Indian banking system is evolving itself as a powerful instrument for economic growth. Its rapid growth largely depends on the quality of services rendered to its customers which in turn hinges on an effective organisation. The rapid banking development accompanied with balanced development is in fact more obvious in an egalitarian society. A sound banking calls for a sound banking policy and proper organisation. In other words, widening and deepening of banking services need specialised skill which is to be integrated effectively through means of sound organisation. So a well framed banking organisation is of utmost important in achieving the desired goal of the bank business. An organisation means pooling various means and activating them to achieve the desired goals. In this chapter, organisation and management of banking sector is discussed to highlight to what extent it is effective means in the line of achieving balanced regional development.

GENESIS OF BANKING

The history of modern banking is about seven decades old. The three banks namely the Bank of Bengal (1809), the Bank of Bombay (1840), and the Bank of Madras (1843), were known as "Presidency Banks" and were amalgamated in 1921 to form the Imperial Bank of India. In 1935, the
Reserve Bank of India came into existence. It is the Central Bank of the country, and acts as fiscal agent to the Government, manages the currency and controls the credit for the national goals. In brief, the Reserve Bank of India keeps the financial structure upon an even keel.

To promote and develop commercial banking on right and sound lines, the Banking Companies Act, 1949\(^1\) came into force on the 16th March, 1949. The imperial bank was nationalised on the 1st July, 1955 as State Bank of India on the recommendation of the All India Rural Credit Survey Committee (1954) for "the creation of one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country".\(^2\)

Conversion of State-partnered commercial banks as subsidiaries of State Bank of India\(^3\) on the 10th September by the State Bank of India Subsidiary Act of 1959 and

1. The Banking Companies Act of 1949 has been amended several times and it is now, known as the Banking Regulations Act of 1949.


nationalisation of 14 big commercial banks on the 19th July, 1969 as well as 6 more commercial banks on the 15th April, 1980 are some important steps taken in post-Reserve Bank of India Act in banking sector towards achieving national goals. From the above it can say that onwards of Independence, steps have been taken to regulate and promote banking sector on sound and proper lines; and to make available banking services to an ordinary man.

OBJECTIVES OF BANK

The main objective of commercial banks is to promote the economic status of people. The implicit objectives of the commercial banks are:

1) To provide means and mechanism for effective use of resources

2) To act as mobilisers of savings inculcating thrift among the masses; and investors of finance in accordance with national priorities

3) To diversify credit for minimising regional disparity in credit absorption and bridging credit gaps in rural and urban areas. In other words, to act as gap-fillers


iv) To associate with adoption of technology and national programmes ensuring higher production and thereby strengthening national economy. In other words to improve the economic life of people

v) To subserve the social aims of planning

FUNCTIONS OF BANK

The organisational set up of any institution depends upon the functions it undertakes to perform the objectives. The historical role of banking was that of repositories of the surplus funds of the community. Of late, the banks have slowly expanded and diversified their functions embracing many aspects of economic activity.

The evolution of banking during the 20th century has witnessed the introduction of a host of service functions by the banks. However, the basic functions of a bank continue to rotate around two activities, viz., (i) the receiving of deposits and the repayment of these funds on demand, or at a stipulated time in future and (ii) the lending of funds. These two functions have been and are the core of banking activities. With deposits providing the major source (about 75 per cent) to lendable or investible funds, one can readily appreciate why the foregoing activities constitute the basic functions of commercial banks.
With the initiation of planned economic development in India and the ever-growing demand for credit for financing an expanding economy, a high degree of emphasis has been placed on deposit mobilisation by banks to augmenting the resources needed for the development of the economy. In a country where people are not in the habit of depositing their savings with banks, the task of creating and spreading resources is an arduous task. Banks should promote the habit of saving among people and collect their savings which are small, idle and scattered. This needs to expand branch network in the rural areas also.

