Chapter - 3

The State Bank of India
The most important commercial bank in British period was the Imperial Bank of India which was established by amalgamation by three presidency Bank, Bank of Bombay, Bank of Madras and Bank of Calcutta. This bank was a shareholder bank and it was performing the duties as commercial banks as well as on behalf of the Central bank of the country the role of Imperial Bank of India was very much limited and its branches were available only in big cities. There was not a single branch of this bank in any rural area of the country on the other hand this bank always neglected in poor masses of the country. It was helpful only for big businessman and traders, therefore after independence. It was decided that this bank should be converted into commercial bank which may be helpful for all classes of the people of the country. The most important step in this regard taken in 1955 by establishing SBI in place of Imperial Bank of India.

It was significant that the State Bank of India came into being on the eve of the launching of the Second Five Year plan which was a water - shed in our national endeavour to build up a self - generating economy.

It was the second plan that imparted a measure of momentum to our industrial revolution. No programme of industrialization would have a worthwhile impact on the standard of living of a large section of population if it is confined to a few big business houses or to urban areas only. In order to quicken the tempo of economic development it is imperative that savings
are mobilised in remote areas and a substantial part of these savings diverted to strengthen the weaker segments of the economy. So one of the important step to ensure this is to take banking to unbanked regions. Incidentally, banking can also be a dynamic instrument of forgoing economic unity of the country.

The question before the country was whether banks can actively assist in the fulfilment of social objectives of our economic planning without sacrificing their business character. This was a question to which more exhortations would not have provided a satisfying answer. It was necessary to show how to perform such a task. There was a need of banking institution which might function as a pacesetter to other banks in this regard.

There was Imperial Bank of India on the scene. It had done useful work in extending modern banking to various parts of the country. But in the changed circumstances the Imperial Bank could not keep pace. For instance, even though it had agreed to open 114 branches during five year period ending June 1956 it could open only 63 Branches by June 1955. It is in this context that the Committee of Direction of the All - India Rural Credit Survey recommended the creation of "one strong integrated, state - sponsored, state partnered commercial banking institution". It was in a way, quite appropriate that the Imperial Bank was converted into State Bank of India for diverse public purposes and for providing a lead and assistance to other commercial banks. It was the leading bank of the country. It also did Government business. The Imperial Bank, after establishment, could be an effective means for broadening the base of our banking Industry.\footnote{1}
3.1 CONDITIONS BEFORE THE ESTABLISHMENT OF THE STATE BANK OF INDIA

The Imperial Bank of India came into existence on 27th Jan. 1921 under a Special Act of the Legislative Assembly called "The Imperial Bank of India Act of 1920". Since the formation of the Reserve Bank of India under the Reserve Bank of India Act of 1934, the Imperial Bank of India Act had to be amended in various particulars in the year 1934. The original act of 1920 was passed with a view to bring about the fusion of the three presidency Banks of Bombay, Bengal and Madras. The objective was to fuse these into one Central Institution for India around which all the joint stock and other banks should cluster. In the olden days each presidency had its separate Central Banking Institution as India had not sufficiently developed in Inter Provincial trad and Inter-Provincial Finance, due to the means of communication and transport being not as advanced as they had become at the date of passing of the Imperial Bank of India Act. By the year 1920 the country had sufficiently advanced to claim that one large bank for all India (Instead of one in each of the Presidencies) should be established having branches all over the country and with principal offices at the three important centres of Bombay, Calcutta and Madras. The best method of bringing about such as institution was naturally the amalgamation of the three principal banks. This amalgamation had one other objective viz., the prevention of the amalgamated banking units of England from opening branches in this country and obtaining a footing which would be a menace to Indian Banking.
India has been long burdened with a large number of outside banks, commanding a virtual monopoly of the exchange business, as well as controlling a large proportion of the deposit business of the country. As these banks had their head offices and board of directors located outside the country. It was increasingly felt that a powerful Indian Bank under predominantly Indian Directors, with capital held by Indian shareholders, run in a large measure by Indian officers, was a necessity. This aspiration was sought to be answered by the amalgamation of the three presidency banks into gigantic unit in the year 1920 in the form of the Imperial Bank of India, controlling Indian Commercial Banking business all over the country through the help of a large number of branches at all important centres.

