>
<td>4168</td>
<td>10718</td>
<td>10791</td>
</tr>
<tr>
<td>C. Regional Rural Banks</td>
<td>-</td>
<td>14</td>
<td>54</td>
</tr>
<tr>
<td>Total of A, B, C.:</td>
<td>6633</td>
<td>16335</td>
<td>16499</td>
</tr>
<tr>
<td>D. Private Sector Banks</td>
<td>1688</td>
<td>4116</td>
<td>4199</td>
</tr>
<tr>
<td>Total of A,B,C,D.:</td>
<td>8321</td>
<td>20451</td>
<td>20698</td>
</tr>
</tbody>
</table>

Source: Banking Commission - Government of India, September, 1976, p. 31

As against 8321 branches on the eve of nationalisation, the total number of branches as at the end of March 1976 was
Of the 12377 additional branches during the post-nationalisation period, 9866 were opened by the public sector banks.

Now let us have a look at the deposits and advances of commercial banks in India in recent years. One of the main objectives pursued by the commercial banking system during recent years is mobilisation of the savings of the community for their canalisation into productive activities. In this sphere, as in the case of branch expansion, the commercial banking system as also the public sector banks have registered significant gains. An important feature of the deposit mobilisation performance of the commercial banks during recent years 1969-76, is the higher rate of growth of time deposits which can broadly be said to constitute the real savings of the community. In July 1969 term deposits formed 55.4 percent of the aggregate deposits of all scheduled commercial banks. By the end of June 1976 this proportion increased to 59.7 percent. 10

The table below gives the details regarding deposits of public sector banks and of scheduled commercial banks at the relevant points of time.

<table>
<thead>
<tr>
<th>As at the end of</th>
<th>S.B.I. group</th>
<th>Nationalised Banks</th>
<th>Total Public Sector Banks</th>
<th>All Scheduled Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1969</td>
<td>1239</td>
<td>2632</td>
<td>3871</td>
<td>4646</td>
</tr>
<tr>
<td>June 1974</td>
<td>3006</td>
<td>6042</td>
<td>9096</td>
<td>10756</td>
</tr>
<tr>
<td>June 1975</td>
<td>3564</td>
<td>6390</td>
<td>10554</td>
<td>12544</td>
</tr>
<tr>
<td>June 1976</td>
<td>4380</td>
<td>8359</td>
<td>12709</td>
<td>15056</td>
</tr>
</tbody>
</table>

Increase between June 1969 to June 1976

<table>
<thead>
<tr>
<th>Amount</th>
<th>3111</th>
<th>5727</th>
<th>8833</th>
<th>10410</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>251.1%</td>
<td>217.6%</td>
<td>223.3%</td>
<td>224.1%</td>
</tr>
</tbody>
</table>

Source - Banking Commission - September 1976, p. 26

As at the end of June, 1969, the total deposits of scheduled commercial banks in India amounted to Rs. 4646 crores. Over the seven years ended June, 1976, these have more than trebled, the aggregate deposits as at the end of June, 1976 being Rs. 15056 crores.

A noteworthy feature emerging over the recent years is the fundamental change in the deployment of bank funds. Banks have to fulfil the statutory requirements of a minimum cash reserve with the Reserve Bank and provide for some cash on hand to meet operational requirements. The balance of their resources is available for deployment for investment in Government and other approved securities and for extending credit to different sectors of the economy. As a result of the growth of bank deposits and the changes in the provisions relating to the minimum statutory liquidity ratio, there has been large increase in the banks investments in Government and approved securities. The available data which relate to scheduled commercial banks as a whole indicate that their investments have gone up from Rs. 1359 crores as at the end of June 1969 to Rs. 4865 crores as at the end of June 1976, an increase of nearly Rs. 3506 crores over the period i.e. at an annual average rate of 37 percent.

