CHAPTER – 1

Introduction to Banking business in India

1.1 Introduction

“Money in the Economy is like blood in the human body”. The money also referred as finance is important for the sustenance of economic world. The flow of money in the economy determines a lot of characteristics of an economy. Robust money and capital markets are essentials of a developed society. The short term and long term needs of money of individual and institutions can be efficiently met by financial intermediaries. Commercial banks perform large part of this efficiency. Pooling of scanty deposits into a large capital base and lending it to the desirable sectors is the core of banking business. In a developing economy like India, the role of banking sector becomes even more critical. In the Initial years of economic development, were other sophisticated financial institutions were not present, banks were the only financial intermediaries which helped in bring about the change.\textsuperscript{1} Indigenous banks and moneylenders usually tend to exploit the conditions of the underdeveloped market. The sense of confidence in the ethical functioning of financial intermediaries, in the minds of common man, was brought about by well regulated commercial banks in the beginning.

1.2 Functions of Commercial banks\textsuperscript{2}

Banks are essentially those financial intermediaries who accept deposits for the purpose of lending.

Deposits generated through millions of people - accepting deposits of various types in one of the important function of banks. People keep money with the banks for two motives a) safe keeping of their money and b) earn some interest for parting with the money.


\textsuperscript{2}D Muraleedharan,(2013) “Modern Banking” PHI Learning Private Limited, New Delhi.
Advances to various sectors- the second most important function of commercial banks is to lend money to individuals and institutions who need short term and long term funds. The economic growth can only be achieved through creating adequate demand in the economy with cash and borrowed money. The role of management of the bank becomes important in this since appraisal of various loan proposals, distribution of loan portfolio such that risk is minimized, and keeping social objectives in mind are critical.

Transfer of money- banks also work as system through which a lot of financial transactions are completed seamlessly. The transfer of money from one account to other account or to multiple accounts can be done without hassle.

Corporate banking- banks do the financial business of all corporate. Funds are raised by the banks for corporate clients in various forms. In fact there are specialized bank branches or subsidiaries that do this job for corporate.

Government business- a lot of welfare schemes of central and state governments are done through commercial banks. In India, State Bank of India has been playing this role for years. Now with the direct transfer of money to the beneficiaries’ account would mean banks are the link between the two parties.

International banking- globalization has increased the scope of banking as never before. The increase in foreign trade from India to the rest of the world has to be facilitated by commercial banks. Indian banks are gearing up for this role.

1.3 Importance of commercial banks in economic development

The role of money churning is with banks and without money flowing in the economy with right direction and quantity, it is impossible to achieve economic development.

National savings- banks generate flow of small savings and divert them to productive sectors in term of loans

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Creator of money - credit creation capacity of banks is well established. This credit creation boosts economic development.

Capital formation - idle money obtained through saving is helpful in providing huge needs of capital by the corporate and institutions.

Entrepreneurial development - banks have special scheme to promote entrepreneurship in the economy. People with new ideas and new products can change the economy for better.

Agriculture and industrial development - both these sectors are benefitted immensely through banks.

Monetary policy – the major objectives of RBI can be achieved through banking system and periodic changes in interest rates, credit exposure limits, and foreign exchange management can be done.

1.4 Structure of Indian banking sector

1.4.1 Money lenders and indigenous bankers

Before independence, for thousands of years, private money lenders and indigenous bankers dominated this sector in India. The history of banking in India is as old as trade. Even in Vedas and ancient texts the references of indigenous bankers can be found. The modern day indigenous bankers and moneylenders are believed to have exploited the masses.

1.4.2 Commercial banks

Commercial banks are financial intermediary that accepts deposits and grant short term and long term advances to their customers. Commercial banks are mainly of three types

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a) Public sector banks – these are the banks where the majority of the ownership is held by the Government. These banks have dominated banking space for last couple of decades.

b) Private sector banks- these are the banks where majority shareholding is with private individuals and institutions. These banks are registered as companies with limited liability. These banks have been more aggressive since the globalization process has started. It won’t be an over statement if it is said that these banks brought about competition in real sense in banking sector.

c) Foreign sector banks- these are the banks whose head office is registered in foreign country. These banks operate through branches in India and in rest of the world. The number of foreign banks operating in India has been on the rise since 1991.

