CHAPTER I

INTRODUCTION

The Indian banking system has undergone a sea change in its basic philosophy, structure and working; and also in its short and long-term objectives committed to the planned economic development of the country and welfare of the people. The system is diversifying itself to cater to the sophisticated needs of different corporate clients and, at the same time, experimenting with new ideas for attending with greater vigour, dedication and efficiency to the diverse development needs in the rural sector. It is being realised and recognised that bank is an effective and potential instrument in achieving the socio-economic aims of the country. "Bank as a part of financial intermediation helps the development process by influencing savings and investment, and reduces regional imbalances by its credit policy". It has been recognised in the plans that the banking system was more suited to the schemes of development to make the processes of savings and their utilisation to 'socially purposive'. The bank is, therefore, an important change agent facilitating the attainment of socio-economic goals in a planned economy. Today, the Indian banking has sheer economic status.

In the modern economy, bankers are leaders of development with resources necessary for the economic pace progress. It was Adam Smith who wrote long back that "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". As such, banks can play an important role in accelerating the pace of economic growth. Credit is a useful feature and phenomenon of the banking system. To steady and evenflow of credit for various sectors of economy, the banking sector should be properly organised. The erstwhile Finance Minister of the Government of India, Mr. Morarji Desai aptly observed that "banking, when properly organised, aids and facilitates the growth of trade and industry and hence of the national economy". Judicious flow of credit would arrest the economic constraints. The quantum, the character, the composition, the direction and distribution of credit are of paramount importance in the context of economic 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.

The banking industry since nationalisation has made a remarkable progress in betterment of the economic conditions of people. The 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. "The post-nationalisation period has witnessed a complete reorientation of Indian Banking from 'class' banking to 'mass' banking". Among the several directions, the branch expansion, deposit mobilisation and credit disbursement have achieved a noticeable pace of progress. The branch network is increased by 589 per cent, deposits by 3049 per cent and credit by 2569 per cent in 1989 over 1969. And the share of priority sector credit in bank credit is raised to 42.50 per cent in 1989 from 14.01 per cent in 1969. This was in accordance with the major objective of bank nationalisation for effective mobilisation of savings and efficient channelisation of funds for economic development of the country.


In fact, the banking sector is closely involved in the economic development of the nation and in implementing a number of welfare oriented programmes. In other words, banking sector is trying to identify itself more close to national socio-economic goals.

THE PROBLEM

Alongwith the effective functioning for economic promotion of the country, reducing the inter-and-intra regional imbalances are coined in the performance of banking sector. The commercial banking system made commendable progress in extending banking services. While the regional disparities in banking development have been uneven and these disparities have been narrowed to some extent after nationalisation, a lot remains to be done. Despite all the progress of commercial banks, it is still need a thorough analysis whether the regional imbalances that existed during the pre-nationalisation period have been reduced, if not totally eliminated. Hence, felt a need to examine how far the growth of banking sector since 1969 has helped to narrow the regional disparities of banking facilities.
REVIEW OF LITERATURE

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". Out of 336 districts in India, bank offices did not exist in 13 districts up to the end of 1967. There were 153 towns where there were no offices of commercial banks and 827 other centres (i.e., potential centres for

developing agricultural and agro-industrial business) were devoid of banking facilities. "Some regions have done well in spreading the banking facilities, while some regions are still very backward". In his study, Gopal Karkal mentioned the statement of an orthodox banker, "...... 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, advances etc? and how can we survive". According to the 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.

"The commercial banking system, in the last few years, had made a commendable progress in extending the frontiers of banking both geographically and functionally so that 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".10 On regional variation of banking system, Abbas Abhroudi is of the opinion that, "in all the activities of banking business viz., opening of new branches, deposits and advances there exists large scale regional variations".11 "There are large scale parts of the country where banking facilities are still very inadequate. Of the nearly 6 lakh villages in the country, only a fraction can now claim to have banks".12

"The fact stands out that the banks have done in the last 15 years much more than they ever did in the past. But 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 yet fully achieved, the fault does not lie entirely with the bankers.


The fault lies in our not being able to integrate all powerful instruments of development into an efficient system. Though a tremendous growth in the commercial banking business in terms of branch expansion, deposit mobilisation and advances has recorded, the trend has been in favour largely of the urban areas leaving the large rural masses out of the reach of the banking services. To quote Chauhan and Deobhankar, "this lacuna is serious thinking and the whole structure must be recasted and remodelled to meet the future needs of the country".

Inspite of the progress which has been expressed by any publication, "it is still doubtful whether the inter and intra regional imbalances that existed during pre-nationalisation period have significantly been reduced".

