Chapter 1

Introduction
INTRODUCTION

Banking system is one of the many institutions that impinge on any economy affect its performance for the better or the worst. In what measure a given banking system contributes to economic development depends upon the governing policy. Economists have expressed a wide variety of opinions on the effectiveness of banking systems in promoting or facilitating economic development. Schumpeter, the first modern economist to study the relationship, regarded banking system as one of the two key agents other being entrepreneurship in the whole process of development. Alexander Gerschenkron looks at banks as a substitute for deficiencies in the original accumulation of liquid wealth in moderately backward economies. Banks are considered to be the most important of all the financial intermediaries and the commercial banks are playing a dominant role in the financial system of a country like India.

The commercial banks have the following primary reasons for its significance:
1. Commercial banks are the only institutions in the economy with ability to create money in the form of demand deposits;

2. Commercial banks are the primary financial institutions responsible for administering the payment mechanism;

3. Commercial banks represents the focal point through monetary policy is implemented by the Central Bank;

4. Commercial banks affect all sectors of the economy because of their broad lending powers and consequently have a relatively pervasive impact on economic growth;

5. Commercial banks are generally more heavily regulated than any other financial institution.

The importance of banking institutions is felt rather deeply in the underdeveloped economies in the sense that these economies are usually short of capital and the task of mobilisation of resources and their channelisation to the priority sector belongs to such institutions. Broadly speaking the financial institutions have been assigned the
task of accelerating the economic growth by bringing about a revolution in industrial and agricultural sectors of the economy and better distribution of income and wealth, reducing unemployment and inter/intra-regional economic imbalances and ameliorating the economic lot of the vast majority of people living in substandard economic conditions. It is not very unusual to find that in the history of economic growth in different countries of the world, the importance of banking institutions and their role in the national development projects have been found to be of a great significance. In few countries, banks were created by the government to exploit mineral resources and to build power plants on behalf of the government, to draw up and carry out a general plan, to promote production in all sectors of the economy, to obtain credit from abroad, to provide long-term finance to private sector and to supply capital and enterprise in order to give a fillip to the process of development. The importance of banks in stimulating the economic growth is evident from the fact that in some of the countries, the governments had to establish these institutions to provide facilities for expediting the development projects.
Being an underdeveloped economy, India has all the features of such economy like preponderance of the agrarian sector, high density of population, low level of income, low standard of living and high propensity to consume. Low income leads to low savings which, in turn, result in low capital formation. Agriculture needs new implements, Hybrid seeds regular water supply, dense population needs more livelihood more shelter more consumables etc. Lower income reduces the efficiency due to lack of nutrition to children and compel to parents for early labour of children and low standard produces more children and cause further growth in population. The economy, therefore, suffers tremendously from the vicious circle of poverty.

Moreover, with the existence of large non-monetised sector in the economy and the prevalence of widespread illiteracy and conservatism amongst the masses, savings remain either unutilized or hoarded in the form of cash, gold and silver or invested in land or real estate. Thus the saver’s peculiar preferences are also responsible with other factors for the meagre capital formation. Therefore,
any effort to develop the economy requires an action to increase, mobilise and appropriately channelise the domestic financial resources towards productive investment in the economy. This calls for not merely the presence but also an active role of banking sector and other financial institutions in a country like India. Out of the many structural and institutional changes that are necessary in developing countries, not the least is the adaptation of financial institutions to serve the objectives of development and to ginger up mobility of resources to meet the emerging needs of the economy.

The Indian banking system has undoubtedly been influenced by the characteristics of an underdeveloped economy, but it is a paradox at the same time that it compares every favourable steps with what is to be found in some of the developed countries of the world.

All scheduled commercial banks in totality account for 99.9 per cent of the total business. The remaining 0.1 per cent of the total business goes to non-scheduled banks. Among the scheduled commercial banks, more
than 90 per cent of the business is in the hands of public sector banks.