1.4.3 Regional Rural banks (RRBs)

Regional rural banks have actively contributed to the growth of the rural sector in India. The growth of rural industries and development of rural business and economy is largely dependent on financial aid and investment made by these banks. The area of operation is restricted by the notification of the government. Commercial banks sponsor these banks where State Bank of India has largest number of RRBs under its working.

1.4.4 Development banks

Big businesses require medium to long term capital to finance machinery, purchase of land, setting up the entire factory and so on. During the initial years of independence, the then private sector banks did not have the finances or willingness to support requirements of these big industries. To support massive industrialization and to provide techno commercial help to big industries, Government of India established a number of development financial institution (DFI). After globalization process a number of development finance institutions were given commercial banking licenses, still a number of such institutes still exists such as Industrial Finance Corporation of India (IFCI) and State Financial Corporations.
1.4.5 Cooperative banks

The cooperative banks are almost 100 years old in India. The cooperative banks play an important role in rural financing. The cooperative banks are registered under the Cooperative Societies Act. These banks are regulated by RBI. Cooperative banks usually finance activities such as, Farming, cattle, milk, hatchery, personal finance. These banks are present in urban areas as well. They finance self-employment, small industries, home finance, and consumer finance. It is in fact true that some multi state cooperative banks are more advanced compared to some public sector banks. There are three types of cooperative banks operating in the country.\(^5\)

1.4.6 Primary credit societies

These village level societies are formed with all types of borrowers and non-borrowers as members. The activities of each society are confined to a small area to facilitate identification of defaulters by members.

1.4.7 Central cooperative banks

The operational area of these banks is confined to district level. The same district primary credit societies are members of these banks. These banks provide loan to these members. They function as link between Primary credit societies and state cooperative banks.

1.4.8 State cooperative banks

These banks function as apex cooperative banks in the respective state of the country. They mobilize funds and help in their proper channelization among various sectors. The money reaches the borrower from the state cooperative banks through the Central cooperative banks and the Primary credit societies.

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1.4.9 Specialized banks

Apart from the banks mentioned above there are some specialized banks which cater to the specific requirement of a sector.

1.4.10 Export Import Bank of India (EXIM Bank)

EXIM bank provides the required support and assistance to set up a business for exporting products abroad and importing products from the foreign countries for sale in our country. The bank grants loans to exporters and importers. It also provides information about the international market and business opportunities available.

1.4.11 Small Industries Development Bank of India (SIDBI)

This bank provides loan on easy terms to establish a small scale business unit or industry. It finances modernization, technology up gradation, and market activities. Its aim and focus is to promote, finance and develop small scale industries as they provide large chunk of employment to the nation.

1.4.12 National bank for Agriculture and Rural Development (NABARD)

It is a central or apex institution for financing agriculture and rural areas. It provides loans to those engaged in agriculture or other activities such as handloom waving and fishing. It provides both short term and long term loans through regional rural banks. It mainly focuses on financial assistance in the areas of agriculture, micro, small and medium scale industries, cottage and village industries, handicrafts and allied economic activities in rural areas.

1.5 RBI the central authority of commercial banks

1.5.1 Importance of RBI

RBI has a major role to play in the development of the nation as a financial sector regulator. Trust and confidence in banking system is essential for the smooth functioning of the economy.

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The primary functions of the Reserve Bank of India are to control the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.
- From the Preamble of the Reserve Bank of India Act, 1934

Main objectives of monetary policy

1. Price stability- it is said that inflation hits poor as nothing else. India being a developing country since independence RBI has been mandated with control of inflation. Per capita income was growing at a very slow rate in the first forty years of independence, hence protecting the purchasing power of income was essential

2. Adequate flow of credit to all productive sectors to boost economic growth- as it is said capital is blood in the body of an economy. The major objective of central bank is to create framework and rules to ensure adequate availability of credit to all sectors of the economy.

3. Maintain financial stability- the global financial crisis of 2008 has highlighted the importance of prudent regulation of financial sector to ensure its stability. Proactive regulation and right checks and balance in the financial sector are utmost priority of central bank in India.

RBI monitors and analyzes a number of indicators such as inflation rate, money supply, credit, interest rates, exchange rate, capital flows and fiscal position to develop policy prospective.

