CHAPTER I
INTRODUCTION

Banking system has a significant role to play in the rapid growth of the economy through planned efforts. By institutionalising savings and channelling resources in well-determined directions in consonance with the objectives and priorities laid down in the Plans, the banking system can influence the pace and pattern of growth. The dimensional importance of the Indian banking system as a dynamic force of development started increasing over the successive Plan periods, to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives. It is being realised and recognised that banks are an effective and potential instruments in achieving the socio-economic aims of the country. "Banks as a part of financial intermediation help the development process by influencing savings and investment, and reduces regional imbalances by its credit policy".¹ In brief, the bankers are leaders of development with resources necessary for the economic pace and progress. It was Adam Smith who wrote long back

about the banking system, "It is not by augmenting the capital of the country but by rendering a greater part of that capital active and productive than would otherwise be, so that the most judicious operations of banking can increase the industry of country".

A developing economy needs a high rate of capital formation to accelerate the tempo of economic development. Banks mobilise the idle and dormant capital of the country and make available for productive purposes. Hence, the pre-condition for development of nation is a sound and healthy banking system. Credit is a useful feature and phenomenon of banking system. Judicious flow of credit arrests the economic constraints. The quantum, the composition, the direction and distribution of credit are of paramount important in the context of economic growth and development. "Every institution, be commercial or co-operative and urban or rural needs sufficient funds to fulfil the objective of effective functioning as well as improving the socio-economic conditions of its members". And that is why, banking is a distinct activity in any society, be socialist, communist, private enterprise or mixed economy.

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The pre-nationalised trend of banking growth has been true to the dictum: "where enterprise leads, finance follows". The operations of banking sector had benefitted to a greater extent only a class of people, neglecting the masses. The geographical coverage and concentration of banking in the country is, therefore, largely a reflection of the pattern of industrial development, neglecting rural sectors. Rural-urban disparities in the growth and development of banking system were quite obvious. The National Credit Council Study Group stated as: "There is an uneven spread of the bank offices and the banking business between different population groups; and there is also a flow of resources from the rural to urban centres". It is highly significant to note that the banking industry assisted the economic growth only a few urban areas and siphoned away larger amounts of resources from backward rural areas to the relatively developed urban areas of the country. According to the Four Economists Committee on 'Banking Institution and Indian Economy', (i) Banking offices are concentrated in a few States only, (ii) Banking activity has been mainly confined to urban centres.

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sector, small scale and household industrial sector, small business class, education and artisan class were deprived of banking facilities. Thus, the banking development in the pre-nationalisation period was lop-sided, urbanbiased and profit-oriented with the ultimate aim of maximisation of profit with minimum risk. It was against this background, the policy of social control over commercial banks was introduced in December, 1967. The term social 'control' refers to a greater participation of banks with effective State guidance in the mobilisation of deposits and the distribution of credit to the socially desirable sectors of the economy. The then Deputy Prime Minister outlined in Parliament in December 1967, the purposes of the social control of banks and said:

"Our fundamental aim within the framework of democratic socialism is to regulate our social and economic life or to attain the optimum growth rate for our economy and to prevent, at the same time, any monopolistic trends, concentration of economic power, and misdirection of resources. The banking system is an important intermediary through which the savings of the community are channelised and is a key constituent of our economic life. We are all agreed that its policies and practices must serve the basic social and economic objectives".  

Thus, the twin objectives of social control were: (i) wider spread of bank credit, and (ii) engulfing regional geographical and sectoral imbalances. But social control was not effective in socialising the banking process in the country. The report of the Study Group appointed by the National Credit Council on Organisational Framework for the implementation of social objective under the Chairmanship of Dr. D.R. Gadgil indicated that the continued existence of 'credit gaps' and their growth constituted the principle of economic justification for the nationalisation of major commercial banks. The Government also came to the conclusion that although under social control, certain directions and guidelines had been given to commercial banks, the desired transformation had not taken place and that the response of the banks in the private sector to multifarious needs of the community continued to be slow, fitful and halting. Nationalisation was, therefore, considered essential in order to gain control over the commanding heights of the economy and utilise the banking system as an effective instrument of economic development. The then Prime Minister, Smt. Indira Gandhi reiterated that "the..."

operations of the banking system should be formed by a larger social purpose and should be subject to close public regulation. The Government had come to the conclusion that the desired regulation and rate of progress could only be through nationalisation. Thus, the nationalisation of commercial banks was a 'revolutionary change' in Indian banking system. To mention the speech of Smt. Indira Gandhi made in the Lok Sabha is appropriate here. She said:

"Out sole consideration has been 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 the poor sections of our people, and between relatively advanced and backward areas of our country".