11. Ibid., p. 27
The table below sets out the relevant data with regard to the advances of scheduled commercial banks.

Table - 5

Advances of Scheduled Commercial Banks

<table>
<thead>
<tr>
<th>As at the end of</th>
<th>S.B.I. group</th>
<th>Nationalised Banks</th>
<th>Total Public Sector Banks</th>
<th>All scheduled Comm. Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1969</td>
<td>1185</td>
<td>1832</td>
<td>3017</td>
<td>3599</td>
</tr>
<tr>
<td>June 1974</td>
<td>2284</td>
<td>4410</td>
<td>6694</td>
<td>7858</td>
</tr>
<tr>
<td>June 1975</td>
<td>2664</td>
<td>4991</td>
<td>7654</td>
<td>8956</td>
</tr>
<tr>
<td>June 1976</td>
<td>3298</td>
<td>6614</td>
<td>9912</td>
<td>11464</td>
</tr>
</tbody>
</table>

Increase between June 1969 to June 1976

<table>
<thead>
<tr>
<th>Amount</th>
<th>2113</th>
<th>4782</th>
<th>6895</th>
<th>7865</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>178.3%</td>
<td>261.0%</td>
<td>228.5%</td>
<td>216.5%</td>
</tr>
</tbody>
</table>

Source - Ibid., p. 27

The aggregate advances of scheduled commercial banks increased from Rs. 3599 crores as at the end of June, 1969 to Rs. 11464 crores at the end of June, 1976. Over the year ended June 1976, the outstanding advances of commercial banks have increased by Rs. 2500 crores or by 23 percent.

Table No. 6 (see next page) shows that the percentage of increase of deposits from 1969 to 1976 is the highest in the case of other Indian scheduled banks, 388.6 percent and lowest 87.4 percent in the case of foreign banks. Public sector banks as a whole increased their deposits by 228.3 percent during the same period. Among the public sector banks, the State Banks'
### Table - 6

Deposits (excluding interbank deposits) of Scheduled Commercial Banks
as on the last Friday of June

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td>A. State Bank of India</td>
<td>948</td>
<td>2008</td>
<td>2405</td>
<td>2875</td>
<td>3546</td>
<td>2598</td>
</tr>
<tr>
<td>B. Subsidiaries of S.B.I.</td>
<td>291</td>
<td>524</td>
<td>601</td>
<td>629</td>
<td>804</td>
<td>513</td>
</tr>
<tr>
<td>C. Nationalised Banks</td>
<td>2632</td>
<td>5163</td>
<td>6061</td>
<td>6990</td>
<td>8359</td>
<td>5727</td>
</tr>
<tr>
<td>Total (A B C)</td>
<td>3871</td>
<td>7696</td>
<td>9061</td>
<td>10554</td>
<td>12709</td>
<td>8338</td>
</tr>
<tr>
<td>D. Other Indian Scheduled</td>
<td>297</td>
<td>737</td>
<td>992</td>
<td>1156</td>
<td>1451</td>
<td>1154</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>388.6</td>
</tr>
<tr>
<td>E. Foreign Banks</td>
<td>478</td>
<td>733</td>
<td>788</td>
<td>835</td>
<td>898</td>
<td>418</td>
</tr>
<tr>
<td>F. Total for all Scheduled</td>
<td>4646</td>
<td>9165</td>
<td>10756</td>
<td>12544</td>
<td>15056</td>
<td>10410</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>224.1</td>
</tr>
</tbody>
</table>

**Note:**
1. Figures for 1976 are provisional.
2. Figures may not add up to totals due to rounding differences.

Source: Ibid - page 34.
Table - 7
Advances (excluding due from banks) of scheduled Commercial banks
as on last Friday of June

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Amounts in crores of Rs.)</td>
</tr>
<tr>
<td>A. State Bank of India</td>
<td>966</td>
<td>1481</td>
<td>1841</td>
<td>2147</td>
<td>2659</td>
<td>1693</td>
</tr>
<tr>
<td>B. Subsidiaries of S.B.I.</td>
<td>219</td>
<td>423</td>
<td>443</td>
<td>517</td>
<td>639</td>
<td>420</td>
</tr>
<tr>
<td>C. Nationalised Banks</td>
<td>1832</td>
<td>3526</td>
<td>4408</td>
<td>4991</td>
<td>6614</td>
<td>4782</td>
</tr>
<tr>
<td><strong>Total (A &amp; C)</strong></td>
<td>3017</td>
<td>5430</td>
<td>6892</td>
<td>7654</td>
<td>9913</td>
<td>6896</td>
</tr>
</tbody>
</table>

D. Other Indian Scheduled Commercial Banks

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Amounts in crores of Rs.)</td>
</tr>
<tr>
<td>D. Other Indian Scheduled Commercial Banks</td>
<td>197</td>
<td>475</td>
<td>583</td>
<td>720</td>
<td>965</td>
<td>768</td>
</tr>
<tr>
<td>E. Foreign Banks</td>
<td>385</td>
<td>507</td>
<td>583</td>
<td>530</td>
<td>596</td>
<td>201</td>
</tr>
<tr>
<td><strong>Total for all Scheduled Commercial Banks</strong></td>
<td>3599</td>
<td>6412</td>
<td>7858</td>
<td>8955</td>
<td>11464</td>
<td>7865</td>
</tr>
</tbody>
</table>

Note: (1) Figures for 1976 are provisional.
(2) Figures may not add up to totals due to rounding differences.

performance is the best 274.1 percent, followed by the Nationalised Banks, 217.6 percent.

Table No. 7 depicts the advances by the scheduled banks. As far as percentage increase during 1969-1976 is concerned top position is held other Scheduled Banks, 389.8 percent and foreign banks are at the bottom with 52.2 percent. Public sector banks as a whole increased their advances by 228.6 percent and among this group, the Nationalised Banks' record is the best, 251.0 percent followed by the subsidiaries of the State Bank with 191.8 percent.

Both in the field of deposits and advances the foreign banks stay at the bottom during the period under review.

NON-SCHEDULED BANKS:

The non-scheduled banks are so called because they are too small to be included in the Second Schedule of the Reserve Bank Act. Pre-war data with regard to their number as well as resources are quite inadequate. During World War II their resources expanded appreciably. There were times when the number of non-scheduled banks were 5 to 6 times more than all the scheduled banks put together. The Reserve Bank had no power over them till the passing of the Banking Regulation Act of 1949. The Act provided for obtaining a licence from the Reserve Bank to operate banking business in India. The Act also provided for a minimum ratio for these banks. Because of the strict provisions of the Act of 1949 in course of time many of them went into liquidation. A few were completely reorganised, merged or
amalgamated. Their number also shows a declining trend as is clear from Table No. 10. They hold a very insignificant part of the total deposits in India (Table No. 1).

**CO-OPERATIVE BANKS**

Co-operative banks are organised on a federal basis. At the top there is the Provincial Co-operative Bank with jurisdiction over the entire state. The State Government controls them through the Registrar of Co-operative Societies. For each district there is a Central Co-operative Bank which is affiliated to the Provincial Co-operative Bank. At the lowest bottom are the primary banks, agricultural or non-agricultural, which in turn, are affiliated to the Central Co-operative Bank of the particular district.

The resources of the primary banks consist of the share capital, deposits and borrowings from the Central Co-operative Bank. Their volume of business is not large; neither have they enough working capital. Money is advanced on short and medium term basis. Only a very small part of the credit needs of the villagers are met by the co-operative banks (see Table No. 8 relating to various agencies of rural credit).

The membership of the Central Co-operative Bank is open to primary banks as well as individuals. Their resources are obtained from the share capital, deposits and borrowings from the Provincial Co-operative Bank.

At the apex are the Provincial Co-operative Banks whose job it is to co-ordinate the work of the Central Co-operative
Banks under its jurisdiction. Their sources of funds are deposits, share capital and borrowings from the Reserve Bank, the Government and other commercial banks. Through their borrowing and lending operations the Provincial Co-operative Banks provide a link between the rural societies and the organised banking system.

**UNORGANISED SECTOR**

The unorganised sector is not a well-knit one. It is based on numerous individuals and family firms with very little organised relationship amongst themselves. Such individuals and family firms are scattered all over India. This sector comprises the indigenous bankers and the money lenders.

