Chapter No.: 3

DEVELOPMENT AND ROLE OF BANKING IN INDIA

Banking in India has gone through various stages of evolution and development since the Vedic times (2000 B.C. to 1400 B.C.), when the money lending business was quite prosperous. Pledging commenced around the Buddhist era (500 B.C.) and deposit banking in the second and third centuries. Modern banking however emerged in the 18th and 19th centuries with the formation of agency houses in Calcutta and Bombay. The presidency banks, their successor the Imperial Bank of India and a number of other commercial banks appeared on the scene to meet the requirements of the ruling elite through financing export new materials and import of manufactured goods.

Banking in Pre-British Period- Era of Indigenous Banker

The origin of banking in India is a very old. Since the times of Vedas, the banker has been an indispensable pillar of Indian society. During the Ramayan and Mahabharat eras banking which was a side business during the Vedic period has become a full-fledged business. During the Smriti period, which followed the Vedic period and Epic age, banking business was carried on by the Vaishyas and Manu, the great of Vaishyas. Kautily’S Arthashastra laid down 15 and 60%

During the Buddhist period, banking business was decentralized. During the Buddhist period banking business or the shares this as they were called became influential people in community life throughout the kingdom and they were often the royal treasures. During the Muslim period, indigenous banking which by the Bhudhist period was fairly developed, received a great setback as the Muslim rulers believed in the quadratic injections according to which bias interest was a great sin (Haram). The other equally important factor reacting adversely on the banking development in the country during this period was the greatly unsettled political situation. Virtually unending wars and succession feuds among the royal
claimants for throne hampered development of trade and commerce on which banking and money lending depended. During the reigns of Emperor Akbar, Jahangir and Shahjahan rehabilitation of the indigenous banking was effected. This happy state of affairs couldn’t, however, last long and during Aurangzeb` s reign indigenous banking suffered a great setback. A staunch practitioner of the quadratic injunctions Aurangzeb adopted a negative approach to indigenous money lending and banking. Even so, some of the indigenous bankers were quite influential. Jagat Seth of the 17th and 18th centuries, for their power and influence are comparable with any private banking houses in any other country and indeed they seem to have fulfilled many of the functions of central bank-essentially a modern institution.

Banking in British Period– Foundation of Modern Banking

Although the east India company established connection with indigenous banker, borrowed funds from them, and for the first few years collected a portion of the land revenue through them, the English traders in general could not make much use of these banker owing to their ignorance of the interns language and to the latter’s inexperience of financing the formers trade. As a result, the English agency houses in Calcutta and Bombay started banking business besides their commercial business. Since this time, the business and power of the indigenous banker began to decline although the east India company successfully prevented the establishment of banking on western lines in India for a considerable time, on the ground that the agency houses and indigenous bankers were more suited to the banking requirements of the country. The continuous war fare and chaos and that resulted from the breakup of the Mughal empire seriously checked the activities of indigenous banks. Further, they lost their profitable money changing business from 1835, when uniform currency was established through the currency. Moreover, the diversion of trade from old to new routes and change in the basis of India`s trade relation with other countries, that were brought about by the development of railways, steamships, post and telegraph, affected their business adversely. Their decline and the gradual expansion of English trade

*Development and Role of Banking in India*
and power in India led the east India Company to abandon its opposition to the establishment of banks on western lines in India. Consequently, such banks and Government treasuries came to be establishment; European bankers could seek state patronage and prestige, while indigenous bankers were elbowed out, moreover, with reduced resources and a smaller scale of business they began to find themselves handicapped in their competition with Commercial Banks.

Joint Stock Banks

Thus during British period joint stock banks came into existence. The history of the development of Joint Stock Banks can be studied in the following phases:

(1) Agency Houses

The organization of agency Houses at Calcutta and Bombay which began to serve the European merchants and the members of the services was encouraged by the East India Company. These agency houses which issued paper money and financed the movement of crops had no capital of their own. For their funds they depended upon deposits, and supplied the bulk of capital invested in Indigo plantation in Bengal. The usual practice was to insure the life of the borrower on an annual basis and sometimes the factory was mortgaged. The rate of interest charged by them varied between 10&12%. In addition, they charged on advances a commission of 2.5% and on sale a commission of 2%. About the end of the second decade of the last century the rate of the interest declined considerably. By 1829-30 several agency houses failed and with the failure of major Alexander Company, the Bank of Hindustan, run by it also perished in 1832.

(2) Presidency Banks

The establishment of presidency banks which were destined to play a great part in the history of Indian banking was not doubt, a permanent institution achievement. The first presidency bank, the Bank of Bengal was established in
1806 as the Bank of Calcutta and which received its charter as the Bank of Bengal in 1809. The bank was established with the main object of facilitating the borrowings of the East India Company and improving the depreciated currency. In 1832, bank was allowed to issue notes and in 1839 to open its branches and to deal in inland bills of exchange. The two other Presidency Bank, namely the Bank of Bombay and the Bank of Madras were established in 1840 and 1843 respectively. Like the Bank of Bengal these banks were also empowered to issue notes. After the paper currency act of 1862, the right of note issue was taken away from all the three presidency banks and as compensation they were given the use of government balances in the presidency towns free of charge.

The Bank of Bombay carried on speculative activities in cotton following the American civil war and it suffered heavy losses culminating in the final winding up in 1868. To replace this bank a new bank of the same name was constituted under the Indian company’s act of 1866. The presidency banks act of 1876 placed certain restrictions undoubtedly contributed a great deal to their stability. But the restrictions were continued even after the bank built up a very solid position. It prevented them from playing a useful part in the Indian financial system.

Although the presidency banks had branches at important trade centers in India, it was, however, felt that there was considerable duplication and overlapping in their activities and public opinion favored a single presidency bank for the whole country. The Chamberlain commission in 1913 suggested the appointment of a committee to examine the whole issue. The banking crisis of 1913-17, however, showed clearly the defects and dangers of India’s free banking system, under which the country had no co-ordinate banking policy, and each bank conducted its business entirely in its own way, with any control of a central institution. Public opinion in India, therefore, strongly urged the creation of a central bank, the presidency banks and Government withdrew their opposition to the proposal, and Act of 1920 amalgamated the three presidency banks (the Bank of Bengal 1806,
the Bank of Bombay 1840, and the Bank of Madras 1843) into the Imperial Bank of India.

(3) Limited Liability Banks

The Central Bank of India with limited liability was act up in 1786 which was authorized to issue notes on the condition that at least one third of its capital shall be maintained with banks in specie. In subsequent year, it was appointed as banker to the Government, but was dissolved in 1793.

In 1860, an act was passed permitting the starting of joint stock banks on the basis of limited liability as was essential to enable large business companies to secure the large amount of capital that they needed. The progress was slow and at the end of the century there were only nine banks i.e., Allahabad Bank 1865, the Alliance Bank of Shimla 1875, Oudh Commercial Bank 1881, the Punjab National Bank 1894, People Bank of India 1901 etc. with capital and reserves of over Rs. 5 lack, their total paid up capital and reserves being Rs.1.25 crore, and their total deposits of Rs.8 crores. The next stage of the development of joint stock banking became in 1906 with the launching of the Swadeshi movement under the guidance of Mahatma Gandhi. in that year the Indian species bank was established followed by bank of India in 1906 at Bombay, Indian bank in 1907 at Madras, Central Bank of India in 1911 at Bombay, Bank of Baroda in 1908 at Baroda, the Bank of Mysore in 1913 at Mysore etc. it gave a great fill-up to Indian enterprises.