Thus, the underlying aim in nationalisation of banks is to gear up banking machinery for an equalitarian society and for quickening the pace of economic progress of the country. To bring about a reorientation in outlook and to have a wider perception of the national economy, nationalisation of banks was the most indispensable call of the day. But, everything will depend on how the banks operate, what supporting policies and measures are adopted and how vigorously they are

implemented. Since nationalisation commercial banks have made rapid strides in the country, both geographically and functionally. While geographically, there has been a considerable expansion of banking facilities in those regions of the country which were relatively unbanked and underbanked. There has been a wider coverage by the commercial banks so that bank finance has been increasingly made available to many rural sectors of the economy like agriculture, small scale industry and retail trade, self-employment schemes etc., which were till then considered to be ill-advised lines of credit activity for the commercial banks, and hence were denied of their genuine need for the bank finance. The banking industry has, thus, made a remarkable achievement in betterment of the economic conditions of the rural poor and unprevilieged sections of the society. This revolutionary change and the dramatic transformation that have taken place in the history of Indian banking since nationalisation speak of the banking system's dynamic response to the challenging tasks set before it. Yet, the banking is still to spread banking habit, cultivate thrift, mobilise savings and accelerate the process of economic development.
THE PROBLEM

The commercial banking system made commendable progress in branch network, in deposit mobilisation, in credit deployment and in providing various other services. While there were glaring rural-urban disparities in the provision of banking facilities during the pre-nationalisation period, these have been narrowed to some extent. A lot remains to be done. Despite all the progress of commercial banks, it is still need a thorough analysis whether the rural-urban disparities that existed during the pre-nationalisation period have been reduced, if not totally eliminated. Hence, the purpose of this study is to assess how far the growth of banking sector since 1969 has helped to narrow the rural-urban disparities in the provision of banking facilities.

REVIEW OF LITERATURE

Review of literature enriches with critical and reflecting approach in carrying out investigation. Thus, review of literature gives an insight with which scientific conclusions can be drawn. Some of the studies in line to the present study are reviewed hereunder.

The banking sector tended to flourish its operations in urban areas and had become an instrument
for transferring savings to the urban rich from the rural poor. According to K.N. Subrahmanya, "there are large scale parts of the country where banking facilities are quite inadequate . . . . Though tremendous progress in terms of branch expansion, deposit mobilisation and advances has recorded, yet the trend has been in favour of urban areas, leaving the larger rural masses out of the reach of banking services. This was a serious thinking which is to be recast and remodelled to meet the growing challenges".  

The policy of branch expansion is to cover deficit areas mainly of rural country on rational approach. Commenting on branch expansion, Upadhyaya has observed: "Except opening more than 60 per cent of total branches in the rural areas, not much progress has been made by the rural branches with regard to deposit mobilisation".  

On regional imbalances, Chandrasekhar Rao has stated that, "the bank branches in Southern region alone have achieved the national target of 60 per cent both in the rural and semi-urban areas, banks in the central and western regions have


attained the target only in the rural areas. In the northern region, banks have come close to achieving the target in the rural areas. The north-eastern and eastern regions lagged behind the target both in the rural and semi-urban areas.\textsuperscript{11} C.R. Reddy says that, "the achievements of Indian banking system are unique in many respects particularly in rural branch network, higher credit-deposit ratio, financing priority sector, etc. However, in promoting the Indian economy and its population, it has still a task before it to accomplish. And banks should not feel complacent of what had been achieved so far but expect more in twenty-first century.\textsuperscript{12}"

"Despite having a multi-agency approach to rural credit, the credit needs of the rural households are to be met by the banking system. Inspite of the fact that there have been wide-spread banking operations, the stronghold of money lenders in the rural areas still exists. Though amount of credit to rural areas has increased by nearly 80 times, only 14 per cent of the rural households were so far covered.\textsuperscript{13}" As regards the coverage of area, the

