CHAPTER - I

INTRODUCTION
The services of banking sector is the key in the development of economy. A country's economic sustenance and growth is majorly governed by the one input-factor, namely capital. It is not only an input in production, but, the effective use of other inputs of production obviously depends on it. An acceleration of economy needs active capital. Gerald M. Meier has rightly said: "No Nation can afford to live without active capital".\footnote{Gerald, M. Meier, \textit{Lending Issues in Economic Development}, Oxford University Press, 1977, p.180.} It means the operations of banking sector improve the per-capita income of people and improve their quality of life. In Japan and Germany, banking has close ties with the agricultural and industrial sectors, and has been an instrument in the rapid economic development. The economy of great Britain also has had a close relation with these sectors which sought the active collaboration of banking sector. The world famous economist, Schumpter says, "credit is a phenomenon of development".\footnote{Schumpeter, J.A. \textit{The Theory of Economic Development}, Cambridge, Mass, 1983.}
Credit is an essential feature and phenomenon of banking system. The direction and spreading of credit are of paramount in the context of economic development. The then Finance Minister, Morarji Desai, rightly observed that "banking, when properly organised aids and facilities the growth of trade and industry and hence of the national economy".\(^3\) The service which upgrades the socio-economic objectives of nation is banking service. In other words, banking is an effective as well as a potent tool in the growth and development of economy with dual functions namely (a) tapping savings from millions of small-savers which otherwise would be idle and (b) deployment of such funds as loans to productive ends. The savings were 10 per cent of national income in 1950-1951, which accounted for 23 per cent in 1990-91. This was due to commercial banks active role in extending their services throughout the country. In the words of David, "it is an innovator who looked at the banker for credit he need to carry out his plans .... Ultimately, it is the banker who provided the basic fuel (credit) for economic growth".\(^4\) In

\(^3\) The Economic Times, May 25, 1968, p.4.
\(^4\) David, R. Creative Management in Banking, 1965, p.34.
brief, the banking, now-a-days, is sheer economic instrument. The banking did concentrate its services to big industries, rich people and urban areas. In other words, it had neglected the rural areas and weaker sections, resulting in engulfing variations between the rich and the weak, between the advanced and the backward areas, and between the urban and rural areas. This, in turn, would create unemployment as well as poverty. So, to abolish poverty, there was need for what is called "Socialisation of Credit". This called for 'Social Control' over commercial banks.

In mid-sixtyseven, social control was imposed on commercial banks. The main motto was wider spread of bank credit and reduction in regional imbalances. The frame of social control showed that the idea was good. Though achieved some goals, it was half-way. Then perceived the idea of bringing commercial banks under the Government control. If the commercial banks were under the Government control, as many academicians, planners, politicians and elders thought, it would be possible to achieve "balanced economy with social justice". Accordingly, fourteen big commercial banks were nationalised on July 19, 1969 and six more on April 15, 1980. The then Hon'ble Prime Minister of
India, Smt. Indira Gandhi made an impassioned speech in the Parliament on nationalisation of commercial banks. She said: "our 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 in disparities between the rich and the poor sections of our people and between relatively advanced and backward areas of our country".  

The commercial banks' nationalisation has brought about a rapid change in the Indian economy. In other words, after nationalisation, they have been doing efforts to curb poverty and to develop economic activities through services of lending credit, inculcating the habit of savings, innovating new economic programmes and rendering other services for balanced growth of economy on equity. Therefore, banks are imminent to the country.

"The post-nationalisation period has witnessed a complete re-orientation of Indian banking from "class banking" to "mass banking". In other words, the

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nationalisation of banking showed and emerged a magnificent and tremendous change in the history of banking, which would come to the door-steps of people. It takes a dynamic changes towards higher productivity. The post-nationalisation achievements are quite commendable in the areas of (a) branch network, (b) deposits mobilisation and (c) credit deployment. "India has one in top five banks in Asia, seven in top fifty and seventeen in top hundred". 7

THE PROBLEM:

The thrust of Indian banking is towards rapid balanced growth with social justice. To achieve this, the banking sector has undertaken the activities of (i) branch expansion on rational approach; (ii) tapping rural savings, (iii) deploy funds to productive economic activities including economic significance sectors like priority sector; (iv) maintain 60 per cent of deposit-credit ratio in branches of rural areas; and (v) ensure balanced growth curbing imbalances in the provisions of banking facilities.

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These were the main activities of commercial banks in their business operations at the time of their nationalisation. The nationalisation of the commercial banks was victory to institutionalisation of credit for social justice. But what it achieved and what it could not achieve is "point" for discussion.