During the decade before the outbreak of the first world war, a large number of small banks sprang up, and the number of big banks too went up to 18, during a short period of four years between 1913 to 1917, 87 banks with a total paid up capital of over Rs 1.75 crore failed among them may be mentioned the names of the Indian special bank, the Bengal national bank, the Standard Bank of Bombay, the Bank of Upper India (Meerut) and Bombay Merchant’s Bank. The majority of them were small and weak, but at least half a dozen of them were large. The
failures did much to weaken the public confidence in Indian joint stock banks and thus gave considerable set back to banking development in India. In addition, 21 banks failed during A.D.1918 to A.D.1921, having paid up capital of Rs. 14 lack. Between 1922 and 1936, 373 banks collapsed with a total paid up capital of Rs. 6.82 crore. The most important failures were of the Alliance Bank of Simla, the Tata Industrial Bank in 1923 and the People`s Bank of Northern India in 1932. Of the total bank failures between 1913 and 1936, Punjab accounted for 89, U.P. 64, Bombay 57 and the third round of bank failure began in 1936 with 40 failures in Travancore. Between 1937 and 1948, 620 banks collapsed, the most important being the Travancore national and quelling bank in 1938.

During 1939-41 the progress of banking was very slow. But during 1942-46, the progress was very fast. A number of new banking companies were floated of which worth-mentioning were the Bharat bank Ltd, The Hindustan commercial bank ltd. , the united commercial bank ltd. And the Travancore bank Ltd. The establishment of the first three banks was due to the initiative shown by the three well known Industrial houses of Dalmias Shighanias and Birla`s. The aggregate deposits of the scheduled banks recorded impressive increase having more than doubled from a total of Rs. 759.2 crore at the end of July, 1944.

The composition of the aggregate deposit liabilities of scheduled banks in India also underwent a considerable change during the 2nd world war; the increase in diamond deposits was considerably higher than the increase in time-deposits. Another war development in the field of banking was the phenomenal increase in the number of banking offices of the scheduled banks in the country especially in 1943 and 1944. The number of offices increased to 2597 in 1951 from 1035 in 1938 even after the process of merger and amalgamation after Independence.

(4) Foreign Banks

The bulk of India`s foreign trade was with or via England. It was natural that banks should be established in London to transect exchange business with India.
The only English bank to obtain the royal charter for operating in India was the central banking corporation in 1842. The presidency and Indian joint stock banks, however, did not usually conduct exchange and remittance business between India and other countries as it was regarded risky, and the business was connect by the agency houses. The Central Bank failed in 1884, the Mercantile Bank had to abandon its charter in 1893, and it was recognized under the English companies act, in that the only English bank that has continued to do business in India under a royal charter is the Chartered Bank in India, Australia and China. The National Bank of India was formed in 1863 under the name of the Calcutta Banking Corporation with its head office in Calcutta, but the name was altered to its present one in 1864, and its head office was transferred to London in 1886. Later on France, Germany, Holland, Portugal, Russia, U.S.A., and Japan followed England’s example, and spared branches of their banks mainly at Indian ports. Three other English banks also opened branches in India.

The Indian branches of the Deutsche Asiatic bank and the Russo-Asiatic bank were closed on account of the war. The sitcom bank and the Imperial bank of Persia closed their branches at Bombay in 1932 & 1934 respectively. The Yokohama Specie Bank, the Mitsui Bank and the bank of Taiwan were closed, when Japan went to for with create Britain in 1941. In 1944, the banking business of Thomas cook & son was taken over by Grind lay & co. Ltd. the mother lands Indian commercial bank and the Bans Co National Vitramarico closed their Indian offices in 1950 and 1952 respectively. The British bank of Middle East, the bank of Tokyo and Mitsui bank established their offices, in India in 1949, 1952 and 1955 respectively. Till 1950 they were called Foreign exchange bank, since they alone transacted most of the Import-Export financing business of this country.

At present in India there are 22 foreign banks all scheduled and very strong. It include two foreign banks viz. International Bank and Bank of Bahrain and Kuwait opened branch each in Bombay during the year 1985-86 and the representative office of Credit Lyonnais was upgraded into a branch. As at the end of March 1990 there were 138 branches and 22 representative offices of foreign banks
functioning in India. Amongst these British origin banks dominated since with the Grind Lays Bank at the top. The progresses of some banks have been fairly rapid and they form an important and powerful group at present.

**Development of Central Banking**

**The Imperial Bank of India**

Central bank plays an important role in development of banking in any country. Every country, therefore, establishes a central bank to regulate the banking industry. In India as a first step in this direction, the imperial bank of India was established in 1921 through the amalgamation of the three presidency banks namely bank of madras, bank of Bombay, and bank of Bengal, until the establishment of the Reserve bank of India in 1935. The Imperial Bank of India had in effect been discharging certain central banking functions. Briefly stated the main central banking functions that the bank was discharging were:

1) Acting as a sole banker to government and as the custodian of public funds and government cash balances- central and local, and also of the balance of the secretary of state through is London office.

2) Undertaking the functions rising from the issue of new loans by the Government and managing the public sector debt in return for a specified remuneration and giving the public facilities for the transfer of money between its branches at rates approved by the controller of currency.

3) In addition to these central banking functions, (the act of course did not give power to the bank to issue notes) the bank performed the ordinary commercial banking business of accepting deposits, making loans and advances remitting money from one place to another keeping safe deposits etc.

With the establishment of the Reserve Bank of India in 1935, the Imperial Bank ceased to be the banker to the Government directly. It was authorized to act as the sole first of the Reserve Bank of India at the places where the latter did not
have its own branches. Accordingly the Imperial bank was permitted on behalf of
the government to pay, receive, collect and remit money, bullion and securities,
as the agent for the Reserve Bank of India, and to undertake and transact any
other business which the RBI may from time to time entrust to the bank. Thus,
the Imperial Bank of India was in special category and it was the leader of the
Indian money market.

With the publication of the report of all India rural credit survey committee under
the chairmanship of Mr. A.D. Bernwalla in 1954, the proposal of nationalization of
Imperial Bank of India could not be solved for long. Apart from their things, for the
recognized and restricting of the rural credit, the committee recommended the
setting up of strong integrated, state-sponsored, state-partnered financial
banking institution. Its specific suggestion for the purpose was the nationalization
of the Immortal bank of India and its conversion into State Bank of India with the
effective machinery of branches spread over the whole country. The government
of India was quick to accept this recommendation and a bill to this effect,
received the assent of President of India on May 8, 1955 resulting in the
establishment of State Bank of India.

**Reserve Bank of India**

The history of Reserve Bank of India is closely associated with the realization of
the need for the Central Bank of India rose back to 1773 when Warren Hasting,
Governor of Bengal, placed before the board of reserved his plan for a ‘General
bank of Bengal & Bihar,’ the bank was set up but it was only a live experiment.
Despite this set back, the need for such a continued to be felt with increasing
intensity and time and again several schemes were suggested for the
establishment of a central bank of India.

Although, the imperial bank had performed two important natural banking
function i.e. banker to the Government and to some extent bankers’ bank, but it
was not a central bank in true hones. The other central banking function notably
the regulation of note issue and the management of foreign exchange were not entrusted to it. These functions continued to be performed by the government. It was this unsatisfactory arrangement that led, in due course, to renewed demand for a full-fledged central bank. A specific personal for the establishment of a central bank in the country was first made in 1926 by the royal commission of Indian currency and finance. Popularly known as the Hilton Young Commission, the commission in its report submitted in 1926, strongly recommended the establishment of a central bank in the country. It also suggested that it should be called the Reserve Bank of India and that it should take over the central banking functions. The Imperial Bank had been performing so far. In compliance with the recommendation, a bill was introduced in the legislative assembly in January 1927. Unfortunately, the bill was abandoned on account of disagreement between the Government and the assembly. The question assumed importance again in 1931, when the central banking enquiry committee recommended the creation of a Reserve Bank at earliest possible date with a view to growing banking facilities in India and banking about rapid economic development in the country.

A bill called the ‘Reserve Bank of India Bill’ was introduced in the legislative assembly by the then finance banker, Sir George Schuster, on September 8, 1933. The bill was duly passed by the assembly and became an Act on March 4, 1934, when it was signed by the Governor General. The Reserve Bank of India was formally inaugurated on April 1, 1935, with a share capital of Rs. 5 Crore. Almost entire there capital was, in the beginning, owned by private shareholder. The Government of India held share of nominal values of Rs.2, 22,000. But in view of the public nature of the bank’s functions, the reserve bank of India, act 1934 provided for the appointment of the Governor and two Deputy Governor by the Central Government. Under the act of the important function of a central bank notes, to act as government banker, as the bankers’ bank and lender of the last resort controller of credit and custodians of foreign exchange reserve.