**Historical Perspective:**

The beginning of modern banking in India is traced back to early nineteenth century with the establishment of three presidency banks, but its growth till the beginning of the 20th century was negligible. During the first half of the 20th century, the banking system progressed rapidly, but this was largely in line with their commercial principles and there was no system to regulate them properly. A real start of the present day banking is said to have been made with the enactment of the Banking Regulation Act in 1949 and the commencement of economic planning in the country. This is primarily because with the beginning of planning era, the banks have been called upon to act as an instrument of growth and development. In the three-and-a-half decades that followed the enactment of the Banking Regulation Act, 1949, the Indian banking system underwent significant organisational and structural changes. Most of these changes were caused by some of the under note features exists in the then banking system:
1. Banking system was highly urbanised. Banking activities were concentrated in big cities and even as late as December 1967, the two metropolitan cities of Bombay and Calcutta accounted for about one-third of the total deposits and one-half of the total credit disbursed by banks. The ratio of credit to deposit was more than 100 per cent in the metropolitan cities, which meant that deposits mobilised at small centres were diverted for financing activities of big business in metropolitan centres. At the end of 1967, the credit-deposit ratio was as high as 147.4 per cent for Madras, 128.8 per cent for Calcutta, 116.3 per cent for Ahmedabad and 102.2 per cent for Bombay, while for the country as a whole the ratio was 69.3 per cent. According to the study conducted by the Reserve Bank of India, out of 336 districts in India the bank offices did not exist at all in 13 districts up to the end of 1967. There were 453 towns where there was no office of any commercial bank and an other 827 potential centres for developing agro-industrial businesses were deprived of banking facilities. The Gadgil study
group vividly brought out of delinquencies in banking development in the country. It pointed out that till December 1967, out of 5,64,000 villages in the country, not even one per cent were being served by commercial banks. There were as many as 63 districts in which per capita credit was less than one rupee. In another 13 districts, credit was not extended even to a single individual although deposits were mobilised from the people living there. In 61 districts, credit-deposit ratio was less than 10 per cent.

2. In the big cities, it was mainly the well-placed traders, businessmen and industrialists who availed themselves of most of the credit facilities. Ownership and control of these banks was in a few hands they were expanding the operations for their own benefit. Most of the funds were invested in the business in which the Directors of the banks themselves had some interest. A study of 20 major banks in 1967 revealed that 188 Directors of banks held 1,452 directorships of large industrial companies. Till late
sixties, banking industry remained in the hands of those who used the huge resources for the benefit of large number well-known customers. The entire lending policy was tied up with assets. The larger the assets, the easier was to get a loan at a low rate of interest. If the borrower was poor and had limited assets, normally he did not get a loan and in rare lucky case of getting one, he had to pay a relatively high rate of interest. The loans were not purpose-motivated but person or collateral-motivated.

3. Commercial banks have been mainly concerned with short-term and, to a some extent, medium-term financing of non-agricultural activities. At the end of March 1968, two-thirds of the total credit went to industry and one-fifth to commerce. Agriculture (excluding plantation) which contributed 45-50 per cent of the national product received it was less than 2 per cent of the bank credit. Commercial banks did not consider it to be their function to lend to agriculture. Even out of the scanty resources made available to agriculturists, what actually reached
small and marginal farmers, landless agricultural labourers and village artisans, was almost nil. A preponderant portion of the credit needs of the rural poor was still met by the non-institutional agencies.

4. There were glaring disparities in the development of banking activities. The geographical coverage and concentration of banking was largely a reflection of the pattern of industrial development i.e., where enterprise leads, finance follows.

This had caused unevenness in the development among regions, states and sectors. While the western region had a heavy concentration of bank branches, deposit and credit, the position of the north-eastern region was much below the national average. At the end of June 1969, against the national average of 12.52 branches per million of population, the western region had 23.78 bank offices and the north-eastern region had only 4.13 offices. Similar was the case of deposits and credit. Imbalance between rural and urban centres was also conspicuous.
Banking Developments:

In the annals of Indian banking, nationalisation of the Imperial Bank of India, social control over banks and nationalisation of 14 commercial banks are three very important events. The basic rationale that led to the adoption of these measures was to make banks instrumental in the translation of the envisaged national development objectives into realities.

Nationalisation of Major Commercial Banks:

Since social control failed to achieve the desired results, some structural change in the functioning of commercial banks was considered essential. It was only as a consequence of this great realisation that the ordinance of nationalisation of 14 major commercial banks in India was promulgated on 18th July, 1969. The basic objective of this step was to accelerate development and thus make a significant impact on the problems of poverty and unemployment, and to bring about progressive reduction of disparities between the rich and poor sections of our people and between the relatively advanced and backward areas of our country. The main objectives of
nationalisation of commercial banks are summed up in the preamble to the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970 as follows:

"To control the commanding heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objective and for the matters connected therewith or incidental thereto".