The major tools used by RBI in monetary policy

1.5.2 Direct instruments

CRR (Cash Reserve Ratio) - the percentage of net demand and time liabilities that banks must maintain in cash with RBI

SLR (Statutory Liquidity ratio) – the percentage of net demand and time liabilities that banks must retain in safe and liquid assets, like government securities, cash and gold.
Refinance facilities – sector specific refinance facilities provided to banks like refinance against lending to export sector.

1.5.3 Indirect instruments

Bank rate- The rate at which RBI is ready to buy or rediscount the bills of exchange or other commercial papers. It signals the medium term stance of monetary policy.

Repo/Reverse Repo Rate – these rates determine the corridor for short term money market interest rates which is maintained at 100 bps. This influences the rate movements in other segments of financial markets and the real economy.

Open market operations (OMO) – The sales/ purchases of government securities as a tool to determine the level of liquidity over medium term.

Liquidity adjustment facility (LAF) – consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

MSF (Marginal Standing Facility) – scheduled commercial banks can borrow overnight at their discretion up to one percent of their respective NDTL at 100 basis points above the repo rate to provide safety against unanticipated liquidity shock.

MSS (Market Stabilization Scheme) – liquidity arising from large capital inflows is absorbed through sale of short – dated government securities and treasury bills. The cash mobilized through this instrument is kept in a separate government account with the RBI.

1.5.4 Role of RBI as regulator of banking system

Sound banking system is fundamental necessity for economic growth. The central bank has major role to play in maintain financial stability and public confidence in the banking system. RBI protects the interest of the depositors and ensures orderly development and conduct of banking operations.7

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The RBI makes sure of several supervisory tools such as on-site inspections, off site surveillance by making use of required reporting by the banks. Thematic inspections, scrutiny and periodic meetings are held.

As a regulator RBI undertakes following activities

1. Issue of Bank licenses
2. Monitoring governance
3. Prescribing capital requirements
4. Prudential regulation for solvency and liquidity of the banks
5. Lending rules for priority sector
6. Prudential norms to reduce NPAs
7. Regulating interest rates for certain areas
8. Initiating new regulations

The global financial crisis of 2008 made RBI even more cautious about financial stability. It set up financial stability unit in 2009. This unit has put in place a system of continues monitoring of macro financial system.

The department ensures that

- Macro prudential surveillance of financial system is done on an ongoing basis
- econometric models to assess financial stability going forward
- Financial stability reports are prepared on half yearly basis
- Key indicators database is developed in coordination with supervision wing to assess the impact of these indicators on financial stability

Systematic stress tests are developed to assess resilience of financial system.

1.6 The new age policy tools introduced by RBI post financial reforms

Market Stabilization Scheme (2004) - Indian economy witnessed large foreign capital inflows in this period. To stabilize fluctuations in the exchange rate and to effectively suck out unnecessary liquidity, RBI introduced MSS in 2004. Like CRR and OMOs this is a sterilization instrument.
Risk Weights for specific sectors (2004) - prudential norms were announced in respect of risk weights and provisioning norms for commercial real estate and capital market loans. This would protect the portfolio of banks against these sectors’ excessive price fluctuations.

Response to the financial crisis by reducing interest rates (2008-09) – RBI considered and calibrated reduction of interest rates until the volatile situation stabilized in the financial markets. It took various steps to boost confidence of people in financial system. It promptly made available domestic and foreign liquidity to reduce speculations.

Marginal Standing Facility (2011) – the problem of liquidity for commercial banks was taken care of by allowing banks to borrow 1% of their NDTL (Net Demand and Time Liabilities), even by dipping into SLR portfolio, at 200 bps more interest compared to the Repo rate.

1.7 Developments in Indian Banking

Commercial Banks are among the major structure of Indian financial system. Banking sector performs the role of financial intermediary in almost all modern business transactions. The study of Indian banking in the aspects such as functions, mobilization of resources, socio economic role becomes important to analyze future prospects of the economy. The evolution of modern banking in India happened with establishment of early 18th century banks. The Presidency banks which were set up in Bombay, Bengal and Madras were the major banks of that time.

As the time progressed and economies become more complex so does banking system. The Indian banks have also changed over a period of time. Private Banks became nationalized; regulatory authority was set up to monitor the functioning of financial sector. The opening of Indian economy to foreign competition saw the privatization of Development Financial Institutions and real reentry of foreign banks in India. Recently two financial institutions have been given new banking licenses for improving financial

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inclusion. The progress and coming of age of Indian banking can be divided broadly into four phases.