During the Second World War, many amendments were affected in the Reserve
Bank of India Act and the bank had to lose much its Independence. The Reserve Bank of India became for all practical purpose, a department of the government machinery.

Growth of Cooperative Banking

Co-Operative Banks
The evaluation of co-operative movement in India may be traced to the beginning of this century. It was officially launched in India with the enactment of the co-operative societies Act, 1904. The movement was started with the subject of providing finance to the agriculturists at low rates of interest and thus relieving them from the clutches at the village money lenders. The co-operative societies Act 1904 provided for the formation of co-operative credit societies under the act. A number of small primary credit societies were started in several parts of the country. These societies could not mobilize resources consistent with the growing demand of their number of loans. This led to the prancing of new act in 1912. The Co-operative Credit Societies Act 1912 provided for the establishment of central co-operative banks. The central co-operative banks were to be formed by a union of primary credit societies. The increase in the dimension of credit provided by the co-operative forced the Government to take necessary steps to strengthen the co-operative movement. In 1914 the Government appointed Macalgan committee on the co-operative credit to examine the progress of co-operative movement in India and to make recommendation regarding the improvement in the movement. The committee recommended the establishment of state level federation of central co-operative banks called the state co-operative banks to function as the leader of the co-operative credit structure for the whole state. Every state has now establishment a state co-operative bank to function as the apex bank of the co-operative sector. Co-operative credit institution have a three tier structure Primary Agricultural Credit Societies (PACSs) forming the Central Co-operative Banks (CCB) the middle level and the State Co-operative Banks (SCBs) the top floor as the apex institution. Whereas the primary facilities deal directory with individuals the central banks deal with
primaries, and are in turn dealt with by the state co-operative bank. To begin with the primary credit institutes were established with unlimited liability, but his limited liability is the accepted principle as it is with central and state co-operative banks and land development banks.

The co-operative banks mobilizes the saving of the members and non-member by inculcating the habit of thrift and self help and lend the funds so raised to those who can gain by them. To co-operative bank’s motive of profit is subordinate to serve. The banking company Act 1949 is extended to certain co-operative societies in term of the banking law Act 1965, with effect from March 1, 1966 the date on which this Act came into force.

Table No 3.1:

Statement Showing Progress of Co-operative Banks

(Rs. In crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Society</th>
<th>Total Borrowers</th>
<th>Paid Up Capital</th>
<th>Total Revenue</th>
<th>Total Deposits</th>
<th>Total Borrowing</th>
<th>Working Capital</th>
<th>Loan Issued</th>
<th>Total Overdues</th>
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<td>2000-01</td>
<td>98843</td>
<td>46533</td>
<td>3884</td>
<td>1710</td>
<td>13481</td>
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<td>14846</td>
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</table>

Sources: RBI: Statistical Table, 2013.
Those state co-operative banks, central co-operative banks and primary non-agricultural credit societies which have a paid-up capital and reserves of not less than Rs.1 lakh have been brought within the regulatory frame-work of the Reserve bank of India. Accordingly, the name of the banking companies Act was changed into banking regulation Act. The numbers of licensed co-operative banks coming under the purview of the banking-regulation Act at the end of June 1990 were 1390 Primary Co-operative Banks in the country of which 48 were under liquidation.

But the most disturbing aspect of the working of Co-operative Banks has been their mounting over dues. Along with the increase in the quantum of advances, there has been a corresponding rise in over dues to outstanding advances are as high 44%. Then a large number of PACs still remain non-viable even after their reorganization. Their expenses exceed their incomes, and overdue loans are mounting.

However, the programmed of intensive development of PACs for transforming them into efficient multi-purpose units, under the monitoring of NABARD is being implemented. It has also recorded considerable progress.

**Land Development Banks**

The first Land Development Bank was started in the year 1920 in Punjab, which did not function well. The real beginning of the movement was made in madras with formation of the Central Land Mortgage Bank on co-operative basis in 1929 and then the lead was followed by many other states. The structure of land development banks is a two tier one-at the state level, there are central land development banks at the district or Taluka level, and there are primary land development banks. In a few states i.e. Gujarat, Jammu and Kashmir and up., the structure is unitary, i.e. there are apex land development banks which operate directly through their own branches at the district level.

The land development banks grant medium and long term advances against the
security of land generally for 5 to 20 years for-

1) Repatriation of old debts.
2) Purchase of land.
3) Purchase of livestock and costly agricultural equipments, like tractors, pump sets etc.
4) Consolidation and improvement of holdings, and
5) Effecting permanent improvements in the productivity of land.

**Progress of Land Development Banks**

The progress of land development banking has been very slow and also uneven. After Independence land development banks have been enjoying a great degree of prosperity. However, it is important to note that whatever progress was achieved was concentrated in only a few states, viz, Andhra, Tamilnadu, Karnataka, Maharashtra and Gujarat. The number of primary land development banks and their branches increased 286 in 1950-51 to 1830 in June 1985, while that of central (or state) land development banks increased from 5 to 19 during the same period. Total loan advanced by the land development banks to Rs.1180 crore and loans outstanding stood at Rs.3360 crore in 1988-89 in comparison to Rs.3 crore in 1950-51.

But after the sometime the name of these banks has been changed i.e. Primary Cooperative Agricultural and Rural Development Banks (PCARDB) and State Cooperative Agricultural and Rural Development Bank (SCARDB). The progresses of these banks were as under:

The number of banks in PCARDB was 726 in 1992-93, 755 in 1999-2000 and 810 in 2010-11 and that the same no. of SCARDB banks was 19 in 1992, and 21 in 2010-11. In both banks no. of banks was comparatively higher in PCARDB. The deposit of PCARDB was Rs.218 crore in 1999-2000 and Rs.315 crore in 2010-11. The total deposit of SCARDB was 65 crore in 1992-93, Rs.422 crore in 1999-2000 and Rs.515 crore in 2010-11. The deposit of SCARDB was comparatively
higher in 1999-2000 and 2010-11. The loan and advances of PCARDB was Rs.435 crore in 1992-93, Rs.1818 crore in 1999-2000 and Rs.1950 crore in 2010-11. The SCARDB had loan and advances of Rs.1231 crore in 1992-93, Rs.2532 crore in 1999-2000 and Rs.3100 crore in 2010-11. In both of banks performance in loan and advances was comparatively better in SCARDB. Outstanding loans of PCARDB was Rs.1463 crore in 1992-93, Rs.7611 crore in 1999-2000 and Rs.8200 crore in 2010-11. Outstanding loans of SCARDB was Rs.4719 crore in 1992-93, Rs.11565 crore in 1999-2000 and Rs.13500 crore in 2010-11. In both banks SCARDB had better performance in comparison to PCARDB.

**Banking in Post Independence Period**

After Independence Government of India took a number of steps to ensure neatly growth of banking industry so that it performs its role effectively in the planned development of the country some of these steps were:

(i) **Nationalisation of Reserve Bank of India**

In India, there was strong demand from the public for nationalization of the reserve bank. People wanted the first national Government to nationalize the RBI. Ultimately the Indian parliament passed a structure on 3rd September, 1948, to nationalize the bank with effect from January 1, 1949. The central Government acquired the shares of the bank by paying compensation to the existing shareholders and it became the sole owner of the bank. The triumph of nationalization completely transformed the bank in spirit as well as in structure. Besides being an agent, banker and advisor of the Government, it became adjure department of the state.

(ii) **Enactment of Banking Regulation Act, 1949**

In India, the demand for banking legislation had its origin in sporadic bank failure. The first attempt at banking legislation in India was the passing of the Indian
companies (Amendment) Act, 1936, which embodied some of the important recommendation of the central banking enquiry committee (1929-31). The provisions of the Act, however, proved inadequate and difficult to administer. In November, 1939, the Reserve bank of India submitted to the Government proposal for comprehensive banking legislation, but no action should be taken in view of the abnormal conditions created by the war and lack of unanimity of public opinion, etc. the years 1942 and 1943 witnessed the floatation of a number of banks mainly as a result of the inflationary condition created by the war. It was a mushroom growth since the capital structure, terms of managerial appointments and mode of lending and investment of some them showed highly undesirable characterization, emphasizing once again the need for legislation.