Hence nationalisation was to ensure that no viable productive endeavour faltered for lack of credit support. It was designed to make the system reach out to the small man and to the remote rural areas and to change the system in which grant of credit was an act of patronage and receiving it an aspect of privilege. Nationalisation of banking was, in short, a measure towards socialisation of credit. Soon after the social control, national credit council was set up with the responsibilities of deciding priorities for extension of credit and for making it sure that credit became a really effective instrument of economic growth.
The goals of nationalisation were presumed to be achieved through

(a) Considerable spread of branch network to all parts of the country, not confined to urban and metropolitan areas only;

(b) Mobilization of funds from all sections of the society by framing deposit schemes tailored to suit its different segments;

(c) Deployment of funds in all productive endeavours, big or small, so that production effort becomes broad-based; and

(d) Particular attention to credit needs of hundreds of thousands of people engaged in agriculture and small business whole production and distribution efforts contribute substantially to the national cake;

Through the above-mentioned measures regional and sectoral imbalances in economic development and standard of living were to be reduced, if not eliminated.
With nationalisation of banks almost 85 per cent of the banking has come under public control.

Post-nationalisation Development in Indian Banking:

In pursuance of the above objectives, changes have taken place both qualitatively and quantitatively in banking industry. The activities have increased manifold in volume, variety and geographical coverage and all are related to the needs of national development. Highlights of nationalised banking have been: greater stress on district credit planning; revamping of branch expansion policy; intensive hunt for deposits mobilisation; introduction of schemes and programmes like:

(i) Lead Bank Scheme
(ii) Differential Rate of Interest Scheme (DRI)
(iii) 20-Point Programme
(iv) Integrated Rural Development Programme (IRDP)
(v) Scheme for Unemployed Graduates.

Establishment of Regional Rural Banks and National Bank for Agriculture And Rural Development was also among the developments of post-nationalisation period.
Thus, commercial banks have adopted a new social philosophy of achieving socialistic pattern of society through allocation of available resources to the poor and under-privileged classes, thereby raising levels of employment and income. Commercial banks are now recognised throughout the length and breadth of the country as important agents in the socio-economic transformation of the society. The traditional goal of maximisation of commercial profits has given place to the objectives of social benefit. The choice of priorities of investible resources is governed by the measuring rod of social benefit rather than pure commercial gain. The conventional banking norms, such as credit-worthiness on the basis of the worth of the borrower, margin money contribution, insistence on securities of sound means, rigidity in stipulation particularly as to repayment schedule, have been kept aside. Incremental income coupled with repayment capacity and end use of credit are the guiding principles of lending under the changed situation.
Banks have registered a phenomenal growth after nationalisation. Their role in the developmental activities has been increasing, year after year. Despite all this, actual working of banks during the past 15 years casts serious doubts on the wisdom of the policy of nationalisation. Under such a controversial situation, a need was felt for a serious indepth probe to examine the extent to which the objectives of nationalisation have been achieved.

Reforming the Banking Sector

After 3 decades of nationalisation the extension of banking and other financial facilities to a larger cross-section of the people stands out as a significant achievement. As a ratio of GDP at current prices, bank deposits increased from 18 per cent in 1969-70 to around 42 per cent in 1994-95. All the indicators of financial development, such as, the finance ratio, financial inter-relations ratio and inter-mediation have significantly increased, implying the growing importance of financial institutions in the economy and growth of financial flows in relation to economic activity.
Despite the overall progress made by the financial system in terms of geographic and functional coverage, its operational efficiency has been unsatisfactory, characterised by low profitability, high level of non-performing assets and relatively low capital base. The balance-sheet of the performance of the banking sector was mixed-strong in widening the credit coverage but weak as far as viability and sustainability was concerned.

In July 1991, when a programme of economic stabilisation was put in place, long term reforms of the financial system were sought to be achieved through the following measures:

- Correct and improve the macro-economic policy setting within which banks operate. This mainly involves rationalisation of interest rates and bringing down the levels of resource pre-emptions.

- Introduce prudential norms relating to income recognition, provisioning and capital adequacy.

- Improve the financial health and competitive condition of banks by re-capitalising banks, restructuring the
weaker ones, improving the incentives under which banks function, and allowing freer entry of new banks and other financial intermediaries.

➢ Build financial institutions and financial infrastructure relating to supervision, audit, technology and legal framework.