Banking during British raj and before nationalization

The planed era of banking

The post globalization banking

The financial inclusion banking

The fourth phase will start from 2014 as new banking licenses will introduce a new rigor in financial inclusion which is the latest objective of RBI in the development of holistic banking.

**Banking before major Nationalization**

The modern banking in India started in 18th century. There were many banks created during British raj and east India company regime. The thriving mercantile business was to be financed by financial institutions. There were many banks created in 19th and 20th century banks which still exist. The lack of monetary authority created the imbalance between the functions of banks. The private business motive was central in the banking business. The private sector banks of that time were owned largely by Britishers and business communities in India. The early business between Britain and India created a lot of business opportunities and a lot of banking companies were created. The First World War ended this high business scenario for banks and a lot of banks went bankrupt during 1913 to 1921. The need was felt to introduce a banking regulation authority to streamline the business of banking. The Reserve Bank of India (RBI) was established in 1935. The Reserve bank of India was established as an apex bank without major government ownership. The Government of India introduced the Banking Companies act, 1949 later came to be known as banking Regulation Act 1949. As per the Banking regulation (Amendment) Act of 1965 (Act No. 23 of 1965), RBI was authorized with extensive powers for the supervision of banking in India. Initially RBI had to manage the unregulated and largely owned by private businesses banks. The banking system of that time prompted RBI to introduce regulations to restrict the use of word “bank”. The regulations of minimum capital requirements and reserves were introduced by the central bank.
Government of India took major steps in the Indian banking sector reforms after independence. Imperial Bank of India was nationalized in 1955. The new name given to the bank was State bank of India. SBI with its extensive banking facilities on the large scale, especially in rural and semi urban areas was first major bank of India. SBI used to act as the principle agent of RBI and handle banking transactions of the union and state governments of the country.

1949: Enactment of the Banking Regulation Act
1955: Nationalization of Imperial Bank (SBI)
1959: Nationalization of SBI subsidiaries
1961: Insurance cover extended to deposits

The Plan Era of banking
The banking business was concentrated in urban areas of India. Banks use to fund the trade and commerce which was the most profitable proposition. The large businesses enjoyed large funds of banking sector. This concentration of banks in urban areas left large part of India and Indian population away from banking services. The rural areas and small businesses were left out of banking system. The Indian economy adopted socialist pattern since independence. Financial system had to be reframed to help all sections of the society to have just distribution of credit. The need to achieve efficient distribution of banking resources in tune with the requirement of the economy and to meet the needs of priority sectors, nationalization of banks was required. The banks had been kept under government’s control to achieve the targets of credit distribution. The objective of credit planning became an integral part of formulation of credit policy.

OBJECTIVES OF NATIONALISATION:
1. To help agriculture sector in promoting agricultural production and rural development to augment the major sector of Indian economy.
2. To make sure that credit is not distributed to speculative purposes

3. To help syndication of loans and reduce the exposure of one bank in a particular industry or business.
4. To bring professionalism in the functioning of banking and awareness of social objectives of the economy.
5. To provide credit and other facilities to small entrepreneurs with a view to have a self-generating economy so as to enable the improvement of poor and down-trodden economically and socially.

In 1969, a major drive was undertaken to nationalize the banks. SBI subsidiaries were nationalized. The 14 major banks of that time were nationalized. This started a new phase of banking in India. A focused effort was made to open more branches of banks in rural areas. The priority was to employ more manpower to educate rural folks to the advantages of formal banking. The next twenty years witnessed a large presence of banks in rural areas. The objective was to get rid of indigenous bankers and moneylenders out of the financial system.

The next phase of nationalization of Indian banks was carried out in 1980. Nationalization happened with seven more banks. This process brought 80% of the banking business in India under government ownership. The government took following steps to regulate banking institutions.

**Private Sector Bank that became Nationalized Banks**

The nationalization process partly helped government to achieve its major objectives of economic growth and reduction in regional imbalances. Banking reached rural areas during nationalization era and reduced the importance of indigenous money lenders. Nationalization also helped in mobilizing small savings in rural and semi urban areas and reduced the credit gap. Nationalized banks started giving credit to small scale businesses and agriculture which helped introduce many government schemes launched after words. The aim was to bring large areas of economic activity within the organized banking system. The two important aspects of nationalization were fast branch expansion and directing credit according to priorities.
The banking sector achieved huge success, during the period of nationalization era, and became much sophisticated with deposits increasing every year, credit being disbursed to all sectors and branch expansion.