REVIEW OF LITERATURE:

Review of literature gives an insight on which scientific policy can be built up. It locates the focus of earlier studies and helps to identify the gaps, if any. Some studies on the topic is here-under reviewed to appraise the functional performance of Indian banking sector.

Indian banking if look into figuratively has been achieved progress by many-fold. Referring to qualitative achievements, it is yet to achieve. Quoting here the opinion of an orthodox banker is appropriate: "Our clients are larger merchants and big industrialists. They approach us with their demand for larger loans and advances; and in return give us larger business; If we transfer our limited resources to small industry, agriculture, etc., how can we increase our deposits and advances? And how can we survive?". 8

Extension of banking facilities completely depends upon branch expansion. In other words, the branch expansion motivates the people and mobilises deposits. Otherwise idle and not effective utilisation on productive ends for acceleration of economy. Patel, the then Finance Minister said, : "Today the banking system reaches out over a far wider area and covers a much larger segment of population that it did barely a few years ago. The progress, of course, has been somewhat uneven, and while regional disparities in banking development have been narrowed to some extent, a lot remains to do".  

Referring, to balanced development the country calls for much more than has been achieved particularly in respect of sectoral and geographical areas and population groups. "If the objectives are not fully achieved, the fault does not lie entirely with the banker but lies in our not being able to integrate all powerful instruments of development into our efficient system".  

Banking trend has been in favour of urban areas resulting in obviously inadequate services to rural areas. The Raj Committee has stated that, "the progress in respect of branch expansion would still seem to fall short of the requirements of the country". Before nationalisation, the banking industry concentrated their attention to only big house-holders. "One has to admit that every industrialist's family has been actively associated with running of a bank in India. The intimate association of Tatas with Central Bank, Birla's and Goenka's with United Commercial Bank; Sahujam's with Hindustan Commercial Bank and a large number of Parsis and Gujarathis with Bank of India and Bank of Baroda is well known".

The considered opinion expressed by Tiwari on Indian banking system is that "the banking system continues to show a bias in favour of richer sections". Thingalaiah said: "The progress of the Indian banking system is unique in many respects". After the

consideration of the needs of Indian economy and its population, he further said: "banks have still a long way to go". The banking system touches and should touch the lives of millions by inspiring the national priorities and objectives.  

To cover deficit areas mainly of rural country, a rational approach is the policy of branch expansion, deposits mobilisation and credit distribution. Upadhyaya comments on branch expansion and observes that "except opening more than sixty per cent of total branches in the rural areas, not much progress has been made by the rural branches with regard to deposits mobilisation".  

Narasimham refers to the Indian banking achievements which were so phenomenal and says that: 
"Banking anywhere in the world has not the Indian type of explosion of branches from around 8,000 in 1969 to over 60,000 in the short span of 20 years, and I believe that this was a very major factor in helping the Indian

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economy to register an impressive increase in its savings ratio!\textsuperscript{17} Commenting on Indian banking which is still ahead to be accomplished in promoting Indian economy and its population, C.R. Reddy says that "the banks should not feel complacement of what had been achieved so far but expect more in 21st century".\textsuperscript{18}

The National Institute of Bank Management, which conducted the countrywide survey has revealed 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 savers, and many in the urban areas still do not know about banking business".\textsuperscript{19}

Eduardo Faliro, the Minister of State for Finance says that "the customer service in banks had improved. But, we are not satisfied and trying to do better".\textsuperscript{20} It is true that the rural credit agencies

\textsuperscript{17} Narasimham, M. "Role of Banks in Development", \textit{The Tamil Nadu Journal of Co-operation}, Vol.81(6), December 1989, p.307.


have not covered the rural people in width and breadth due to stronghold of money lenders in the rural areas. "Though the amount of credit to rural areas has increased by nearly eighty times, only fourteen per cent of the rural households were so far covered". 21

Chandrasekhar Rao comments on regional imbalances in banking development and says that "the bank branches in the southern region alone have achieved the national target of sixty per cent both in rural and semi-urban areas. Banks in the central and western regions have attained that target only in rural areas. In the north-eastern region, banks have come close to achieve the target in rural areas. The northern and eastern regions lagged behind the target both in rural and semi-urban areas". 22

The above referred studies have focussed on the effective functioning of Indian banking, but, they lack an indepth analysis on trends, regional and geographical banking services. An indepth study of what banking sector has achieved and what it could not during

the period of more than two decades, in addition, the reasons yet to be examined. Hence, the present study on performance of commercial banks since nationalisation has been undertaken.

OBJECTIVES OF THE STUDY:

The specific objectives of the present study are:

1. To review the performance of banking sector in
   (a) branch expansion,
   (b) deposits mobilisation,
   (c) credit deployment.
2. To record the region and State-wise analysis.
3. To study sectoral credit dispersion.
4. To analyse rural and urban banking services.
5. To examine operational efficiency of commercial banks.
6. To suggest remedial measures for healthy growth of banking sector.