➢ Improve the level of managerial competence and the quality of human resources by reviewing the policies relating to recruitment, training, placement, etc.

**Studies in Banking:**

Many research studies have been conducted in India and abroad on various aspects of banking and bank management. Most of these studies relate to institutional, functional and developmental activities of commercial banking. Studies organised in India have investigated dynamic and major functional or structural changes in the field of banking and new techniques adopted by commercial banks to cater to the specific needs for transforming the economy of the country. Some attempts have also been made to identify the important social
obligations of nationalised commercial banks and to assess their progress. A few studies conducted in this field are reviewed as under:

Greenberg, in his study, examined the role that commercial banks have played in the economic development of Philadelphia. He observed that it was possible for Philadelphia banks to arrest, although impossible to eliminate on their own, the deterioration and malaise that had begun to plague the area in the immediate post-war years. But rather than encourage the development and establishment of new firms in high-growth, science-based industries, they continued to give priority to old firms in slow-growth or declining industries and to cultivate the consumer bank market.

Banton Howard SIII identified and analysed the spatial determinants of the demand for bank services. It was indicated that when demand deposits or loans were used as dependent variables, a high degree of significance of the coefficient was noted. However, when time deposit was the dependent variable, the level of significance decreased.
It was noted that a high degree of correlation existed between bank competition and the business volume index. The implication was that banks tended to be located in industrial areas rather than residential areas.

Aziz carried out an empirical analysis of the portfolio management of commercial banks in Malaysia with a view to providing some quantitative information about the factors influencing the allocation of funds by commercial banks. The study has focused attention on issues that are specific and relevant to an open and developing economy. The evidences in the study indicate that there is considerable variation in the way in which banks tend to respond to interest rate movement. Domestic banks are not induced at the margin to changes in interest rates with respect to allocation of funds between foreign and domestic instruments.

Ghoshal and Sharma analysed the basic trends in banking system. They examined the various developments in the sphere of banking practices, their causes and consequences. They have found that the Indian Banking system has a reasonably satisfactory mechanism for
providing working capital finance to most of the existing companies, but the system is only incidentally related to the growth needs of the economy. The banks are still hobbled by the criteria of behaviour based on outmoded theories, supported only by slowly changing legal concepts of liability for debt, and by traditional financial and accounting practices of companies.

Nigam tried to evaluate analytically as well as empirically the exact significance of banking system in the process of economic renovation since 1951. The study was focused on performance of Indian banking system in order to pinpoint its weaknesses and failures with a view to finding as to how reoriented structure could accelerate the pace of development.

Birla Institute of Scientific Research conducted a study to evaluate the performance of nationalised banks in comparison with that of banks in private sector. The emphasis of the study was on the objectives of nationalisation and their achievement, relative performance of private sector banks and
nationalised banks since 1969, and the effect of nationalisation on rest of the banking sector.

The study brings to light that the growth and development in banking, which the country has witnessed after nationalisation, is not just because of transfer of ownership, it is rather because various incentives and punitive measures were implemented with more vigilance and care after 1969 by the Government and the Reserve Bank of India to make banks fulfil their social responsibilities. Similar, and in some spheres even better, results were achieved by non-nationalised banks. The performance of private sector banks in the post-nationalisation period was noteworthy, especially because of the odds they faced in securing the growth of the business. The achievement of significantly high growth in deposits, advances and branches etc. clearly showed the perseverance and the high quality of entrepreneurship and management of these banks.

Wadikar has made an attempt to examine the trend of private sector bank operations and the extent of structural changes in the operational composition of
private sector banks; to identify and appraise the impact of the RBI's banking policies and different economic variables on the portfolio behaviour of different bank groups; and to analyse the profitability of private sector banks in aggregate and in relation to liability and asset portfolio composition, branch expansion and bank size.

The study reveals that the performance of private sector scheduled commercial banks was better than public sector banks during 1969-76. The branches grew at a higher rate in private sector banks than in public sector banks, and their spread in underbanked and rural areas was also better than that of public sector banks although their expansion was localised largely in the states where their head offices were located. The study further reveals that in terms of deposit mobilisation, credit deployment, liability and asset management and profitability, the position of private sector banks was better than that of public sector banks during 1969-76.