**The post globalization banking**

The Narsimham committee gave revolutionizing recommendations to match Indian banks with the world’s best. The phased autonomy proposed in the report help Indian banks to come out of its own shackles. The reduction in CRR and SLR were the major recommendations to free up liquidity to reduce overall interest rates. Determination of interest rate was to be deregulated and it was recommended that market forces should be prime movers of interest rates. It was recommended that to increase competition and efficiency public sector banks should be given more autonomy. The third phase is characterized by process of globalization and reforms in the financial sector. Erstwhile Development Financial Institutions were allowed to do banking business and in the process new private sector banks emerged to give real impetus and competition to nationalized banks.\(^{10}\) A number of committees were formed to get advice on how to reform financial sector and make it competent to face global competition.

The new private sector banks are

1. ICICI Bank
2. HDFC Bank
3. Axis Bank
4. Development Credit Bank
5. IndusInd Bank
6. Kotak Mahindra Bank
7. Yes Bank

The Narsimham committee 1998 gave more important and path breaking suggestions to bring in more efficiency and readiness for more competition. It was felt that in the context of Current Account Convertibility banks should be able to handle domestic liquidity and foreign exchange. This required Indian banks to be strong enough to handle the pressure of globalization and they should have international presence to be

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better equipped to handle these issues. Capital adequacy was given more importance as non-performing assets were as high as 20% of banks’ advances. Market risk should be considered along with credit risk in the banking sector. The committee recommended that minimum capital to risk assets ratio should be increased to 10% from 8%. Capitalization of public sector banks was to happen either from government or by diluting the government ownership in these banks; banks were to be allowed to accesses Indian capital market and abroad. It was observed that directed credit had major role in creation of NPAs, it was suggested that loans to agriculture and small scale industries should be granted on commercial considerations and on the basis of credit worthiness of the borrower. Income from an asset use to consider to be stopped when installment of principle or interest or both was not paid for 180 days, the committee recommended that this time limit should be reduced to 90 days.

The necessity of reforms
The RBI had control over all the functions of banks before reform process started. The need was felt that commercial banks will have to be given some autonomy. The interest rates in India were very high. The system of regulations hardly left any space for banks to implement the policy of their choice. The CRR and SLR were maintained at very high levels. The deposit interest rate and interest rates charged on advances were dictated by monetary authority. The banking sector was increasing demanding autonomy in the couple of functions. The process began of initiating reforms in banking sector as India started liberalizing and globalizing its economy since 1991. The foreign competition in all sectors which was foreseen made it compulsory to liberalize functions of banks in step by step manner.

THE REFORM PROCESS
The globalization process prompted every sector in the economy for the readiness for the competition. All major sectors in the economy were experiencing the changes. Improvement in the productivity and use of latest technology were the only ways to stands the competition. The economic reforms were to bring in real and financial sector out of license raj. The external shock could be felt in the domestic economy, thereby a
sound and flexible policy was needed to benefit from the changes in long run. Financial sector reforms were needed to augment the changes in other sectors.

1.8 Reforms in the Banking sector

The banking sector at that time was dominated by public sector banks. The inherent drawbacks attached to these banks were weighing down on the performance and profitability of these banks. The major objectives of reform process were to develop efficient, productive and profitable banks. This could have been possible only if more autonomy was given to the banks in decision making on day to day basis business.

Banking sector reforms include

1. Enhancing the role of market forces – banks were regulated and runned on the preset objectives of government policies. It was felt the market forces should move the changes in the sector. It was facilitated by reduction in reserve requirements, market determined price of government securities, ending the government determined interest rates, in order to help market discipline enhanced disclosure norms were introduced.\(^{11}\)

2. Measures to increase competition – banking sector lacked robust competition in pre 1991 era. Allowing private sector banks in 1994, giving operational autonomy to public sector banks, permission to Foreign Institutional Investors (FIIs) to invest in Indian capital markets, allowing public sector banks to tap capital markets by reducing government ownership were some of the steps which were taken.