The banking companies Act embodying comprehensive legislation for the regulation and control of banking was finally passed by the legislature in February 1949, and came into force on the 16th March 1949. The Act conferred on the Reserve bank wide power of chartering, supervision and regulation of banks, making it virtually the “control tower” of the Indian money and capital markets. Since then, the Act has undergone many changes to plug the loopholes wherever and whenever they have occurred. The name of the Act itself was changed to banking Regulation Act on the 1st March, 1966 when the banking law (Application to co-operative societies) Act came into force.

The State Bank of India

History

The roots of the State Bank of India lie in the first decade of 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on 2nd June 1806. The Bank of Bengal was one of the three Presidency Banks, the other two being the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1 July 1843). All three Presidency Banks were incorporated as Joint Stock Companies and were the result of the Royal
Charters. These three banks received the exclusive right to issue Paper Currency till 1861 when with the Paper Currency Act; the right was taken over by the Government of India. The Presidency Banks amalgamated on 27 January 1921, and the re-organized banking entity took as its name Imperial Bank of India. The Imperial Bank of India remained a joint stock company but without Government participation.

Pursuant to the provisions of the State Bank of India Act of 1955, the RBI, which is India’s Central Bank, acquired a controlling interest in the Imperial Bank of India. On 1 July 1955, the Imperial Bank of India became the State Bank of India. The government of India recently acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

In 1959, the government passed the State Bank of India (Subsidiary Banks) Act, which made eight state banks associates of SBI. A process of consolidation began on 13 September 2008, when the State Bank of Saurashtra merged with SBI.

SBI has acquired local banks in rescues. The first was the Bank of Behar (est. 1911), which SBI acquired in 1969, together with its 28 branches. The next year SBI acquired National Bank of Lahore (est. 1942), which had 24 branches. Five years later, in 1975, SBI acquired Krishna Ram Baldeo Bank, which had been established in 1916 in Gwalior State under the patronage of Maharaja Madho Rao Sindhia. The bank had been the Dukan Pichadi, a small moneylender, owned by the Maharaja. In 1985, SBI acquired the Bank of Cochin in Kerala, which had 120 branches. SBI was the acquirer as its affiliate, the State Bank of Travancore, already had an extensive network in Kerala.

The State Bank of India and all its associate banks are identified by the same 'blue keyhole logo'. The State Bank of India Word Mark usually has one standard typeface, but also utilizes other typefaces.
The State Bank of India is the biggest commercial bank which stands in a class by itself. The SBI has played a significant role in the economic-development of country since its inception by providing adequate credit assistance to the small medium and large industries, agriculture, trade and commerce in the private sector as well as in the public sector by investing in the Government and other securities. The State Bank has also played pivotal role in the planning process by mobilizing the deposits and the directing flow of these deposits in productive investment channels.

SBI DFHI Ltd State Bank of India (SBI) is a multinational Banking and financial banking company based in India. It is a Government owned corporation with its headquarters in Mumbai, Maharashtra. As of December 2012, it had assets of US$501 billion and 15,003 branches, including 157 foreign offices, making it the largest banking and financial services company in India by assets on October 7, 2013.

**Operations**

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 14 regional hubs and 57 Zonal Offices that are located at important cities throughout India.

**Domestic Presence**

SBI had 14,816 branches in India, as on 31 March 2013, of which 9,851 (66%) were in Rural and Semi-urban areas. In the financial year 2012-13, its revenue was INR 200,560 Crore (US$ 36.9 billion), out of which domestic operations contributed to 95.35% of revenue. Similarly, domestic operations contributed to 88.37% of total profits for the same financial year.
International Presence

As of 28 June 2013, the bank had 180 overseas offices spread over 34 countries. It has branches of the parent in Moscow, Colombo Dhaka, Frankfurt, Hong Kong, Tehran, Johannesburg, London, Los Angeles, and Male in the Maldives, Muscat, Dubai, New York, Osaka, Sydney, and Tokyo. It has Offshore Banking units in the Bahamas, Bahrain, and Singapore, and representative offices in Bhutan and Cape Town. It also has an ADB in Boston, USA.

The Canadian subsidiary, State Bank of India (Canada) also dates to 1982. It has seven branches, four in the Toronto area and three in the Vancouver area.

SBI operates several foreign subsidiaries or affiliates. In 1990, it established an offshore bank, State Bank of India (Mauritius). SBI (Mauritius) has 15 branches in major cities/towns of the country including Rodriguez and Tsim Sha Tsui, Hong Kong.

In 1982, the bank established a subsidiary, State Bank of India (California), which now has ten branches—nine branches in the state of California and one in Washington, D.C. The 10th branch was opened in Fremont, California on 28 March 2011. The other eight branches in California are located in Los Angeles, Artesia, San Jose, Canoga Park, Fresno, San Diego, Tustin and Bakersfield.

In Nigeria, SBI operates as INMB Bank. This bank began in 1981 as the Indo-Nigerian Merchant Bank and received permission in 2002 to commence retail banking. It now has five branches in Nigeria. In Nepal, SBI owns 55% of Nepal SBI Bank, which has branches throughout the country. In Moscow, SBI owns 60% of Commercial Bank of India and Canara Bank owning the rest. In Indonesia, it owns 76% of PT Bank Indo Monex.

The State Bank of India already has a branch in Shanghai and plans to open one in Tianjin. In Kenya, State Bank of India owns 76% of Giro commercial Bank, which it acquired for US$8 million in October 2005.
Associate Banks

SBI has five associate banks; all use the State Bank of India logo, which is a blue circle, and all use the "State Bank of" name, followed by the regional headquarters' name:

1. State Bank of Bikaner & Jaipur
2. State Bank of Hyderabad
3. State Bank of Mysore
4. State Bank of Patiala
5. State Bank of Travancore

Earlier SBI had seven associate banks, all of which had belonged to Princely State until the government nationalized them between October 1959 and May 1960. In tune with the first Five Year Plan, which prioritized the development of rural India, the government integrated these banks into State Bank of India system to expand its rural outreach. There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline the group's operations.

The first step towards unification occurred on 13 August 2008 when State Bank of Saurashtra merged with SBI, reducing the number of associate state banks from seven to six. Then on 19 June 2009 the SBI board approved the absorption of State Bank of Indore. SBI holds 98.3% in State Bank of Indore. (Individuals who held the shares prior to its takeover by the government hold the balance of 1.77%.

The acquisition of State Bank of Indore added 470 branches to SBI's existing network of branches. Also, following the acquisition, SBI's total assets will inch very close to the ₹10 trillion marks (10 billion long scales). The total assets of SBI and the State Bank of Indore stood at ₹9,981,190 million as of March 2009. The process of merging of State Bank of Indore was completed by April 2010, and the SBI Indore branches started functioning as SBI branches on 26 August 2010.
Non-Banking Subsidiaries

Apart from its five associate banks, SBI also has the following non-banking subsidiaries:

- SBI Capital Market Ltd
- SBI Funds Management Pvt. Ltd.
- SBI Factors & Commercial Services Pvt. Ltd.
- SBI Cards & Payments Services Pvt. Ltd. (SBICPSL)
- SBI Life Insurance Company Ltd.
- SBI General Insurance

In March 2001, SBI (with 74% of the total capital), joined with BNP Paribas (with 26% of the remaining capital), to form a joint venture life insurance company named SBI Life Insurance company Ltd. In 2004, SBI DFHI (Discount and Finance House of India) was founded with its headquarters in Mumbai.

Other SBI Service Points

SBI has 27,000+ ATMs and SBI group (including associate banks) has 32,752 ATMs. SBI has become the first bank to install an ATM at Drass in the Jammu & Kashmir Cargill region. This was the Bank’s 27,032\textsuperscript{nd} ATM on 27 July 2012.