Although at the time the constitution was drafted on the footing of a joint stock bank, the objective was that the bank should occupy the important position of the banker of the Govt. of India and control as such the rates of interest on the money market. This function the old Imperial Bank performed to great satisfaction, but owing to the fact that it had not the control of the issue of currency and various other factors, it could not function satisfactorily as a Central Banking Institution as it is expected to function under modern conditions. Thus when the Reserve Bank of India Act was passed with a view to provide for India a Central Bank in the real sense of the term, the Imperial Bank of India had to be amended in various particulars in the year 1934, the main object of the amendment being to remove certain restrictions which had to be hitherto imposed as the bank had the monopoly of acting
as the Banker of the Govt. and handle the state money and public accounts. All these functions were transferred to the Reserve Bank on its inauguration, naturally many of these restrictions had to be removed, though it could not be placed on the same footing as an ordinary joint stock bank happens to be, because under the new arrangement, though the Imperial Bank ceased to be the Banker of the Government of India, it had been by a special agreement between it and Reserve Bank of India, appointed as the sole agent of the latter bank at all places in India where the Imperial Bank had branches at the commencement of the Reserve Bank of India Act and where no branch of the Banking Department of the Reserve Bank happened to be located (Reference to sections given in this chapter relate to sections of the State Bank of India Act 1955, as amended upto date).

3.2 GOVERNMENT AND THE IMPERIAL BANK - THE ISSUE OF ESTABLISHMENT

The establishment of the Reserve Bank of India in 1935, resulted in the Imperial Bank ceasing to be bankers to the govt. Accordingly important amendments were made to the constitution of the Imperial Bank to convert it into a normal commercial bank. Pursuant to these changes the Imperial Bank was allowed to deal freely in foreign exchange and to undertake Executer and Trustee Business, etc. The policy of the Govt. of India was to put the Imperial Bank on a par with other commercial banks, except for the privilege of acting as agent of the Reserve Bank where the latter had no branches.
This way also indicated by the abrogation of the right of the Government to appoint Managing Governors of the Bank and of the power of the Govt. to issue instructions to the Bank in respect of matters affecting Government's financial policy.

In Feb. 1948, the Finance Minister Mr. Shanmukham Chetty made the first reference in Parliament to the possibility of nationalisation of Imperial Bank of India. However the issue was shelved for some time and in 1950 both Dr. Matthai and Sir Chintaman Deshmukh showed hesitation, as finance ministers, in taking any hasty measures either to nationalise the Bank completely or to secure effective control.

The Government of India ultimately decided to take over effective control over the Imperial Bank from July 1, 1955. The Govt.'s decision originated from the Report of the Committee of Direction of the All India Rural Credit Survey appointed by Reserve Bank. This report, inter-alia recommended the formation of a State Bank of India by merging the Imperial bank with the other commercial banks hitherto associated with native states such as the Banks of Baroda, Travancore, Jaipur, Mysore, Hyderabad, Bikaner, etc. The report did not recommend elimination of the private shareholder but suggested the entry of the Government into the new State Bank with fresh capital, as the majority shareholder.

3.3 BANK'S CONSTITUTION

The State Bank of India Act, 1955 was passed by parliament and came into force from July 1, 1955. This Act was passed "for the extension
of banking facilities on a large scale, more particularly in the rural and semi-urban areas". The undertaking business and staff of the Imperial Bank of India were transferred to the State Bank of India constituted by this Act. The Authorised Capital of this Bank was Rs. 20 Cr. divided into 20 lakhs of fully paid up shares of Rs. 100 each. The issued capital was Rs. 5,62,50,000 divided into 5,62,500 shares all of which stand allotted to the Reserve Bank. The shares of the Imperial Bank were transferred under the Act of the Reserve Bank which paid to every old share holder at the rate of Rs. 1,765-10-0 per fully paid up share and Rs. 431-12-4 per partly paid up share. All arrears of dividend, if any, were to be paid to the old shareholders concerned by the State Bank. This compensation was payable in Central Government Securities and the amount in excess of the nearest lower multiple by cheque drawn on Reserve Bank. The old shareholder could however require payment by cheque upto the first Rs. 10,000. An old shareholder could, within three months, apply for shares in the State Bank in lieu of compensation and the Reserve Bank decided whether and at what valuation such transfer was to be effected. The Act further provided that at no time should the Reserve Bank hold less than 55% of the issued capital of the State Bank (Section 10) and that no other share holder shall hold more than 200 shares nor exercise voting rights in respect of any shares in excess of 1% of the issued capital whether in his own name or jointly with any other person (Section 11). Except for these restrictions, the shares of the State Bank were freely transferable [Section 9(2)].
3.4 TRANSFER OF IMPERIAL BANK & ESTABLISHMENT OF BRANCHES