\begin{itemize}
\item \textsuperscript{11} Chandrasekhar Rao, G., "How Rural are our Commercial Banks", \textit{Yojana}, Vol.33, July 16-31, 1989, p.29.
\item \textsuperscript{13} Upadhyaya, T.N., \textit{Op Cit} p.36.
\end{itemize}
commercial banking has to do a lot to rural areas. C.R. Reddy, stated that "even at present rate, that one rural branch can cater for 13,000 people, for the present population of 470 millions, about 6,500 additional offices would have to be opened in these areas". 14 "As adequate banking facilities were generally available at urban centres and in order to ensure that the commercial banks did not divert their attention and resources from the responsibility of opening offices in the rural and semi-urban areas, it was decided to restrict branch expansion in urban, metropolitan and port town centres. In view of the special position being attached to the community development at block level, the revised policy (i.e., 20,000 population per office at 1978) has to continue to be as improving banking facilities in the rural areas". 15 There is ample scope for banks to launch a large scale programme of rural branch expansion in order to mobilise surplus income of the rural community and channelise the same into productive uses. In this context, it is pertinent to note that the pace of branch expansion has never been uniform in India.

Sharma says that, "the expansion of banking facilities was uneven and lop-sided; and banks were concentrating their operations mainly in metropolitan cities and towns. A fairly large number of rural and semi-urban centres with reasonable potentialities of growth failed to attract the attention of commercial banks. As far as deposit mobilisation in rural areas is concerned, much still remains to be done. For accelerating deposits, the bank should go ahead more vigorously with its ambitious programme of branch expansion especially in the unbanked centres. Many sections of the society viz., university students and teachers, doctors, lawyers, housewives etc., who have either remained aloof or not developed banking habit to the desired extent".  

According to Economic Research and Planning Department, the performance of branches would improve in siphoning the resources from the concentrated city areas to the neglected rural areas.

Shanbhag has observed that, "there are still untapped sectors in the country. Banking is largely a


habit of literate Indian and the market strategies so far have not fully exploited the potential of illiterate non-bank servers, and many in the urban areas still do not know about banking business.¹⁸

In the above studies, sufficient grounds identifying the balanced banking pattern are found. However, they may not be suitable in the changing context of banking policy. Hence, there is need to make an attempt on Rural and Urban Banking analyses.

OBJECTIVES OF THE STUDY:

The objectives of the study are:

1. To study the progress of Indian banking.
2. To examine the rural-urban pattern of banking in terms of branch expansion, deposit mobilisation and credit deployment.
3. To suggest remedial measures for eliminating rural-urban imbalances in the provision of banking facilities.

SCOPE OF THE STUDY:

The commercial banks, as important financial institutions with vast investment capacity, have

significant role in promoting economic growth, reducing the hitus between rural and urban areas, and increasing employment avenues. In brief, the banking sector has major instrument that governed, the savings of the people and made them available for deployment both for industrial and rural sectors. Keeping in view the bank's role in economic development with socio-economic aims, the present study covers (1) branch expansion, (2) deposit mobilisation, (3) credit deployment, (4) credit-deposit ratio, (5) rural-urban banking analysis.

METHODOLOGY:

To highlight the objectives that have been taken in the present study, data were compiled. A period of twenty-two years starting from 1969-70 to 1990-91 was taken in the study; and the analyses were studied at three points of time namely 1969, 1979, and 1991. The urban and rural classification is taken to study the rural-urban dichotomy.

SOURCE AND COLLECTION OF DATA:

To meet the study objectives, the data has been collected from the secondary source. The required data compiled from the records of Reserve Bank of India,
its circulars, policy letters, Banking Statistics, reports on "Trend and Progress of Banking in India", reports on "Currency and Finance", the "Bulletins of Reserve Bank of India" and various issues of "Pigmy Economic Reviews". And the population data was obtained from the Census Reports of the Government of India. Decennial growth is followed wherever the population data for the year is required.

ANALYTICAL PROCEDURE:

To identify the progress of banking sector, and to know the imbalances between the rural and urban areas, the inferences can be drawn on: (a) branch expansion, (b) deposit mobilisation, (c) credit deployment and (d) credit-deposit relation by using simple statistical measures.

CONTRIBUTION TO LITERATURE:

The findings by conducting survey like this would aid in decision-making to the management for reducing rural-urban disparities in branch expansion, deposit mobilisation and credit deployment. It also adds to the literature on rural-urban pattern growth of banking sector.
LIMITATIONS OF THE STUDY:

The present study has two limitations. While discussing deposit mobilisation, deposits—current, demand and time are clubbed together. The composition of deposit would vary in branches of different population groups. The share of current deposit at urban/metropolitan branches would be substantial whereas the same at rural branches would be marginal. And the rural branches have larger share of time deposit in their total deposit. Second is sectoral deployment of credit. The demand for credit would be more in industrial sector which are urban oriented while the rural-oriented sector of agriculture would create lesser demand for bank credit.