"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. The branch expansion programme of commercial banks since nationalisation, if one analysed, reveals a few significant deficiencies. As regards the coverage of area, commercial banking has to do a lot to rural areas represented by nearly six lakh villages in the country. Reddy, C.R., 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." Regarding the concentration of banking operations in the hands of rich people, Sharma, H.C., revealed the fact that, "one has to admit that every industrialist family has been actively associated with the flotation and running of some bank in India. The intimate association of Tatas with the Central, Birlas and Goenkas with the United Commercial, Sahujains with Punjab National, Singhanias with Hindustan Commercial and a large number of Parsi and Gujarathi Industrialists with the Bank of India and the Bank of Baroda is well known." Tiwari also stated

16. Reserve Bank of India, Functions and Working, Published by Kum. V. Viswanathan for the Reserve Bank of India, Bombay; 1983.
that "the social concept is missing in banking sector. The banking system continues to show a bias in favour of richer sections". James Raj Committee set up by the Reserve Bank of India to assess the impact of branch expansion that has taken place since nationalisation and to examine whether any change in the tempo and direction of such branch expansion and was satisfied with the steps being taken by the banking sector to reach some of the remotest parts of the country. It stated that, "the progress in respect of branch expansion would still seem to fall short of the requirements covering the whole country".

"It is needless to say that the banking industry has ventured into many areas after nationalisation, which would have been considered as unbankable by the private sector banks. The achievements of the Indian banking system are unique in many respects. But considering the needs of the Indian economy and its population, banks have still a long way to go". The then Prime Minister observed, "an institution, such as the banking system that touches and should touch the lives of the millions has necessity to be

inspired by a larger social purpose and has to subserve the national priorities and objectives". The future emphasis should be on consolidation of existing branches rather than proliferation of branches. The new branch licensing policy seeks to provide banking facilities in deficit rural areas where identifiable gaps exist. "Steps should be taken towards rationalisation of the branch network in the country. This does not mean that there should be no further expansion of branches in the country but such expansion should be carefully planned and should be directed towards providing every block with at least one branch office". It may be observed that, "except opening more than 60 per cent of the total branches in rural areas, not much progress has been made by rural branches with regard to deposit mobilisation. This view has been endorsed by the Estimate Committee of Lok Sabha".

Credit has been flowing to various sectors of the economy not on the basis of any economic criterion. The distribution of credit between various sectors and regions is important to ensure balanced regional development.

24. Upadyay, T.N., Ibid., p.34.
"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 house-holds were so far covered".  

The regional imbalances in banking development are clear from the details given by Chandrasekhar Rao. He listed 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 rural areas. In the Northeastern region banks have come close to achieving the target in rural areas. The Northern region and Eastern region lagged behind the target both in rural and semi-urban areas". 

Reddy, C.R., 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 the banks should not feel complacent of what had been achieved so far but expect more in twenty first century".

OBJECTIVES OF THE STUDY

The objectives of the study are:

1. to study the progress of banking sector
2. to examine the imbalances in branch expansion, deposit mobilisation and credit deployment
3. to analyse how far the banks lend for the development of region/state out of mobilised savings as deposits from that region/state
4. to suggest remedial measures for reducing regional gaps based on the findings of the study

SCOPE AND METHODOLOGY

The commercial banks, as important financial institutions with vast investment capacity, have significant role in promoting economic growth, reducing the hiatus between the regions, and increasing employment avenues. In brief, the banking system is a potent instrument in improving quality of economic life. The scope of the present study covers (1) branch net work (2) deposit mobilisation (3) credit distribution and (4) credit-deposit ratio for analysis.

The census survey method is adopted in the study. It covers the period of twenty years, from 1969-70 to 1988-89, and the analysis made at three points of time viz., 1969, 1979 and 1989. The Universe of the study (Indian Union) has been divided into six regions viz., Northern, Northeastern, Eastern, Central, Western and Southern.
SOURCE AND COLLECTION OF DATA

The data obtained for regional growth analysis and appraising the performance of banking is from secondary source. The required data is compiled from Banking Statistics, Reports on Trend and Progress of Banking in India, Reports on Currency and Finance, the Bulletins of Reserve Bank of India and issues of Pigmy Economic Review. And the population data is 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

The very objective of drawing inferences lies on the application of statistical tools. To identify the progress of banking sector; and to know the imbalances between the national and regional/state, the inferences can be drawn on: (a) branch expansion (b) deposit (c) credit and (d) credit deposit relation. An attempt has been made by the author in studying the statistical techniques. Besides, the data has been classified and arranged in the form of tables. The statistical tools used in the study are:

Location Quotient:

Location quotient is used to estimate locational imbalances. A national average is derived from dividing the total number of bank branches to the total population.
It gives us the average number of branches for the nation as a whole. In a similar manner, a regional average is obtained by dividing the number of branches in the region to the total population of region. The second average is divided by the first average which gives location quotient. Location quotient, thus, is the ratio of ratios. It will either be proportional or less/more than unit, which would mean that regional average is in balance to or below or above than national average. This technique is also studied to know region-wise and State-wise deposit and credit imbalances. It is used the indices which worked out by dividing the share of branches/deposit/advances of each region/State by the share of the concerned region/State. Location quotient can be written algebraically as:

\( L^*_b, L^*_d, L^*_c = \frac{\frac{NBr}{Pr}}{\frac{NB}{P}} \)

(i) Branches \( L^*_b = \frac{NBr}{Pr} / \frac{NB}{P} \)

(ii) Deposits \( L^*_d = \frac{TDr}{Pr} / \frac{TD}{P} \)

(iii) Credit \( L^*_c = \frac{TCr}{Pr} / \frac{TC}{P} \)

Where,

\( NB = \text{Number of branches} \)
\( TD = \text{Total deposits} \)
\( TC = \text{Total Credit} \)
\( P = \text{Population} \)
\( r = \text{Region} \)
Elasticity Co-efficient

The location quotient explains an absolute change in the relative position of a region/state in relation to the national average but it does not explain the rate of change. The rate of change in the relative position of a region/state with reference to the national average is being studied by the elasticity co-efficient technique. It explains the proportionate change in the volume of deposit or credit as a result of proportionate change in the number of branches. The elasticity co-efficient is denoted by 'E' and is expressed algebraically as:

(i) Deposit \[ E_d = \frac{\Delta d}{\Delta b} \]

(ii) Credit \[ E_c = \frac{\Delta c}{\Delta b} \]

Where
\[ \Delta d = \text{Change in the deposit} \]
\[ \Delta c = \text{Change in Credit} \]
\[ \Delta b = \text{Change in branches} \]
\[ D = \text{Deposit} \]
\[ C = \text{Credit} \]
\[ B = \text{Branches} \]
\[ E_d = \text{Deposit Elasticity Co-efficient} \]
\[ E_c = \text{Credit Elasticity Co-efficient} \]
The elasticity co-efficient will either be proportionate, lesser or greater than unit. If \( E \) is more than unit, it would mean the marginal deposit or credit is increasing more than the average increase in number of branches. If \( E \) is less than unit, the increase in deposit/credit would be less than the increase in number of branches. In this case the marginal deposit/credit is decreasing in comparison to the increase in number of branches. If \( E \) is equal to the unit, it would refer that the change in deposit/credit is equal to the change in the number of branches. Therefore, the marginal as well as average increases are equal. In brief, where \( E \) is more than unit, that region may be called more deposit/credit potential region while it is less than unit, that region may be called low deposit/credit potential region.

Co-efficient of Variation

How consistent in achieving the progress is determined by the co-efficient of variation. The co-efficient of variation is relative measure of dispersion. If the co-efficient of variation is greater, it is said to be more dispersion or more variable or more inconsistent.
The trend in co-efficient of variation discloses the direction. It is studied to each aspect of branches, deposit and credit distribution. It is calculated by:

\[
C.V. = \frac{\theta}{x} \times 100
\]

\[
\theta = \sqrt{\frac{\sum x^2}{n}}
\]

Growth Rate

The growth rate is studied to measure the progress of banking sector over a period. Given time if data is increasing or decreasing over a period of time, can very well be fitted to semi-log trend, \( Y = ab^x \). The equation in log-arithmetic form minimises the square deviations observed values from the log-arithmetic trend values. The log-linear function of least square technique can be written as:

\[
\log Y = \log a + x \log b
\]

Where;

\[
\log Y = \text{Value of variable}
\]

\[
\log a = \text{intercept}
\]

\[
\log b = \text{regression co-efficient}
\]

\[
x = \text{time}
\]
The growth rate is calculated by solving the equation as:

\[(1 + r) = \log b\]

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

The study of elasticity co-efficient, growth rate and co-efficient of variation are on the lines in the study, Farm Overdues in Co-operative Banks in Drought Prone Region of Rayalaseema, used by Reddy, C.R.\textsuperscript{28} The regional imbalances with reference to branches, deposit and credit are thus analysed to find out the banking facility-lag.

CONTRIBUTION TO LITERATURE

The findings by conducting survey like this would aid in decision-making to the management for reducing regional imbalances and also would add the literature on regional growth analysis of banking sector.

LIMITATIONS OF THE STUDY

The present study has two limitations. While discussing deposit mobilisation, all 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.