Aggarwal in his work on 'Progress and Policies of Commercial Banking after Nationalisation' has concentrated on the performance of banks, their policies
and progress after nationalisation. It explores and elucidates the operational importance of banking popularization, the elements of common interest and personal liking. The conclusions are that —

(i) there was no need of extreme measure of nationalisation; banks could have been made to work to fulfil the policies laid down by the government under social control;

(ii) keeping in view the importance of banks and the nature of banking service, nationalisation of banks in India cannot be justified; and

(iii) when nationalisation was done, no doubt, some advantages definitely accrued but all the hopes have not been fulfilled.

Aggarwal has tried to examine in his work the expectations of the nation from nationalised banks and the role played by these banks to fulfil their social obligations. The study brings out that many steps have been taken by nationalised banks towards discharging their social duties. However, these are not quite adequate
and the comparative quantitative performance in the fields of all the social obligations of the group of these banks is not found satisfactory. To ensure better performance in the context of the new social framework, organisation and management of nationalised banks still needs to be changed.

Tandon has attempted to analyse the contribution made by nationalised commercial banks in the Herculean task of reducing disparities between the developed and backward states. The study indicates that:

(i) credit utilisation with respect to deposits grew at a faster rate in backward states than in developed states, resulting thereby in narrowing of overall differentials during 1969-81;

(ii) the proportion of credit sanctioned by banks in backward states increased at a very high rate as compared to the proportion of deposits collected/mobilised in these states;

(iii) disparities within the backward states were much wider than those within the developed states; and
(iii) broadly speaking, nationalised commercial banks narrowed down inter-state differentials during the period under study, thus, suggesting that under the overall guidance of the Reserve Bank of India, commercial banks were performing their duties as the policy-makers wanted them to do.

Bilgrami in his work on growth of public sector banks has assessed to what extent nationalisation has helped in narrowing down the regional and statewise disparities in the provision of banking facilities and to what extent economically weaker sections of society have been helped by public sector banks.

The study concludes that although regional and state-wise disparities in terms of banking services still exist, some healthy trends were developed during 1969-79 which might have helped significantly and, if continued in future, would further help in minimising the widening gaps.

Chippa and Sagar in the study 'Banking Development in India' has sought to explain the variation in the level of banking development in India on the basis
of a cross-section of observation on 18 major Indian states. Main findings of the study are:

(i) There is a wide range of variations in the level of banking developments among the different states of India;

(ii) Literacy rate and infrastructural developments have the maximum role in banking developments.

Sandhu has ventured a quantitative analysis of the impact of nationalisation on commercial bank deposits in India. In the study, a model has been developed. The study shows that bank nationalisation significantly helped mobilisation of all kinds of deposits, viz., aggregate, demand and time deposits with scheduled commercial banks in India, thus achieving one of its major objectives. Time deposits were observed to grow at a faster rate than demand deposits, indicating that India was experiencing a rise in the savings propensity with the rise in its national income.

Shah and Rao have studied the achievement of branch expansion programme with reference to its two
primary objectives viz. narrowing down of regional imbalances and provision of banking facilities in rural areas. They have found that 'there has been no significant progress in narrowing down inter-state and intra-state disparities in banking facilities, more so with respect to rural areas; not only do regional imbalances persist but there is also a thin spread of banking facilities in the states where institutional financing is of recent origin'.

It is stated that there has been a shift away from the metropolitan/urban to semi-urban/rural centres. There has been an improvement in the coverage and spread of banking facilities in all the districts and states but those facilities still remain unevenly distributed among different regions.

Basu in his work 'Determinants of Regional Imbalance in Banking Development' has scrutinised the inter-district variation in per capita credit and deposit of commercial banks. It is stated in the conclusions that, other factors remaining constant at their respective average values, the automatic tendency for per capita credit and per capita deposit is also coverage to their
respective average values; when other factors deviate from their respective average values, obviously these also deviate. Particularly, a rise in the degree of urbanisation pushes per capita credit up from its average value, possibly more than it pushes per capita deposit. An increase in the number of bank offices relative to population raises per capita deposit more than it does per capita credit. An increase in the quantum of co-operative credit enhances bank credit but it has perhaps no effect on bank deposits.