Logo and Slogan

- The logo of the State Bank of India is a blue circle with a small cut in the bottom that depicts perfection and the small man the common man - being the center of the bank’s business.

Listings and Shareholding

As on 30 June 2013, Government of India held around 62% equity shares in SBI.
Over 800,000 individual shareholders hold approx. 5.7% of its shares. Life Insurance Corporation of India is the largest non-promoter shareholder in the company with 10.9% shareholding.

**Table No. 3.2:**

**Shareholders of SBI and their Shareholdings**

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoters: Government of India</td>
<td>62.31%</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>11.90%</td>
</tr>
<tr>
<td>Foreign Institutional Investors</td>
<td>09.79%</td>
</tr>
<tr>
<td>Individual shareholders</td>
<td>05.70%</td>
</tr>
<tr>
<td>GDRs</td>
<td>02.71%</td>
</tr>
<tr>
<td>Others</td>
<td>07.59%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Sources: Various annual reports of SBI.*

The equity shares of SBI are listed on the BSE where it is a constituent of the BSE Sensex index, and the National Stock Exchange of India, where it is a constituent of the S&P CNX Nifty. Its Global Depository Receipts (GDRs) are listed on the London Stock Exchange.

**Employees**

SBI is one of the largest employers in the country having 228,296 employees as on 31st March 2013, out of which there were 46,833 female employees (21%) and 2,402 disabled employees (1%). On the same date, SBI had 43,550 Schedule Caste (19%) and 16,764 Schedule Tribe employees (7%). The percentage of Officers, Assistants and Sub-staff was 35%, 48% and 17% respectively on the same date. *Hiring drive:* The bank hired 20,682 Assistants in FY 2012-13, from over 30 lakh applicants, for expansion of the branch network and to mitigate staff shortage, particularly at rural and semi-urban branches. In the same year, it recruited 847 probationary officers from around 17 lakh
candidates which applied for officers’ position. *Staff productivity:* As per its Annual Report for FY 2012-13, each employee contributed to revenues of INR 944 Lakh and net profit of INR 6.45 Lakh.

**Recent Awards and Recognitions**

- SBI was ranked 298th in the Fortune Global 500 rankings of the world’s biggest corporations for the year 2012.
- SBI won "Best Public Sector Bank" award in the D&B India's study on 'India's Top Banks 2013'.
- SBI won National Award for its performance in the implementation of Prime Minister’s Employment Generation Programme (PMEGP) scheme for the year 2012.
- Best Online Banking Award, Best Customer Initiative Award & Best Risk Management Award (Runnerup) by IBA Banking Technology Awards 2010
- SKOCH Award 2010 for Virtual Corporation Category for its e-payment solution
- SBI was the only bank featured in the "top 10 brands of India" list in an annual survey conducted by Brand Finance and *The Economic Times* in 2010. The Bank of the year 2009, India (won the second year in a row) by The Banker Magazine
- Best Bank– Large and Most Socially Responsible Bank by the Business Bank Awards 2009
- Best Bank 2009 by Business India
- The Most Trusted Brand 2009 by The Economic Times.
- SBI was named the 29th most reputed company in the world according to Forbes 2009 rankings
• Most Preferred Bank & Most preferred Home loan provider by CNBC
• Visionaries of Financial Inclusion By FINO
• Technology Bank of the Year by IBA Banking Technology Awards
• SBI was 11th most trusted brand in India as per the Brand Trust Report 2010.

Major Competitors

Some of the major competitors for SBI in the banking sector are ICICI and HDFC, Axis Bank, Bank of India, Punjab National Bank and Bank of Baroda, Canara Bank. However in terms of average market share, SBI is by far the largest player in the market.

Associate Banks of the State Bank of India

The State Bank of India came into existences on July 1<sup>st</sup> 1955 taking over all the assets, liabilities and offices of the imperial bank. The ‘committee of direction of all India Rural credit survey 1954’, had recommended the amalgamation of the ten associated banks with the SBI. Since none of the suggested banks was prepared to merge with the SBI, a via media was found in converting eight of these banks as subsidiaries of the SBI. To achieve this, the State Bank of India (Subsidiary Banks) Act was passed on September 10, 1959 to provide for the constitution, management and control of subsidiary banks. The State Bank of Hyderabad became under the Act, the first subsidiary of the SBI on October 1, 1959. The other banks coming into the field were: the Bank of Jaipur, the Bank of Saurashtra, the Bank of Patiala, the Bank of Bikaner, the Bank of Indore, the Bank of Mysore and the Travancore Bank. The Bank of Rajasthan and the Bank of Baroda preferred to stay out as independent institution.

The board particulars of these eight banks as at the end of December 1959 on the end of their joining the state bank groups are given in table no. 3.3. The total paid up capital of eight subsidiary banks stood at Rs. 4.3 crore with 336 offices at the end of December 1959. This structure of the subsidiary banks additional
strength and stability to the State Bank of India so as to enable is to function as a more effective instrument of national policy.

Table No. 3.3:

Statement Showing the Progress of SBI & Its Associates

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital, Reserve &amp; Surplus</th>
<th>Deposits</th>
<th>Advances</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>42941</td>
<td>633475</td>
<td>482270</td>
<td>211874</td>
</tr>
<tr>
<td>2007-08</td>
<td>61706</td>
<td>773874</td>
<td>593723</td>
<td>263824</td>
</tr>
<tr>
<td>2008-09</td>
<td>72421</td>
<td>1007041</td>
<td>739450</td>
<td>357624</td>
</tr>
<tr>
<td>2009-10</td>
<td>83726</td>
<td>1108086</td>
<td>858198</td>
<td>377658</td>
</tr>
<tr>
<td>2010-11</td>
<td>84394</td>
<td>1245862</td>
<td>994145</td>
<td>385697</td>
</tr>
<tr>
<td>2011-12</td>
<td>107249</td>
<td>1405024</td>
<td>1151991</td>
<td>417322</td>
</tr>
<tr>
<td>2012-13</td>
<td>125319</td>
<td>1618445</td>
<td>1379224</td>
<td>472998</td>
</tr>
</tbody>
</table>

Sources: Various annual reports of SBI.

The process of integration of small banks with the SBI continued. Accordingly in 1962, the born State Bank and the Unity Bank (Madras) were amalgamated with the SBI. The State Bank of Jaipur and the State Bank of Bikaner were amalgamated in 1963 under the new name of State Bank of Bikaner and Jaipur. During 1964, the Cochin Nayar Bank Ltd., Trichur (Kerala) and the Latin Christian Bank Ltd., Ernakulam (Kerala) were taken over by the State Bank of Travancore under scheme of amalgamation sanctioned by the Government of India under section 38 of the State Bank of India (Subsidiary bank) Act 1959.

The State Bank of Mysore took over the Malang Bank Ltd. Terikere (Mysore) and the State Bank of Travancore acquired the business of the Bank of Always Ltd. and the Chaldean Syrian bank Ltd. During the year 1965 under the scheme of amalgamation, in 1966, the state Bank of Patiala took over the new fund business of the Himalaya Bank Ltd. Palampur (Kangra district) and in the same year the business of the Govind Bank (private) Ltd. Mathura was acquired by the
Development and Role of Banking in India

state bank of Bikaner and Jaipur. There have been no take over’s by the subsidiary banks offer 1966.

Table no. 3.3 reveals that the owned funds of SBI & its associate banks (i.e. capital, reserve and surplus) have been increased. It was 42941 crore in 2006-07 which have been increased to 125319 crore in 2012-13. It has gone up by about 192 times. The total deposits, which were 633475 crore in 2006-07, increased to 1618445 crore in 2012-13. It has gone by about 155 times during the period. The total advances, which were 482270 crore in 2006-07, increased to 1379224 crore in 2012-13. It has gone by about 186 times during the period. The total investment increased from 211874 crore in 2006-07, to 472998 crore in 2012-13. It has increased by about 123 times during the period.