The whole undertaking, business, liabilities, assets, etc., of the Imperial Bank were taken over by the State Bank. In addition to such branches taken over, the State Bank was required within 5 years to establish not less than 400 branches.

3.5 OFFICES

The Central office of the State Bank is at Bombay. The other local head offices are in Calcutta, New Delhi, Madras, Kanpur and Ahmedabad. All the previous branches and agencies of the Imperial Bank became the branches or agencies of the State Bank. As on Dec. 31, 1963, the Bank had 1,076 offices comprising 4 Local Head Offices, the office in London, 5, offices in Pakistan, 1 Office in Ceylon and 733 branches and 332 sub-offices in India. Since then the growth of State Bank of India has been at a remarkably faster rate. As at the end of 1969 the Bank had 1,673 offices comprising of seven Local Head Offices, three Regional Manager's offices, 1,252 branches and 401 sub-offices in India and 8 branches (5 in Pakistan under custodian) and 2 Representative offices abroad. As on March 31, 1970 the number of offices had further risen to 1,710.
3.6 **BOARDS OF MANAGEMENT**

The control of the Bank is vested in two Board of management, namely, (1) The Central Board of Directors and (2) The Local Board. The General Superintendence and direction of the affairs and business of the State Bank is entrusted to the Central Board of Directors which may exercise all powers and do all such acts and things as may be exercised or done by the State Bank and are not expressly directed or required by this Act to be done by the Bank in general meeting. In discharging its functions the Central Board must out an business principles, regard being had to Public interest (Section 17) and must be guided by the direction (in matters of policy involving public interest) of the Central Govt. given through the Reserve Bank (Section 18). The guidance relates to a subsidiary bank also.

The Central Board consists of (a) a chairman and a vice chairman appointed by the Central Govt. (b) not more than 2 managing directors, if any, appointed by the Central Board with the approval of the Central Govt. (c) 6 directors elected by Shareholders other than the Reserve Bank, (d) 8 directors nominated by the Central Govt. in consultation with the Reserve Bank, (e) One director nominated by the Central Govt. and (f) One director nominated by the Reserve Bank. All the first directors are however to be appointed by the Central Govt. and would retire at the end of two years except (a) and (b) above Section (19). The Local Board established at a local head office of the Bank consists of directors as in (c) and (d) above residing in that locality plus not more than four others elected by the
shareholders entered in that particular branch registered or nominated by the Central Govt. in consultation with the Reserve Bank. A local committee for any area may also be constituted by the Central Board. The Chairman ex-officio is a member of every local board and local committee. The powers to be exercised by these Local Boards and committees are those assigned by the Central Board (Section 21).

3.7 BUSINESS OF THE BANK

The State Bank acts as agent of the Reserve Bank at all places where it has a branch or where there is a branch of a subsidiary bank, and where there is no branch of the banking department of the Reserve Bank for:

(a) Paying, receiving, collecting and remitting money, bullion and securities on behalf of any Government in India; and

(b) Undertaking and transacting any other business which the Reserve Bank may from time to time entrust for it [Section 32(i)].