METHODOLOGY OF THE STUDY:

The banking sector has the key role in promoting economic growth in both the urban and rural sectors
and increasing employment opportunities. In other words, it is a major instrument which governed the savings of people and made them available for deployment both for rural as well as industrial sectors. Keeping this in view, the present study covers:

a) Expansion of branches
b) Mobilisation of deposits
c) Deployment of credit
d) Urban-rural banking services.

The first three aspects covered trends and imbalances; and the last one referred to the geographical analysis on branch expansion, deposits and credit. This study covers the nationalisation and non-nationalisation of commercial banks. Finally, the profitability of banking sector is also covered in the study.

The period covered in the study is upto 1993 since the nationalisation. This period is segmented at 1969, 1979 and 1993 for analysing the progress.

DATA COLLECTION:

The study which is analytical in nature has used secondary data. This data was compiled from the various issues of Reserve Bank of India Bulletins, Report on Currency and Finance, Report on Trend and
Progress of Banking in India, and Pigmy Economic Reviews.

DATA ANALYSIS:

To infer conclusions scientifically, the application of statistical technique is more obvious. Examining the phenomenal progress in order to fulfil the objectives as stated in the study, the linear growth rate and the co-efficient of variation are used for branch expansion, deposit mobilisation and credit deployment. The technique of location quotient was studied to branch expansion to know its progress in relation to the population. The elasticity co-efficient is applied to deposit and credit to their progress in conformity with the progress of branch expansion.

GROWTH RATE: The growth rate \( r \) is studied to measure the progress of banking industry over a period of twenty-four years, whether data is increasing or decreasing over a period of time, the technique of semi-log trend, \( r = ab^x \) is studied. This trend equation minimises the square deviation of observed values from the log-arithmetic trend values. The log-linear function of the Least Squares technique may be written as:
Log \( Y = \log a + X \log b \)

Where,

- \( \log Y \) represents variable value,
- \( \log a \) represents intercept,
- \( \log b \) represents regression coefficient (slope),
- \( X \) represents time (years).

By solving the simultaneous functions of the equation, the growth rate is obtained thus:

\[
(1 + r) \log b \\
\frac{r}{100} = (\text{anti } \log b - 1) \times 100
\]

LOCATION QUOTIENT: For estimation of the locational imbalances, the location quotient is studied. It is the ratio of ratios. It is determined from dividing the ratio of number of branches in a region to total population in that region dividing by the ratio of number of branches to total population. The location quotient will either be proportionate or more or less than one which would mean that regional average is in balance to or above or below the national average. This technique is also applied to the deposit and credit aspects. Location quotient is written algebraically as:

1) Branches \( LQ_b = \frac{NBr}{Pr} / \frac{NB}{P} \)
ii) Deposits  \[ LQ_d = \frac{TDr}{Pr} / \frac{TD}{P} \]

iii) Credit  \[ LQ_c = \frac{TCr}{Pr} / \frac{TC}{P} \]

Where,

- NB represents number of branches,
- TD represents total deposits,
- TC represents total credit,
- P represents population,
- r represents region,
- LQ_b represents branch location quotient,
- LQ_d represents deposit location quotient,
- LQ_c represents credit location quotient.

ELASTICITY COEFFICIENT: The elasticity coefficient technique determines the rate of change in relative position over a period of time. It explains the proportionate change in number of branches. The elasticity coefficient will either be proportionate or greater or lesser than one. If it is proportionate, it would mean the marginal increase in deposit or credit is more than average increase in number of branches. If it is greater or lesser than one, the marginal increase in deposit or credit is more or less than the average increase in number of branches. While the elasticity coefficient is more than one, that region may be called more deposit or credit potential region; and the low
deposit or credit potential region in case, the elasticity coefficient is less than one. The elasticity coefficient can be expressed as:

i) Deposits \[ Ed = \frac{\Delta d}{D} \frac{\Delta b}{B} \]

ii) Credit \[ Ec = \frac{\Delta c}{C} \frac{\Delta b}{B} \]

Where,

- \( Ed \) represents deposit elasticity coefficient,
- \( Ec \) represents credit elasticity coefficient,
- \( \Delta d \) represents change in deposits,
- \( \Delta c \) represents change in credit,
- \( \Delta b \) represents change in branches,
- \( D \) represents deposits,
- \( C \) represents credit.

CHAPTERIZATION:

The methodological issues are discussed in the first chapter. The features of banking are highlighted in the second chapter. In the third chapter, the operational performance including private and public sector banks; rural and urban banking and profitability is studied. Conclusions and suggestions are dealt with the last chapter.