3. Legal and institutional measures – the entire system needs to have appropriate legal backing to introduce latest change. It is facilitated through setting up lokadalats, asset reconstruction companies, corporate debt restructuring mechanism; debt recovery tribunals etc. to improve the recovery of bad loans and restructuring if required. The most important legal development was introduction of securitization and Reconstruction of Financial Assets and

Enforcement of Securities Interest (SARFAESI) Act and its subsequent amendment to ensure creditor rights was the major step. Measures to improve supervision – financial sector in India mostly comprised of commercial banks at that time. Improving efficient supervision on banks would ensure financial stability. In the light of this RBI established the Board for Financial Supervision for commercial banks, financial institutions and non-banking financial companies as the apex supervisory authority. The broad based supervision needed broad based parameters to analyze the functioning of banks for this purpose RBI introduced CAMELS supervisory rating system. Overall auditing of banks was also improved by more directives to these firms. The introduction of risk based supervision; offsite surveillance through control returns and consolidated supervision of financial conglomerates were the highlights of these reforms. RBI also introduced fit and proper tests for directors of commercial banks and guidelines for corporate governance with enhanced due diligence on important shareholders.

Measures related to technology – new era banking has to be equipped with latest technology that can help huge amounts of transactions that take place daily. The millions of transactions can happen seamlessly only if technology help is available. The INIndianFInancialNETwork (INFINET) has been set up as a

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backbone for the financial sector. The Negotiated Dealing System (NDS) has been introduced for screen based trading in government securities. The fast clearances of transactions are made possible with Real Time Gross Settlement (RTGS) system.

1.9 Current trends in Banking
The banking sector has been under stress of bad loans and the corporate debt restructuring has been on the rise. The public sector banks usually fund the infrastructural projects and priority sectors more than any other type of banks. The recent economic slowdown has reduced the viability of many such projects. The infrastructural projects have faced problem in last couple of years since government has been trying to reduce its fiscal deficit. The availability of funds by government to these sectors has been going down.

The deposits and credit growth has been slowing down in last couple of years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit (Rs in Billion)</th>
<th>Deposits (Rs in Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>28575.25</td>
<td>39373.36</td>
</tr>
<tr>
<td>2010</td>
<td>33456.19</td>
<td>46019.26</td>
</tr>
<tr>
<td>2011</td>
<td>40768.68</td>
<td>54265.10</td>
</tr>
<tr>
<td>2012</td>
<td>47827.75</td>
<td>61741.47</td>
</tr>
<tr>
<td>2013</td>
<td>55064.96</td>
<td>70513.32</td>
</tr>
</tbody>
</table>

*Source: Compiled from various issues of RBI publications*

The graph below is the percentage growth in the deposits and credit of all commercial banks in India. This has been showing the downward trend over the last four years.

Graph 1: Deposits and Credit of all commercial banks in India (2009-2012)

*Source: Compiled from various issues of RBI publications*

The overall gross non- performing assets have been increasing in all commercial banks.
The graph below explains the rise of non-performing assets in priority and non-priority sectors.

Graph 2: Non-Performing Assets in priority and non-priority sectors

The non-performing assets have given rise to corporate debt restructuring in last couple of years. The following table reflects the reducing rate of credit and increasing rate of restructured assets to gross advances.

<table>
<thead>
<tr>
<th></th>
<th>Mar-09</th>
<th>Mar-10</th>
<th>Mar-11</th>
<th>Mar-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Advances</td>
<td>Growth Rate (%)</td>
<td>17.21</td>
<td>23.41</td>
<td>16.88</td>
</tr>
<tr>
<td>Restructured Standard to Gross Advances</td>
<td>Ratio (%)</td>
<td>2.73</td>
<td>4.23</td>
<td>3.45</td>
</tr>
</tbody>
</table>

Graph 3: Restructured Loans to Total Advances
The following table showcases how banks have performed in recent times