The second major function of commercial banks is that of deployment of funds in different sectors of the economy. They act as a liaison between those who require finance and those who have finance; and those who have finance but are unable to make an effective and productive use of it. The repetitive and continuance of effective lending leads in to the phenomenon of 'multiple credit creation'. The different forms of lending operations are cash credit, overdraft, loans and bill discounting. Banks provide loans for short term, medium term and long term to suit different types of enterprises either by way of secured or unsecured. Besides functioning as repositories of deposits, deployment of funds,
commercial banks perform agent functions\textsuperscript{6} as well as utility functions\textsuperscript{7} to render a variety of services to their customers. In view of the innumerable functions performed by commercial banks, they are regarded as 'departmental stores of finance'.

**ORGANISATION**

The efficiency of any concern depends upon its organisation and spirit of 'will' and devotion to duty with which different people perform their work. A good organisation increases efficiency and enables optimum utilisation of resources. It facilitates proper management of the enterprise. It is the foundation for efficient management.

A sound organisation solves many a business problems. It is rightly said that a sound organisation is the answer to every business problem; that a poor organisation could run a good problem; and that a good organisation with a poor product could run a good product out of the market. "A historical study of the economic development of advanced countries shows that a well developed banking structure was an essential pre-requisite for development, and the absence of such structure had often impeded the growth of economy".\textsuperscript{8}

\textsuperscript{6} Such as payment and receipt of subscription, premia, rent, purchase and sale of shares, stock, debentures and bonds, and act as trustee, attorney etc.

\textsuperscript{7} Such as safe-vault, credit instruments, referee etc.

The persons through which the banking company acts and does its business are individually called as 'Directors' and collectively designated as 'Board'. The board of directors with supreme authority occupy a prime place in the structure of bank organisation. The day to day operations of banking system directly deal in public money and its very survival depends upon public confidence. Therefore, it is imperative to have an effective organisation and efficient management. By efficient management and effective organisational structure, a bank can improve its operating efficiency to tap more deposits and expand its lending business.

The banking functions, in past, were confined to accept deposits and to make advances. A growing emphasis which laid on enlargement of activities resulting in taking over a new services by the banking sector, led to many important changes in the organisational structure. Among the organisational changes, creation of zonal/regional offices, of specialised departments with specialised functions etc., came into operation. Thus, the activities of commercial banks are 'functional-cum-territorial'.

It emanates from the above discussion that in the organisational hierarchy of modern bank, there are three levels of management. The top management is at the apex with the national objectives and changing economic environment. The middle tier of management at Zonal/regional level
assists the branches in effective implementing the policy matters delineated by the top management. The lower-tier in the bank management hierarchy is branch management which is primarily responsive to implement policy decisions taken at the top level. With these levels, banking if properly organised would aid and facilitate the growth of trade and industry, and hence of the national economy. Given below is the organisation chart of banking sector.

PROPOSED INTERNAL ORGANISATION OF NATIONAL BANK

TOP MANAGEMENT
(Head Office)

Planning and Development Department
Specialised Department
Operational Department
Central Department

MIDDLE MANAGEMENT
(Zonal/Regional Offices)

Functional Departments
Operational Departments

LOWER TIER MANAGEMENT
(Branch Offices)

Departments
Deposit
Lending
Agency Services
Government Business
Account

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SOCIAL CONTROL AND NATIONALISATION

The operations of banking sector had benefitted to a greater extent, only the class people neglecting the masses. The banks in the private sector continued to play their traditional role and were generally irresponsive to the emerging needs of the economy. The geographical coverage and concentration of banking is largely a reflection of the pattern of industrial development. To sum up, the banking sector was profit oriented rather than welfare oriented. This has created lacuna in the development pattern which bred in widening the imbalances and aggravating the unemployment problem. It was against this background, the policy of social control over commercial banks was introduced in December, 1967 with twin objectives (i) wider spread of bank credit (ii) engulfing regional and sectoral imbalances. In pursuance of this direction, the National Credit Council was set up by the Government of India on the 22nd December, 1967 and started functioning from the 22nd February, 1968.9 The social control measures outlined were not considered adequate to achieve the desired social and economic objectives. Then the Government 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 informed by a larger social purpose and should be subject to close public regulation. 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:

"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 of disparities between the rich and the poor sections of our people and between relatively advanced and backward areas of our country".