The State Bank may also carry on and transact the following kinds of business -

(i) The advancing and lending of money and the opening of cash credits upon the security of trust securities goods, documents of title etc;

(ii) The selling and realisation of any promissory notes, debentures goods etc. pledged, hypothecated, etc. to the State Bank as security for the advance;

(iii) The drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities;
(iv) The investing of the funds of the State Bank in securities authorised by the Act;

(v) The keeping or maintenance of deposits or cash accounts with any banking institution;

(vi) The issuing of demand drafts, telegraphic transfers and other kinds of remittances and letters of credit;

(vii) The buying and selling of gold and silver, whether coined or uncoined;

(viii) The receiving of deposits and keeping cash accounts on such terms as may be agreed upon;

(ix) The receiving of all kinds of bonds, scrips, title deeds or valuable on deposit for safe custody or otherwise on such terms as may be agreed upon;

(x) The selling and realising of all property, movable or immovable coming into its possession;

(xi) The acting as agent of any co-operative bank duly registered;

(xii) The acting as agent of Central or State Governments or Co-operations regarding any scheme for financing the construction of dwelling house;

(xiii) The underwriting of the issues of authorised stocks, shares, debentures and other securities;

(xiv) The administration of estates as executor, trustee or otherwise or as liquidator of any banking institution or acting as agent on commission in the transaction of the following kinds of business -

(a) The buying, selling, transferring and taking charge of any securities or any shares in any public company;
(b) The receiving of the proceeds (whether principal, interest or dividends) of any securities or shares;

(c) The remittance of such proceeds by bills of exchange, payable either in India or elsewhere;

(xv) The drawing of bills of exchange and the granting of letters of credit payable out of India;

(xvi) The buying of bills of exchange payable out of India at any usance not exceeding fifteen months in the case of bills relating to the financing of seasonal agricultural operations or six months in other cases;

(xvii) The borrowing of money for the purposes of the business of the State Bank, and the giving of security for money so borrowed by pledging assets or otherwise;

(xviii) The advancing and lending of money to courts of wards;

(xix) With the approval of the Reserve Bank, the subscribing to purchasing and selling of shares of any banking institutions;

(xx) Acquiring the business of other banks as provided in section 35;

(xxi) Doing of things which are incidental or subsidiary to the transacting of the various kinds of business;

3.8 **BUSINESS PROHIBITED**

The State Bank is not permitted to make a loan or advance -

(a) for a longer period than twelve months except as otherwise provided in this Act, or
(b) upon the security of stock or shares of the State Bank, or
(c) upon the security of any immovable property or the documents of
the title relating thereto, except to the extent necessary for any of the
purposes of this Act.

Except in case of certain authorised securities, the State Bank is not
permitted to discount bills for or lend to any individual or firm exceeding a
prescribed amount. In case of discounting or buying or advancing or opening
cash credits on the securities of any negotiable instrument, such instrument
must carry on its the several responsibilities of at least two persons or firms
unconnected with each other in general partnership. Besides (except in case
of trust securities) at the date of the proposed transaction the negotiable
security must not be for a period longer than 15 months where it is for the
purpose of financing agricultural operations and six months in other cases.
The State Bank may however allow a person who keeps an account with it
to overdraw such account without security to such extent as may be
prescribed. Except as provided in Section 33, The State Bank is not permitted
to own or acquire any interest in immovable property except for the purpose
of providing buildings or other accommodation to carry on its business or
for providing residence for its officers and other employees. Consequent to
the passing of the Banking Laws Amendment 15 million Lebanese Pounds,
again for shipping, thus achieving a unique distinction of being the first one
to arrange a loan of this kind in Beirut. The Bank's efforts in this respect
received wide acclaim and extensive publicity and created further goodwill
for the country all over the Middle East. With a view to supplementing the resources and business of the London Office, it is proposed to open an additional office in London in the West End area.

3.9 **SUBSIDIARIES OF THE STATE BANK**

The State Bank of India (Subsidiary Banks) Acts 1959 was passed on September 10, 1959 to provide for formation of certain government or government associated banks as subsidiaries of the State Bank of India and provided for the constitution, management and control of such subsidiary banks. The Act provided for the constitution of the following banks namely-

1. The State Bank of Bikaner
2. The State Bank of Indore
3. The State Bank of Jaipur
4. The State Bank of Mysore
5. The State Bank of Patiala, and
6. The State Bank of Travancore

There were certain changes and at present the following are the seven subsidiary banks of the State Bank namely -

1. The State Bank of Bikaner & Jaipur
2. The State Bank of Hyderabad
3. The State Bank of Indore
4. The State Bank of Mysore
5. The State Bank of Patiala
6. The State Bank of Saurashtra, and

7. The State Bank of Travancore^2

It is quite obvious and understandable that banks open branches in these areas where it is profitable to operate but State Bank was expected to think in terms of the needs of the national economy also. At the time of its establishment the State Bank had 477 offices.