Table 1: Important indicators of Commercial Banks

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<tbody>
<tr>
<td>Number of Commercial Banks</td>
<td>288</td>
<td>222</td>
<td>182</td>
<td>173</td>
<td>170</td>
<td>167</td>
<td>167</td>
<td>173</td>
<td>155</td>
</tr>
<tr>
<td>(a) Scheduled Commercial Banks</td>
<td>284</td>
<td>218</td>
<td>178</td>
<td>169</td>
<td>166</td>
<td>163</td>
<td>163</td>
<td>169</td>
<td>151</td>
</tr>
<tr>
<td>of which: Regional Rural Banks</td>
<td>196</td>
<td>133</td>
<td>96</td>
<td>90</td>
<td>86</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>64</td>
</tr>
<tr>
<td>(b) Non-Scheduled Commercial Banks</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
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<tr>
<td>Number of Bank Offices in India</td>
<td>70373</td>
<td>720</td>
<td>746</td>
<td>787</td>
<td>828</td>
<td>882</td>
<td>940</td>
<td>102</td>
<td>109</td>
</tr>
<tr>
<td>Population per Office (in thousands)</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Aggregate deposits of Scheduled Commercial Banks in India (Rs. billion)</td>
<td>17002</td>
<td>210</td>
<td>261</td>
<td>319</td>
<td>383</td>
<td>449</td>
<td>520</td>
<td>590</td>
<td>675</td>
</tr>
<tr>
<td>Bank credit of Schedule Commercial banks in India (Rs in Billion)</td>
<td>11004</td>
<td>150</td>
<td>193</td>
<td>236</td>
<td>277</td>
<td>324</td>
<td>394</td>
<td>461</td>
<td>526</td>
</tr>
<tr>
<td>SLR investments of Scheduled Commercial Banks in India (Rs in Billion)</td>
<td>7391</td>
<td>717</td>
<td>791</td>
<td>971</td>
<td>116</td>
<td>138</td>
<td>150</td>
<td>173</td>
<td>200</td>
</tr>
<tr>
<td>Credit of Scheduled Commercial Banks per office (Rs. millions)</td>
<td>170</td>
<td>221</td>
<td>276</td>
<td>322</td>
<td>362</td>
<td>398</td>
<td>458</td>
<td>498</td>
<td>526</td>
</tr>
<tr>
<td>Per capita Deposit of Scheduled Commercial Banks (Rs.)</td>
<td>16281</td>
<td>191</td>
<td>233</td>
<td>286</td>
<td>339</td>
<td>391</td>
<td>455</td>
<td>501</td>
<td>563</td>
</tr>
<tr>
<td>Per capita Credit of Scheduled Commercial Banks (Rs.)</td>
<td>10752</td>
<td>138</td>
<td>175</td>
<td>212</td>
<td>246</td>
<td>284</td>
<td>341</td>
<td>388</td>
<td>440</td>
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</tr>
<tr>
<td>Deposits of Scheduled Commercial Banks as percentage to Gross National Product at factor cost (at current prices)</td>
<td>62.3</td>
<td>64.3</td>
<td>68.8</td>
<td>72.1</td>
<td>77.2</td>
<td>78.2</td>
<td>78.2</td>
<td>78.2</td>
<td>78.4</td>
</tr>
<tr>
<td>Share of Priority Sector Advances in Total Advances of Scheduled Commercial Banks (per cent)</td>
<td>32.2</td>
<td>33.8</td>
<td>33.1</td>
<td>31.6</td>
<td>30.2</td>
<td>30.6</td>
<td>29.5</td>
<td>28.8</td>
<td></td>
</tr>
<tr>
<td>Credit-Deposit Ratio (per cent)</td>
<td>62.6</td>
<td>70.1</td>
<td>73.5</td>
<td>74.6</td>
<td>73.8</td>
<td>73.7</td>
<td>76.5</td>
<td>78.6</td>
<td>79.1</td>
</tr>
<tr>
<td>Investment-Deposit Ratio (per cent)</td>
<td>47.3</td>
<td>40.3</td>
<td>35.5</td>
<td>35.7</td>
<td>36.4</td>
<td>34.3</td>
<td>34.6</td>
<td>35.2</td>
<td></td>
</tr>
<tr>
<td>Cash-Deposit Ratio (per cent)</td>
<td>6.4</td>
<td>6.7</td>
<td>7.2</td>
<td>9.7</td>
<td>7.3</td>
<td>7.7</td>
<td>8.2</td>
<td>5.8</td>
<td>5.1</td>
</tr>
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</table>

Source: Compiled from RBI various issues

1.10 Conclusion

Banking sector has come a long way. The pre independence private sector banks to nationalization era of 1950s and 1960s. The major bank expansion happened largely because of nationalization of banks. The government ownership and lack of direct accountability created rigidities in the system. The high regulation, high interest rate regime stopped banks from reaching their potential levels. The globalization process coincided with privatization and computerization process in banking system. The financial and banking sector reforms freed banks from high level of regulations. The intensified competition helped banks in developing high level of professional services.