Table No. 3.4:

Statement Showing the Branches of SBI in India

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI Branches in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>9231</td>
</tr>
<tr>
<td>2007-08</td>
<td>10186</td>
</tr>
<tr>
<td>2008-09</td>
<td>11448</td>
</tr>
<tr>
<td>2009-10</td>
<td>12496</td>
</tr>
<tr>
<td>2010-11</td>
<td>13542</td>
</tr>
<tr>
<td>2011-12</td>
<td>14097</td>
</tr>
<tr>
<td>2012-13</td>
<td>14816</td>
</tr>
</tbody>
</table>

Sources: Various annual reports of SBI

Nationalisation of Commercial Banks

Within the time horizon of eighteen years of planning from the first plan in 1950-51 till the beginning of the fourth plan in 1969, The Indian banking system had made substantial progress, both functionally and location ally. But people at large were dissatisfied with the working of the commercial banks in our country. There
were complaints, that the bulk of the bank advances was directed to the large and medium sized industries, while the priority sector such as agriculture, small scale industries and exports were not receiving their due share. There was need for stimulating saving and attracting them to the banking system in order to meet the growing demand for bank credit. To cure such ills, thus, it was felt that radical changes in the structure and functioning of commercial banks were absolutely necessary. The policies and practices of the banking system must serve the basic social and economic objectives. In this respect, a new banking policy was initiated by the congress government in 1967, described as the 'social control of banks' which was deemed to be a via media between complete social ownership, i.e. nationalization, and maintenance of status quo. According to the AICC resolution, social control means greater participation of banks under the effective guidance of the state in the mobilization of deposits and allocation of credits to the socially desirable sector of economy i.e. agriculture, small scale industries, exports etc. which could ensure enlarged material benefits to the country at large. Thus, it is a sort of stiff regulation of banking activities through appropriate policy measure and legislation.

In short, the functional mode of banking had considerably changed due to social control measure, by the late sixties as banks adopted the policy of directing credit to the priority sectors agriculture, small scale industry and export. The management of banks too was being reconstituted and began to be better supplied with expertise. Indeed, banks had whole heartedly taken certain measures to achieve the objectives of social control. Never the less, judging the situation, over a short span of six months, the government felt that the progress made by commercial banks under social control was inadequate to achieve the social goals. It was observed that though the management board of the banks was reconstituted, the industrialists and business magnates managed to remain on the boards and could still use their influence. As such public ownership of banks was felt as an inevitable means to reach socialism. For this, there was a strong demand for nationalization of commercial banks by the left congress and
the communists on the ground those commercial banks

(a) Had been owned and controlled by a few persons;
(b) Had led to the concentration of wealth and economic power in the hands of few;
(c) Had failed to mobilize the saving of public effectively;
(d) Had discriminated against small business units and had ignored agriculture completely;
(e) Has been used by directors to promote only those companies in which they were interested;
(f) Had used their funds to promote unsocial activities such as hoarding and black marketing; and
(g) Had failed to be guided by the positive social objectives of five year plans.

Eventually, Saturday, July 19, 1969 was a glorious day in the current history of Indian banking. The government issued an ordinance promulgated by the then acting president, for the takeover of 14 major Scheduled Commercial Banks with more than Rs. 50 crore of deposits. The nationalization bill was subsequently passed by parliament as the banking companies (acquisition and transfer of undertakings) Act 1969 which received the precedent’s assent on 9th of August, 1969. The ordinance was, however, challenged by a few, and a stay order of the Supreme Court was received. Considering the violation of article 14 (discrimination) and article 31 (compensation on compulsory acquisition of property) of Indian constitution, the banking companies (acquisition and transfer of undertaking) Act 1969 was declared invalid by the Supreme court on 10th of February, 1970. On February 14, 1970 the president of Indian promulgated the banking companies (Acquisition and transfer of undertaking) ordinance 1970, which re-nationalized these banks. The act was passed on 31st March, 1970 with retrospective effect keeping the original nationalization intact. The nationalization of the 14 major commercial banks constitutes an important landmark in the banking history of the country. As a result of this step nearly 85% of the deposits of banks.
Major Commercial Banks

Beside fourteen commercial banks nationalized in July 1969, six more private commercial banks were taken over of the Government on April 15, 1980 under the banking companies (acquisition and transfer of undertaking) ordinance, Act.

These banks were:
1. The Andhra Bank Limited
2. The Corporation Bank Limited
3. The New Bank of India Limited
4. The Oriented Bank of Commerce Limited
5. The Punjab and Sindh Bank Limited
6. The Vijaya Bank Limited

Each one of these had crossed the deposit mark of Rs. 100 crore. These have been paid a compensation of Rs. 10.5 crore in cash or promissory notes or both. The major reason which prompted the Government to go in for this phase of nationalization was to involve them in the lamenting the 20 point economic program and increase the share of priority sector advances from 33.3% to 40% over the next five years.

So now there are 20 nationalized commercial banks in all in addition to the state bank of India group. It is generally agreed that the results of nationalization has been very good, especially in the field of credit planning and expansion of banking offices.

Table no. 3.5 shows that after the nationalization, the capital of nationalized banks increased which was Rs.11381 crore in 2006-07 rose to Rs. 17877 crore showing an increase by about 57 times during the period. The deposits of nationalized banks which were amounted to Rs. 1360724 crore in 2006-07 rose to Rs. 4127252 crore in 2012-13. Which increased during the period rose by about 203 times.
Table No. 3.5:

Statement Showing the Progress of Nationalised Commercial Banks

(Amount in Rs. Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>Deposits</th>
<th>Advances</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>11381</td>
<td>1360724</td>
<td>957697</td>
<td>452981</td>
</tr>
<tr>
<td>2007-08</td>
<td>11499</td>
<td>1679993</td>
<td>1203782</td>
<td>535205</td>
</tr>
<tr>
<td>2008-09</td>
<td>12456</td>
<td>2105706</td>
<td>1519762</td>
<td>12865</td>
</tr>
<tr>
<td>2009-10</td>
<td>12440</td>
<td>2583716</td>
<td>1843102</td>
<td>14850</td>
</tr>
<tr>
<td>2010-11</td>
<td>17958</td>
<td>3126586</td>
<td>2310279</td>
<td>950380</td>
</tr>
<tr>
<td>2011-12</td>
<td>17096</td>
<td>3596989</td>
<td>2726321</td>
<td>1086754</td>
</tr>
<tr>
<td>2012-13</td>
<td>17877</td>
<td>4127252</td>
<td>3093550</td>
<td>1286108</td>
</tr>
</tbody>
</table>

Sources:
RBI: Various annual reports of nationalized commercial banks.

Whereas the advances and investment of these banks rose by about 223 times and by about 184 times to Rs. 3093550 crore in 2012-13 and Rs. 1286108 crore in 2012-13 respectively as compared to Rs. 957697 crore and Rs. 452981 crore in 2006-07.

Lead Bank Scheme

With the nationalization of 14 banks the Government took the initiative of extending the banking system to rural areas and was looking for a scheme of rapid branch expansion. The national credit council study group under the chairmanship of prof. D.R. Gadgil first recommendation the area approach to nationalized banks. The committee of banks, known as the Nariman Committee appointed by the RBI in 1969 accepted the area approach and gave a practical shape to it under the title ‘Lead bank scheme’ towards the end of 1969 the RBI accepted the scheme and finalized a Lead bank scheme for all the 380 districts in the country. Under the scheme all the nationalized banks and a few private sector banks were allotted specific districts and were asked to play the ‘Lead
role’ the allotment of districts at the various banks was based on such criteria as the size of the banks. The adequacy of its resources for lending the volume of work, contiguity of districts, the regional orientation of banks, the desirability for each state to have more than one Lead banks operating in the territory and to the extent possible for each banks to operate in more than one state.

The basic aim of the Lead bank scheme is that the individual banks known as Lead bank adopt a particular district for intensive development. Under the scheme the Lead bank acts as the leader to bring about a coordination of co-operative banks. Commercial banks and other financial institutions in their respective districts works to bring about rapid economic development. They make a quick survey of their lead districts, identify unbanked centers and prepare a phased programed for branch expansion in the district. On the basis of the survey, the lead bank estimates the deposit potential and fills the credit gap in its district.