In 1965, it had 1,215 offices out of which nearly 600 were located in small town and hitherto unbanked areas. Taking into consideration the branches opened by its subsidiaries the State Bank had till 1965 a network of nearly 11,850 offices. In the first decade of its existence this public sector banking institution, along with its subsidiaries, opened more than 1,000 offices - on an average 100 offices a year. This is a pace which will be recorded with a sense of pride in the economic history of India. This pace of branch expansion had also its impact on deposit mobilisation and on advances granted by State Bank of India.\(^3\)

At the time of bank nationalization (i.e. July 1969) there were 8262 branches of various commercial banks (1860 in rural areas and remaining 6402 branches in urban areas). In other words, in 1969 only 23% of total bank branches were working in rural areas. But on June 30, 1999, total number of bank branches was increased to 64972. Presently, 50.5% of total branches are working in rural areas. There is one bank branch working for 15,000 population while there was one branch for 64000 population in 1969.
State Bank of India is the largest public sector bank in the country. On March 1999, 13290 branches of SBI and associates were working in the country. SBI group also includes 7 associate banks. The share capital of these associate banks has been reserved with SBI. SBI Group (i.e. SBI and its 7 Associate Banks) has about 26.2% Share in total banking business in the country. The deposits of all schedule commercial banks amounted to Rs. 4646 crore in June 1969 which went upto Rs. 701871 crore on March 31, 1999. Similarly, the total credit of public sector banks went upto Rs. 389460 crore at the end of March 1999 which was Rs. 3599 crore in June 1969. On July 31, 1998, All India credit deposit ratio was 51.0%, SBI ensured the highest credit deposit ratio at 65.7%.


Scheduled Banks are those banks which have been included in the Schedule (Second) of Reserve Bank Act, 1934. The Banks included in this schedule list should fulfill two conditions.

1. The paid up capital and collected funds of bank should not be less than Rs. 5 lakhs.
2. Any activity of the bank will not adversely effect the interest of depositors.

Every scheduled bank enjoys following facilities -

1. Such bank becomes eligible for obtaining debts / loans on bank rate from RBI.

2. Such bank automatically acquires the membership of clearing house.

3. Such bank also get the facility of rediscant of first class exchange bills from RBI. This facility is provided by RBI only if the scheduled bank deposits an average daily cash fund with RBI which is decided by RBI itself and presents the recurring statements under the provisions of RBI Act, 1934 and Banking Regulation Act, 1949.

The Banks which are not included in the list of scheduled banks are called non scheduled banks. The number of non-scheduled banks is continuously declining. Such non-scheduled banks also have to follow CRR conditions. But such Banks can have these funds with themselves as no compulsion has been made on non-scheduled banks to deposit CRR funds with RBI. These non-scheduled banks are not eligible for having loans from RBI for meeting their day-to-day general activities but under emergency conditions these banks can be granted loans by RBI.⁴

The picture of Indian Banking before the establishment of the State Bank of India was rather mixed. There were some regions which had a fairly well developed banking structure but at the same time there were others where banking development had been neglected. Further, bank offices were
concentrated in the metropolitan cities while in the rural areas, they hardly existed. In such a situation, it was felt necessary to expedite the spread of commercial banks branch network to areas where banking services were woefully inadequate and thus lay a foundation on which the superstructure of institutional credit could be erected.

The State Bank of India was thus envisaged as an all India banking institution which would provide at least the minimum banking facilities in all parts of the country. The Bank's branch expansion activity is to be viewed in two perspectives. Firstly, it spearheaded the development of commercial banking in the backward and under developed regions of the country and secondly it constituted the first systematic and planned effort to spread banking in the rural areas. The network of the branches of the Bank and its Subsidiaries constituted as it were, the scaffolding to support the spread of banking - both co-operative as well as commercial - in the wholly country. These branches are, in fact, providing remittance facilities and several other facilities on a large scale to other banking institution to facilitate their growth.

In the first stage of branch expansion, the State Bank of India and its subsidiaries took banking to the level of sub divisional and taluka head quarters, by converting the non-banking treasuries and sub-treasuries into banking treasuries. These centres in many instances also happen to be the mandi centres, serving the neighbouring villages with marketing, processing and storage facilities and frequented by the villagers from the surrounding villages. The establishment of the State Bank branches at these. It was
thought, would complete the provision of the minimum infrastructure or economic development at these 'nerve centres' of the rural areas. The Bank's branches were expected to stimulate the growth of commercial banking and actively assist the integrated development of the co-operative sector. With this end in view, the State Bank of India has been operating special schemes to assist co-operative credit, marketing and processing societies. In the scheme of rural banking envisaged by the All India Rural Credit Survey Committee which recommended the establishment of the State Bank of India, co-operative institution were to be the principal agency for provision of rural credit.

With the advent of the Green revolution, which threw up the possibilities of a real break through in agriculture production, the whole perspective of rural banking has undergone a change. The demand for modern inputs is rising and the need for credit facilities for the purchase of these inputs is rising and the need for credit facilities for the purchase of these inputs has became more intense. Consequently, it has become necessary to have a fresh look at the strategy of rural credit. Provision of institutional credit can no longer be left entirely to the co-operative movement, weaknesses in which can obviously not be allowed to hold back agricultural development. Commercial banks, it is felt, should step in and augment the supply of credit for agriculture and other rural occupation. This had necessitated large scale expansion of their network in the rural areas.
In this programme of spreading commercial banking to rural India, the large public sector banks have been given a pivotal role. Each of these banks had been allotted district in which they are expected to play a lead role. The 'Lead Bank' scheme,\(^5\) with the Introduction of the Lead Bank Scheme in 1969, Commercial Banks in India entered the new field of area planning. The lead banks are charged with the responsibility of providing leadership in initiating quickening the process of development of the districts allotted to them. The Scheme covers almost the entire banking system and extends over the whole country except a few metropolitan towns.\(^6\)

The Reserve Bank had spelt out in some detail the function of Lead Bank in the allotted district, which are as under:

(a) Surveying the resources and potential for banking development in it district;

(b) Surveying the number of Industrial and commercial units and other establishments and farms which do not have banking accounts or depend mainly on money lenders and increasing their owned resources through the creation of surpluses from additional production financed from the banking system;

(c) Examining the facilities for the marketing of agricultural procedure and industrial production, storage and ware housing space, and the linking of credit with marketing;

(d) Surveying the facilities for the stocking of fertilizers and other agricultural inputs and the repairing and servicing of equipment;
Recruitment and training of staff, for offering advice to small borrowers and farmers in the priority sectors which may be covered by the proposed credit insurance schemes end for the follow-up and inspection of the end-use of loans;

(f) Assisting other primary lending agencies; and

(g) Maintaining contracts and liaison residually with Government and quasi-Government agencies.

Although the Lead Bank has to assume the major role in the development of banking and credit in the concerned district, it is not expected to have a monopoly of banking business in that district. The lead bank is required to cut as the consortium leader and identifying under-banked areas and areas suffering from credit gaps, it should invokes the co-operation of other banks operating in the district.

The banks are expected to submit a quarterly progress as well as annually progress report to the Reserve Bank of India on the working of the Lead Bank Scheme and bring to its notice any problems they may be facing in the operation of the scheme. The banks are also expected to exchange information of their experience with other banks.  

In any examination of the question of commercial banks ability to solve the problem of rural finance. The experience of the State Bank of India would be of considerable relavance. Rural financing was made compulsory for the nationalised banks but State Bank of India continued as a leader of public sector banks. In the beginning, State Bank of India started
indirect financing through other financial organisation and co-operation. Later it started direct financing since 1967.9

If one looks bank into last few decades of growth of Indian banking, it can be seen that SBI has been always accredited as market leader on amount of its predominant and pioneering role in all important sectors of the economy like agriculture, small scale industry, large industry, infrastructures etc.

SBI is renewing itself to become a world class universal bank - A bank which provides a benchmark for others. The splitting up of the State Bank of India into smaller banks on the principal of geographical contiguity, each circle of the State Bank may become an independent bank in itself. This system on the whole would need to be augmented by very stronger inter - bank correspondent relationship among Indian Banks.10

Now the State Bank of India has 9078 branches in India with 52 foreign bank offices.11

In the next chapter, we will discussed about the Profile of Aligarh District.
SOURCES