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She admitted that:

"there has been serious imbalances in the development of banking system in different regions of the country .... Analysis of the state-wise credit - deposit ratio has shown that it is very low in several states".\(^{13}\)

For weakening the aggravating regional imbalances, a solution she declared that:

"these trends can be corrected and policy of balanced regional development which has frequently been emphasised can be implemented when the banks are under public control".\(^{14}\)

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.

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BANKING POLICY

"An organisation without definite policies is like a ship without rudder". A policy is to be inscribed with sacred objectives fostering economic growth and development. The Business Policy of bank should be inspired by larger social purpose. To do the banking business on sound basis, it is all the more important for bank which involves numerous diverse interests. Policy reflects the competence and capacity of an institution.

The objectives of banking policy are: to distribute credit for productive purposes, to operate the banking system efficiently and properly, to have geographical and functional expansion of bank activity, to bring out the necessary changes in the attitude of bank management in decision-making, to create and satisfy the customer requirements, to promote and develop the banks and to assess the growth potential of economy. Taking in to consideration the progress of economic development, the Reserve Bank of India frames a policy which should cover all the spheres of banking activities towards a stage of allround balanced development. Balanced growth along with rapid growth is silent feature of widening and deepening banking services.

BRANCH EXPANSION POLICY

An effective branch expansion policy is of utmost important to envisage thrust of nationalisation. Talwar said that "the branch expansion is a key factor on the development of banking sector and it constitutes the first systematic planned effort for overall economic development".16

Till 1956, the Reserve Bank had followed a cautious branch expansion policy in view of the strains due to war and partition. The policy during this period did not spell out actions to be taken in regard to extending banking facilities. Onwards of 1956, a liberal policy of branch expansion was adopted. If the bank though small but sound financially, was permitted to open branches. However, the bank selected, by and large, only the developed area for opening branches.

In the light of discussion of the National Credit Council in February, 1968, an emphasis was laid not only on opening of new offices of banks in such a manner to assist the sound development of the banking system, but also on the spread of banking facilities to unbanked or underbanked areas.

areas, notably to rural and semi-urban centres. A stipulation made applicable in operation of branch expansion policy by the Reserve Bank of India. The stipulation was that for every two offices opened after October, 1971 in rural and semi-urban centres in case of banks which had more than 60 per cent of their offices in the above centres, one office each in urban and metropolitan/port town centres; and in case of other banks one office each in urban and metropolitan/port town for every three offices opened in rural and semi-urban centres can be opened. A licence is granted provided the Reserve Bank of India is satisfied, "that the financial condition and management of the bank in question is sound, that the earning prospects of the branch are good and that in general the public interest would be served by the opening of the branch".  

The branch expansion gained a new series of urgency to the problem of all-India character. The Study Group set up under the chairmanship of D.R. Gadgil examined in detail the 'gaps' in the supply of credit for the economy and the manner in which they might be bridged. In other words,


18. Reserve Bank of India, Sec.23(2) of the Banking Regulation Act, 1949, laid down this criteria for opening new offices of banks.
the benefits did not percolate to wider areas and sectors of the economy. Hence, the Study Group recommended that "the banks could with advantage adopt an 'area approach' towards branch expansion. And this, Group felt, would make branch supervision and guidance effective".¹⁹ A new branch expansion policy came into being with effect from 1st January, 1977. This policy stipulates that a bank will have to open four offices in the unbanked rural areas to get permission to open one office in a metropolitan/port-town and one office in a banked centre. This policy is known as 4: 1: 1.²⁰

OBJECTIVES OF BRANCH EXPANSION

First, as the flow of income increased due to increased investments under the various Five Year Plans and other rural development activities, there is need for mobilising adequately the rural savings before it is spent on 'consumption' by demonstration effect of the urban class. So opening offices in the interior parts of the country assumes considerable significance. Banks have an important task in developing savings habit among rural population through branch expansion and hence increasing their saving-income ratio. Second, banks have to employ locally a major


portion of the funds collected in that region. This can be effectively done if adopt the concept of 'local bank'. Thus, the rural banks have to help rural people to build up themselves so that they can also grow along with the growth of the banks. The rural prosperity entirely depends on the prosperity of these weaker sections.

CREDIT POLICY

A major requirement of successful credit administration is an accurate estimation of credit needs in various sectors of the economy. One of the important characteristics of bank credit is that it must be responsible and flexible according to changing needs of planned economic development. The quantum, the character and composition, direction and distribution of credit are of paramount importance in the context of economic development. In other words, credit planning is an integral part of economic planning. Credit planning requires two aspects (1) estimation of credit needed by various borrowing units of the economy (demand side) and (2) assessment of available funds for lending (supply side). The difference between the two aspects is known as 'credit gap'. Such credit shortage is a cause for and an effect of an underdeveloped economy.
The primary emphasis of credit policy prior to nationalisation was on ensuring uninterrupted flow of credit to industrial concerns, wholesale trade and commerce. While the credit to industry has increased from 34 per cent in 1951 to 67 per cent in 1969, the agricultural sector credit almost remained the same proportion (i.e., 2.10 per cent in 1951 and 2.20 per cent in 1969). The reasons for the high concentration on industrial credit were facilitated as a result of (1) very low capital base of banks managed by a few persons and (2) inter-locking directorship and corporate finance. Oftenly, the political forums stirred to curb this class banking. "To play their proper role in the expanding economy of India, it is very necessary for our commercial banks to follow a progressive credit policy as contrasted with the traditional conservative policy". Following nationalisation, a new credit policy envisaging extension of banking facilities to priority and neglected sectors on preferential terms and conditions was framed. Virtually, there was ten-fold increase in bank lending to the weaker section and depressed sections of

the society in less than ten years after nationalisation.\textsuperscript{24} The target fixed for the priority sector advances has been considerably raised in the recent years from 33.3 per cent at the end of March, 1979 to 40 per cent by the end of Sixth Plan.\textsuperscript{25} The new credit policy is two pronged (1) liberal credit policy to priority and neglected sectors and (2) liberal credit policy pertaining to projects in backward areas and to help correct regional imbalances in the economy.

**SCHEMES OF LENDING**

With a view to meeting the objective of balanced regional development with rapid growth, the Indian banking industry made a dynamic endeavour to formulate various innovative credit schemes aimed at developing the necessary infrastructure coupled with reorientation of approach to lending from asset base to project base. These programmes are: (1) Rural Development and Anti-Poverty Programme such as Village Adoption Scheme, Integrated Rural Development Programme, Credit to Weaker Section and Differential Rate of Interest Scheme, (2) Production Programmes such as


Special Foodgrains Production Programme, (3) Employment Programmes such as Self-employment for Educated Unemployed Youth and Self-employment Programme for Urban Poor, (4) Industrial Development Programmes such as Rehabilitation of Sick Units, Entrepreneur Development Programme and Export Finance.

CHANGE CONCEPT

The banking sector today is completely different from what it was 20 years ago in the quality, style and range of services offered by commercial banks in India. Their geographical and population-wise coverage, their style of working and above all their ideology has completely changed. Planned development has brought about a speedy transformation in the entire economic sector, particularly in the Indian banking system. The banking sector has shown remarkable responsiveness to the needs of planned economy. As a consequence of branch expansion and further monetisation of the economy, deposits as a percentage of national income may be around 75 by March, 1990. The per capita deposits are expected to rise to ₹1,500 from the present level of ₹520 while per capita credit would be reaching ₹900 from the current level of ₹400 and such, the credit-deposit ratio may be around 63 per cent. Thus, by the end of March, 1990, there may emerge a gigantic banking system with about 60,000 branches, ₹1,70,000 crores of deposits and ₹1,00,000 crores of credit.
The revolutionary change and the dramatic transformation that have taken place in the profile of Indian banking since nationalisation, speak highly of the banking system's dynamic response to the challenging tasks set before it. Apart from unprecedented growth and functional diversification, the post-nationalisation period has witnessed a complete reorientation of banking from 'class' banking to 'mass' banking from 'asset base' lending to 'production oriented' lending and from 'elite' banking to 'social' banking. There has, in fact, been a change in the very concept, precept and outlook of banking industry and it has no parallel in the annals of banking anywhere in the World. What indeed is creditable is the fact that the banking industry in India had no precedent to follow upon its own ingenuity and innovativeness to gear itself to execute the challenges of 21st century.