**Development of Agricultural and Rural Banking**

Agriculture in India has a significant history. Today, India ranks second worldwide in farm output. Agriculture and allied sectors like forestry and fisheries accounted for 16.6% of the GDP in 2009, about 50% of the total workforce. The economic contribution of agriculture to India’s GDP is steadily declining with the country’s broad-based economic growth. Still, agriculture is demographically the broadest economic sector and plays a significant role in the overall socio-economic fabric of India.

**Regional Rural Banks (RRBs)**

This is a new category of scheduled banks which came into existence on the 2\textsuperscript{nd} October 1975, when five regional rural banks were established under an ordinance entitled Regional rural banks ordinance 1975. The ordinance was
interred replaced by an act of parliament which came into force with effect from February 9, 1976.

**Objective**

There low cost institution aim at providing effective alternative credit facilities to the rural population especially to that covered under the debt relief measure. The borrowers from these banks are thus small and marginal farmers, agricultural laborers, artisan and small entrepreneurs in rural areas. Each RRB is sponsored by a public sector banks, which provides assistance in several ways, viz, subscription to its share capital, provision of such managerial and financial assistance as may be mutually agreed upon, and help in the recruitment and training of personnel during the initial period of its functioning.

The authorized capital of each RRB is Rs. 1 crore and the issued capital is Rs. 25 lacks, of the issued capital 50% is being subscribed by the Government of India 15% by the concerned state Government, and the balance of 35% by the sponsor bank. The management of each RRB is vested in a nine member board of directors headed by a chairman who is appointed by the Government of India.

**Progress and Achievement of Regional Rural Banks**

The progress of regional rural banks may be given as under

1. Branches expansion
2. Loan to agricultural sector
3. Financial assistance to weaker sector
4. Capital formation

**1- Branches Expansion**

Regional rural banks have provided banking services to rural people on door to door basis. They have opened their branches in remote area where banking facilities were not available. On 2 October 1975, initially in U.P., at Moradabad and in Gorakhpur, Jaipur in Rajasthan, Bhiwani in Haryana, Malda in West
Bengal banks were started and they have made remarkable progress during the period of four years - the branches of these banks in 1980 were 11652 in place having population of less than 10000, which increased to 15100 in year 2010. These banks started their working by opening new branches in backward region. At present almost in every 23 states of India, RRBs have been established. The maximum branches are in Uttar Pradesh. It is expected that by the end of 2011, 83 percent of more new branches will be opened in rural areas.

2- Loan to Agriculture


Credit card scheme for farmers was started in year 1998-99. This was a new scheme for providing short term loans to the farmers. The no. of credit cards issued by 196 regional rural banks has been increased continuously. Till 30th September 2004, and the number of credit cards issued was 44063 lakh and it increased to 46.2 lakh in 2010-11.

3- Financial Assistance to Weaker Section

These banks have provided assistance to small and marginal farmers, land less labors and rural artisans. They have done remarkable work of finance under different development plans. About 90 percent of loans have been provided to weaker section category of farmers.

4- Capital Formation

RRBs have played a remarkable role in the rural development of the country. They have contributed in collecting small saving and helped in the formation of
capital. They have recruited staff from rural areas and have given employment to rural masses. They were helped in expansion of rural employment scheme.

**National Bank for Agriculture and Rural Development (NABARD)**

The establishment of the national bank (NABARD) on July 12, 1982 is a landmark in the field on rural finance. NABARD has been entrusted with their types of functions:

**Credit Functions**

It provides through the banking system all kinds of productive and investment credit to agriculture, small scale industries, cottage and village industries, handicraft and other allied economic activities, it provides different types of refinance i.e. short term, medium term and long term to the eligible institution, namely (a) state co-operative banks (b) regional rural banks (c) state land development banks (excluding short term) (d) commercial banks (only long term) and other financial institution approved by the Reserve Bank of India. NABARD has prescribed lower rates of interest on the refinance provided by it and the rates payable by the ultimate borrowers.

**Development Function**

NABARD co-ordinates the operations of rural credit agencies, develops expertise to deal with agricultural and rural problems, assists Government, Reserve banks and other institutions in rural development efforts, acts an agent to Government and Reserve Bank in relevant areas. It providing facilities for training and research assists the state Government to enable them to contribute to the share capital of eligible institution.

**Progress-**

NABARD recorded high levels of performance in purveying rural credit during 2012-13. The aggregate assets held by NABARD rose to Rs.2,13,170 crore as
on 31 March 2013, an increase of Rs.30,700 crore (17%) compared to the position as on 31 March 2012.

**Refinance to Banks**

Refinance assistance provided by NABARD to cooperative banks, Regional Rural Banks (RRBs) and commercial banks during 2012-13 to disburse crop loans to farmers touched an all-time high of Rs.66,095 crore, registering an increase of 36 per cent over the previous year. The investment refinance provided to banks by NABARD during 2012-13 for capital formation in agriculture and allied sectors and for non-farm activities stood at Rs.17,674.29 crore, registering an increase of 15 per cent growth over last year.

**RIDF to State Government**

Another all-time high was achieved by NABARD under Rural Infrastructure Development Fund (RIDF) by disbursing Rs.16,292.26 crore during 2012-13, which was 8 per cent more than the disbursements made to state governments during 2011-12. Sanctions given by NABARD under the RIDF-XVIII was Rs.20,588.34 crore. These loans are used by State governments to create infrastructure in agriculture and allied sectors including irrigation and power, rural connectivity through rural roads and bridges, health, education, rural drinking water supply, etc.

**NABARD Infrastructure Development Assistance**

NIDA is designed to assist State Governments and other State owned organizations/ Corporations, both on-budget as well as off-budget funding on flexible terms, outside RIDF, for creation of rural infrastructure. Under this facility during 2012-13, term loans of Rs.2818.46 crore has been sanctioned and Rs.859.70 crore has been disbursed to various State owned entities.
**Direct Lending to Co-operative Banks-**

The implementation of Revival Package as per Vaidyanathan Committee recommendations has enabled CCBs to raise financial resources from sources other than the SCB. NABARD has designed a Short Term Multipurpose Credit Product for financing directly to CCBs. Under this line of credit Rs.3,385 crore of loan has been sanctioned to 42 CCBs and 3 STCBs and Rs.2,363.45 crore has been disbursed during 2012-13.

**Watershed Development-**

NABARD's total commitment under watershed development programme rose to Rs.1686 crore. During 2012-13, 29 Watershed projects were sanctioned with total commitment of Rs.306.36 crore under watershed development programmes anchored by NABARD. Disbursement under the Prime Minister’s programme in distressed districts during 2012-13 was Rs.230.56 crore. Under Indo-German Watershed Development Programme (IGWDP), an amount of Rs.29.38 crore was disbursed. Under the Planning Commission funded Integrated Watershed Development Programme in Bihar, the cumulative disbursement as on 31 March 2013 stood at Rs.54.54 crore.

**Tribal Development-**

During 2012-13, assistance of Rs.224.26 crore was sanctioned for 69 projects benefiting 53,700 tribal families. The cumulative sanction stood at 484 projects in 26 states/UTs benefiting 3.80 lakh tribal families, who were assisted from the Tribal Development Fund (TDF) of NABARD to the tune of Rs.1432 crore.

**Institutional Development – Regional Rural Banks (RRBs)**

As on 31 March 2013, Core Banking Solution (CBS) was implemented in all 64 RRBs. Further, recapitalisation assistance to the tune of Rs.2015.86 crore has been released to 35 RRBs. NABARD also coordinated with Institute of Banking...
Personnel Selection (IBPS) for recruitment of staff and officers in RRBs and was entrusted with the responsibility for coordination and supervision of the selection process, besides finalisation of methodology.

**Institutional Development – Short term and Long term Cooperatives**

Training has been imparted to nearly 3.5 lakh personnel from the STCCS in business development and profitability, change management, CAS/MIS and other relevant areas. Studies have shown that these measures have lead to increase in volume of business and credit flow of CCS entities besides cleansing their balance sheets, improved governance and increase in coverage of SF/MF and borrowing membership. Assistance under the Cooperative Development Fund (CDF) has been provided by way of disbursement of Rs.21.87 crore for the year 2012-13. This assistance has been given separately for training and capacity building of officials of Cooperatives for various skill building initiatives. The cumulative disbursement under CDF was Rs.130.95 crore as on 31 March 2013.