Varde, Palav and Sita, carried out a study on branch expansion planning for the banking industry and formulated a district-wise branch expansion plan for the Five Year Plan period, 1974-79. The objective of the study was to develop a branch allocation scheme for branches to be opened so as to bring about maximum reduction in the currently existing disparities in respect of banking presence among various districts of the country. The study concluded that the planning process evolved could better be termed need-based branch allocation, balancing demands on banking structure with capacity of
banks to respond to the demands. Further, the study suggested that if banks felt that they had additional capacity to open branches, it would not be incompatible to permit them to open the new branches wherever they wished.

Varde in the empirical study on efficiency of rural branches maintains that the success of a rural branch has to be judged in relation to the objective of rural banking, which is two-fold, to act as an active catalyst in the integrated socio-economic development of the area served by the branch, and to become a commercially profitable unit of banking. The study concludes that

(a) the rural branches operating in groups of 4-5 sufficiently proximate branches would function more effectively than single individual branches;

(b) it would be appropriate to follow the principle of determining the manpower requirements separately for an individual rural branch instead of having a standard complement of staff;
(c) location of a rural branch should be at the hub of activity;

(d) it was necessary and possible to make efforts to rescue the rural branches operating at a low volume of business and those having large overdues; and

(e) some of the new rural branches might be opened in such a way that a group of 4-5 rural branches got formed around an existing rural branch.

Padwal and Bandyopadhyay examined the problem of ‘Bank Branch Location in Rural Areas’. The objective of the study was to develop a scientific framework for analysing environmental data and to arrive at a meaningful location and branch expansion plan for a district. The results of the study indicate that —

(a) in the long-term interest of a bank’s business, it is profitable for the bank to open the maximum number of branches in the earlier years of a plan;

(b) the micro level decision-making, whether for branch location or for formulation of specific schemes, is
not possible without having the data at the micro-level; and

(c) the high cost of starting and operating new branches calls for a sound decision-making, based on objective criteria rather than on subjective judgements.

Bhattacharyay has gone into the regional performance of banks with respect to the behaviour of bank deposits and its components. The conclusions of the study are:

(i) There is a significant inter-state disparity in the growth of total deposits, fixed deposits, saving deposits and current deposits over the period of study;

(ii) Inter-state disparity of distribution of total deposit has been decreasing over the period under study; and

(iii) Growth of saving deposits and total deposit is very stable in all the states. There is an inter-state and intra-state disparity in the stability of growth for different components of deposits.
Paul has looked into the structure, trends and pattern of the savings behaviour in India. The study demonstrated that the demand for gross bank deposits is significantly and negatively related to real interest rates on industrial securities. The variability of inflation has a positive impact on the savings of the households in gross and net bank deposits. In Indian economy, savings of a household in the form of net claims on government are increasing at a higher percentage with respect to national income than any other medium of savings. The marginal propensity of Indian economy to save in all mediums comes to above 27 per cent of current real national income.

Chawla has examined the banking developments in Patiala district keeping in view the following objectives:

(i) to analyse the growth of banking presence in various blocks of Patiala district;

(ii) to find the extent to which credit has been diverted to priority sector; and
(iii) to critically evaluate the progress made under various programmes undertaken by banks for upliftment of block level economy.

The study reveals that the banking spread is concentrated in those blocks which are relatively rich in business (industry and trade) whereas backward blocks have scarce banking facilities. The district has shown an outstanding progress in priority sector advances but it is found that the comparatively affluent within priority sector availed themselves of most of the facilities and the poorest of the poor were not benefited much. This argument is supported by unsatisfactory performance of differential rate of interest scheme and integrated rural development programme in the district.

industry is reflected in its output, profitability and growth. The study indicates that —

(i) both in public and private sectors, the Indian banking system had output performance superior to that of foreign sector during the period 1956-68;

(ii) during the period under study, the structure of banking industry had an insignificant influence on the economic performance of the Indian banking system; and

(iii) there is a lot of scope for raising profitability by intensive involvement in foreign trade financing.

Thus, there is no dearth of studies. But in most of these, the focus of attention is either inter-region or inter-state analysis. There have been very few studies dealing with inter-district and intra-district analysis, especially in this region. The exact quantum and direction of the impact of banking developments can be known only if we take up the small geographical segment i.e., district/tehsil/block as the focus of study.
OBJECTIVE, HYPOTHESIS AND METHODOLOGY

Objective:

Philosophy of welfare state with ideals of socialism has made India a mixed economy, where public sector and private sector enterprises co-exist. Such co-existence is obtained not only in the industrial sector but also in the financial services sector. The financial services sector is predominantly compared of public sector banks, development financial institutions, insurance agencies, private and foreign banks and private sector finance co.

Indian economy, since independence followed a path of control development. The financial sector too had been functioning under a highly regulated environment till mid-1980s. The late 80's witnessed the introduction of the deregulation process beginning with the deregulation of money market which lead to intense volatility in the money market rates, something completely new to the Indian financial sector.

In the early 1990's following reforms in the real sector of the economy collectives in the financial sector to
support these reforms became imperative and the committee on financial system better known as Narasimham's committee. Narsimham committee suggested the ways and means to restructure the financial sector to sub-serve the objective. The committee propose reforms in the financial sector to provide it with operational flexibility and functional autonomy for the purpose of over all efficiency productivity and profitability. In the banking sector the particular measures have been taken aimed at restoring viability of the banking sector bringing about an internationally accepted level of accounting and disclosure standards and introduction of capital adequacy norms. Interest and exchange rate have been deregulated in a phase manner, branch licensing procedure has been liberalised and statutory liquid ratio has been lowered. The entry barriers for foreign banks and new private sector banks have been lowered as a part of the medium term strategy to improve the financial and operational health of the Indian Banking system by introducing an element of competition into it.
The major banks in India are largely owned by the Govt. of India. These banks before the Indian Public Sector Bank are improve the financial performance, but the performance of public sector banks still continues to be constraint by operational inflexibility and lack of autonomy in several critical areas, which inhibit them from affectively competing with other banks. In such a scenario private sector banks and foreign banks have generally being able to set their deposit rates, Prime lending rate (PLR) and interest stress significantly higher than those of public sector banks. On the strength of their better customer services. It is, therefore, imperative to create unabling environment wherein the public sector bank could respond to the pressure of competition more vigorously. Though the reforms are broad enough in content. Many vital areas remain untouched the reconciliation of profitability with social responsibility still remained a challenge. The crucial area of functional autonomy for nationalised banks has not been addressed, while the reform so far made are fully justified at the same time. It is the responsibility of the owners to ensure are in a fit state of health to fight with competition. The
deregulated environment has exposed the banking system to newer forms of risk, that is interest rate risk, exchange rate risk, asset liability mis-match risk.

In this study we have tried to find out a winning strategy in such an environment which would not be a risk aversion which would be a recipe for managing risk in such a manner as is to earn profit from them. The strategy would give a fine balance between sound banking and profitable banking and evolve appropriate risk management policies. This is only possible by improving organisational effectiveness of banks through imaginative corporate planning and organisational restructuring.

**Hypothesis:**

Hypothesis of the present study is confined to testing:

(i) Whether there has been a significant growth and development of banking activities in India after nationalisation.

(ii) Whether financial regulation through statutory pre-emption followed while stepping up prudential regulations.
(iii) Whether nationalised banks performed in respect of five key performance indicators.

- Branch expansion
- Net-profit
- Deposit mobilisation
- Capital adequacy ratio
- Capital and Reserve Ratio (Own Fund)

**Chapter Scheme:**

This introductory chapter deals with the objectives of the present study review of literature, scope, significance and methodology of the study.

Second chapter outline a profile of the economy of India. A review of historical perspective of the Banking in India and development of modern banking.

Third chapter elucidate the policy framework of branch expansion and its progress since nationalisation. A bank wise, statewise and population centrewise analysis is done to examine the growth and concentration of banks.

Fourth chapter devoted to a detailed analysis of Banking sector reforms and implementation of
Narsimham’s committee report on major nationalised bank.


Sixth chapter concluding part explains the impact of Banking sector reform on the financial performance of nationalised banks. Suggested the measure taken for the future planning for the development of banks.

**Methodology:**

The methodology of research is simple and based upon primary as well as secondary data. The primary data has been collected through personal interviews, with senior officials of the respective banks of the region and also an intensive study of concerning nationalised banks was conducted through direct personal investigation.

The secondary data has been collected from statistical bulletin published by various organisations.
journals, periodicals, newspapers, annual reports of the respective banks, annual credit plans of the respective nationalised banks, annual report of Reserve Bank of India (RBI), RBI Bulletin, trend and progress of banking (annual publication of RBI) and all the publications and reports published by respective nationalised banks annually. The use of the Maulana Azad Library, A.M.U., Aligarh and the use of Seminar Library, Department of Commerce, A.M.U., Aligarh has also been made.
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