This indigenous banking system played a very important role in the monetary organisation of the country till very recently. For centuries together they have been the suppliers of funds to the agriculturists, small traders and manufacturers. Till the 'sixties of the present century they used to finance the internal trade of India to the extent of 90 percent. Their prominence in the economy can be measured from the Report of the All India Rural Credit Survey. Covering 127,343 families in 600 villages, the Survey was conducted in 1953 to examine the present organisation of the supply of rural credit and suggest methods for its improvement. The Survey gave interesting figures to indicate the extent to which the main agencies of rural credit contributed to the total borrowing of the cultivators. The money lenders supplied 69.7 percent of the total loans to
the agriculturists. While the organised agencies, such as Government, co-operatives and commercial banks supplied 7.3 percent of rural credit, other agencies like relatives, land-lords and traders supplied 23 percent of the rural credit. It shows what an insignificant role is played by the organised sector. The Survey estimates that there are about 325,000 money lenders and indigenous bankers scattered all over the country.

The Table No. 8 given below shows the importance of this most significant sector in the field of rural finance and credit.

Table - 8

Percentage contribution of various agencies of rural credit to total borrowings of cultivators

<table>
<thead>
<tr>
<th>Credit Agency</th>
<th>% proportion in borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>3.3</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>3.1</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>0.9</td>
</tr>
<tr>
<td>Relatives</td>
<td>14.2</td>
</tr>
<tr>
<td>Land-lords</td>
<td>1.5</td>
</tr>
<tr>
<td>Agricultural Money lenders</td>
<td>24.9</td>
</tr>
<tr>
<td>Professional Money lenders</td>
<td>44.8</td>
</tr>
<tr>
<td>Traders and Commission Agents</td>
<td>5.5</td>
</tr>
<tr>
<td>Others</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Total: 100.0

These indigenous bankers are known by different names in different parts of India. In the South they are known as Chettiar whereas in the North they are called Shroffs, Multanies, Marwaries etc. They generally perform all general banking functions like receiving of deposits, discounting of bills and remittance of funds. The credit instrument they use most is hundi which resembles a bill of exchange, but in reality is something different. A bill of exchange is drawn to finance a transaction involving transfer of goods. On the other hand a hundi is primarily an instrument for obtaining an advance. The two important kinds of hundies are the Muddatti (time) hundi and Darshani (sight) hundi. A Muddatti hundi is a usance bill while a Darshani hundi is a demand draft. The indigenous bankers have not much of direct contact with the Reserve Bank but most of them have standing arrangement with scheduled banks who discount the hundies.

The money lenders are different from the indigenous bankers in that they do not generally accept deposits and discount bills of exchange. The primary business, as their name implies, is to lend money. The business is conducted on a personal basis with the result it is difficult to evaluate their operations. They charge very high rate of interest sometimes as high as 360 percent. Government had tried to curb the malpractices of the money lenders by limiting the rate of interest chargeable and alienation of land for repayment of debt. In recent times the wiping off of debts of small and marginal farmers, agricultural labourers and other weaker sections of society through legislation by

different state Governments, the money lending class has become practically extinct.

With the opening of branches by public sector banks and other scheduled as well as non-scheduled banks in remote corners of the country, which till recently were unbanked areas, the unorganised or ancient sector of the money market is dying slowly.

The money market structure in India through loosely knit, is not entirely uncoordinated. The indigenous bankers enjoy rediscount facilities from the commercial banks which in turn have access to the Reserve Bank. Recourse on the part of indigenous bankers or in other words unorganised sector, to the resources of the organised money market takes place usually during the busy season when the crops are being harvested and moved from the producer to the wholesaler. Recently such recourse by the indigenous bankers to the organised sector has been reduced considerably. With the withdrawal by the State Bank completely from hundi business, the other banks have also restricted their business of rediscounting hundies. The opening of large number of branches by the commercial banks and simultaneously opening their doors to small industrialists and traders, there is no necessity to route funds through the indigenous bankers who generally charge high rate of interest. The share and importance of the unorganised sector, therefore, is declining slowly and steadily.

A money market is, one may say, fully developed when the various constituent parts are well integrated. Looked at from
that angle, the Indian money market has, with the disappearance of money lenders and the paling into insignificance of the indigenous bankers, reached a high degree of development.

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