**NABCONS**

NABARD Consultancy Services (NABCONS) is a subsidiary of NABARD, established to provide consultancy services to a wide range of clients. The Company registered an impressive and diversified performance in consultancy business during the financial year 2012-13 and earned income of Rs.25.75 crore. It helped promote private investment and financing in commercial agricultural projects by preparation of detailed project reports, techno economic feasibility reports and appraisal studies.
Establishment of Special Institution- Developmental Banking

Industrial Development Bank of India (IDBI):

Industrial Development Bank of India is the apex banking institution in the field of long term industrial finance. It was established on May 16, 1964 as the wholly owned subsidiary of the Reserve Bank of India. IDBI was delinked from the Reserve Bank on 16th February 1976, when its entire share capital was transferred to the Central Government. Consequently, its role was also enlarged to enable it to help in the activities of all India term lending institution and to some extent the Public Sector Banks.

Objectives

The function of the IDBI as enumerated in its preamble are in two board categories i.e. (a) direct assistance, and (b) indirect assistance to large and medium industries. Major portion of the direct assistance is provided in the form of project loans to industries. IDBI also provide assistance by way of underwriting and direct subscription in the shares and debentures of industrial undertaking. IDBI also provides soft loans for the modernization of all industries. In 1984, IDBI introduced equipment finance scheme, wherein foreign currency loans are made available to industrial concerns for import of capital goods and equipment.

Indirect assistance is provided by the bank to tiny, small and medium enterprises, through other financial institution like the IFCI and ICICI in the number of ways, namely:

(a) By way of refinance of industrial loans granted by SFC, SIDCs, commercial banks, cooperative banks and RRBs.
(b) Re-discounting of bills arising out of sale of indigenous machinery on differed payment basis, and
(c) Seed capital assistance granted to new entrepreneurs generally through SFCs and SIDCs.
(d) IDBI also subscribes to the shares and Bonds of SFCs and NSICI.
Progress of IDBI

In 1980-81 the amount of loan sanctioned was Rs. 1240 crore and loan distributed was Rs.1010 crore. But thereafter the loan sanctioned was Rs. 6250 crore in 1990-91, Rs. 23713 crore in 1999-2000, Rs. 6292 crore in 2002-03, Rs. 5474 crore in 2003-04, Rs. 5615 crore in 2008-09, Rs.6210 crore in 2009-10 and Rs. 8115 crore 2010-11 and their distributed loan was Rs. 1010 crore, Rs. 4460 crore, Rs. 17063 crore, Rs. 6478 crore, Rs. 4822 crore, Rs. 5315 crore, Rs. 6100 crore and Rs. 8050 crore respectively in year.

The Export-Import Bank of India (EXIM Bank)

The most significant step in the provision of a comprehensive package of financial and allied services to the exporters and importers is the setting up of the Export-Import Bank of India on January 1, 1982. It is a statutory corporation, wholly owned by the union Government and has been designed to operate as a development bank in the area of Indian foreign trade.

Objectives

The main objective of EXIM Bank is to promote finance and facilitate export and import of goods and services with a view to encourage country’s international trade. As an apex financial institution, it also acts as the principal offices for co-coordinating the activities of various institutions engaged in financing export and import. In India’s export efforts, EXIM Bank is a new factor and the emphasis is on finance, export or consultancy and related services, assist Indian joint ventures in third countries, conduct export market studies, finance export oriented industries, and provide international merchant banking services, project service etc. as the short term credit requirements of exports are largely taken care of by commercial bank the present focus of EXIM Bank is on export credit arises. Deferred export credit is available for the sale of Indian machinery, manufactured goods and related services. Such credit may be in the form of supplier’s credit on buyer’s credit. The bank has introduced a variety of scheme
for the promotion of export of engineering capital goods and technology consultancy services. It offers financial assistance on flexible and responsive credit term to enable Indian exporters to compete in international market. It operates three broad programmes of financing viz., loans, rediscounting and guarantees. The bank also undertaking limited merchant banking functions such as underwriting of stocks, shares, bonds or debentures of companies engaged in export or import and providing technical, administrative and financial assistance to parties in connection with export or import.

EXIM Bank of India has claimed the first position among Asia`s giants in banking. In term of both, return on assets and net income per employee, it ranks the first among top 100 ‘Asian Banks’.

**Progress**

Over the seven years ending 31\textsuperscript{st} March 1989 export contracts valued at Rs. 3800 crore had been financed by EXIM Bank. Aggregate loans and advanced as on the date were Rs. 3154.5 crore. During the Year ending on 31 March, 2003, EXIM Bank sanctioned loans of Rs. 7,828 crores while disbursements amounted to Rs. 5,320 crores, Net Profit (before tax) of the bank for the period 2002-03 on account of General Fund amounted to Rs. 268 crore.

**Industrial Reconstruction Bank of India (IRBI)**

Industrial Reconstruction Bank of India was set up as statutory corporation on 20 March, 1985 by reconstituting the erstwhile Industrial Reconstruction Corporation of India. IRBI has been established as a principal institution to provide credit and investment needed for rehabilitation of sick industrial undertakings and promotion of industries in general. Prevention of industrial sickness is the main objectives of IRBI. Authorized capital of IRBI in Rs. 200 crore and paid up capital as on 31\textsuperscript{st} March 1989 was Rs. 112.5 crore. By June 1989 cumulative financial assistance and disbursed stood at Rs. 915.55 crore and Rs. 624.11 crores respectively.
National Housing Bank

National Housing Bank is the latest apex bank set up in India. It is a statutory corporation established under the National Housing Bank Act 1987, as a wholly owned subsidiary of Reserve bank of India, which has subscribed its entire share capital of Rs. 100 crore which was raised to Rs. 150 crores on September 7, 1989. The bank was started functioning on 9th July, 1988 with its Head Office in Delhi.

Objectives

The primary responsibility of bank is to promote and develop specialized housing finance institution for mobilizing resources and extending credit for housing. The bank is empowered to extend refinancing facilities to housing finance institutions and to scheduled banks. The bank has also been given the power to inspect the books and accounts of any housing finance institution to which it has given financial assistance.

In order to make the scheme attractive, some fixed concessions have been given. Saving in the HLAS of the NHB would qualify for deduction from income under section 88 of the income tax Act 1961. Repayment of the housing loan up to a maximum of Rs. 10,000 per annum would also qualify for deduction under section 88. Furthermore, investment under the HLAS would be exempted from wealth tax subject to the overall ceiling of Rs. 5 lacks under section 5 of the wealth tax Act.

Small Industries Development Bank of India (SiDBI)

Small Industries Development Bank of India was established as a wholly owned subsidiary of Industrial Development Bank of India under The Small Industries Development Bank of India Act 1990, as the principal financial institutions for promotion, financing and development of small scale industries. It is also expected to coordinate the functions of existing institution engaged in similar
activities. SIDBI commenced its operation on April 2, 1990 and has taken over from IDBI the responsibility of administering the small industries development fund and the national equity fund.

To some up, it may be said that the foundation of modern banking in India was laid during the British period. After Independence, the banking industry has witnessed a phenomenal and multi-dimensional growth in the country not only in terms of coverage but also in terms of services. Commercial banks were nationalized with the objective of identifying bank operations with national policy objective like increased production, diffusion of economic power, reduction of inequalities and removal of poverty through expansion of branch network, mobilization of deposits development of funds in productive endeavors, meeting the need of priority and neglected sector, reduction of regional and sectoral imbalances, growth of new entrepreneurs, professionalization of management and improvement in the efficiency and terms of service of bank employees. Various other measures adopted by Government have resulted in strengthening the banking structure and putting banking industry on a sound and stable base to meet the multi-furioso requirement of a developing economy like India. Banking has transformed itself from `elite banking to `mass banking`. Indian banks have assumed new responsibilities in the fields of geographical expansion, diversification and personal portfolio.

References:
