CHAPTER-ONE

BANKING IN INDIA

Development Of Banks: -- Origin of the Banks is thousands of years old and associated with an Italian word "Banco". The meaning of this word was to make exchange of money on the benches. During ancient period moneylenders used to offer exchange facilities of currency over these benches. Such a system of exchange of currency was quite common in India, European countries and many other nations. Traders, tourists and pilgrims used to exchange currencies over these places for purchases of goods from the countries they use to visit. Moneylenders also employed armed gaurds for the safety of their wealth with the passage of time. Trust of the people increased in the system and they started depositing their wealth such as gold and silver ornaments and other valuable articles with moneylenders. In turn moneylenders issued receipts of the articles and charged security fees in lieu of the services. These receipts worked as the medium of money exchange resulting into gradual increase in the practice and development of banking system. Gradually with the increasing deposits, moneylenders began to think regarding utilization of idle wealth. They began to advance deposited wealth with them started charging interest on it. Now, they stopped charging security fees from the depositors. But they started offering some interests on their deposits. The practice was to charge higher interest rate from the borrowers and offer lower interest rate to the depositors. The gap in the two interest rates used to be the earnings
of the moneylenders. This is how exchange of money grew with the passage of time.

After the passage of change in the old system, the moneylenders or dealers started to offer some interests in place of issuing merely a receipt. They also extended the service of borrowings on a definite rate of interest. People who dealt with borrowing on a set rate of interest came to be known as old sarrafs. But they were not the bankers because their sole objective on such lending was to earn interest to multiply their money. As a matter of fact, banking system originated in Babylone and consequently adopted in other countries of the world. The old banking system flourished leading to the establishment of banking houses. Banking houses provided the facility of loan for the business on some rates of interest.

Banking houses had to face lot of problems as the payment of interest on their borrowing was banned due to basic change in the system of administration. Banking system was paralyzed and had to suffer unexpected loss as a result of basic change. Industrial revolution during 18th century revived the banking system in a big way following the establishment of industries at a large-scale, which needed major borrowings to develop. The period of industrial revolution as marked with the significant increase in the system of banking. The modern banking system traces its origin with the establishment of banks in Spain, in 1401. Importance of the banks
increased gradually and now banks play crucial role in the economic development of all countries in the world.

Banking in India is indeed as old as Himalayas. But, the banking functions became an effective force only after the first decade of 20th century. To understand the history of modern banking in India, one has to refer to the "English Agency Houses" established by the East India Company. These Agency Houses were basically trading firms and carrying on banking business as part of their main business. Because of this dual functions and lack of their own capital (Agency Houses depend entirely on deposits of their capital requirements) they failed and vanished from the scene during the third decade of 18th century.

The East India Company laid the foundations for modern banking in the first-half of the 19th century with the establishment of the following three banks: -

(i) Bank of Bengal in 1809
(ii) Bank of Bombay in 1840
(iii) Bank of Madras in 1843

These banks are also known as “Presidency Banks” and they functioned well as independent units.

During the last part of 19th century and early phase of 20th century, the ‘Swadeshi Movement’ induced the establishment of a number of banks with Indian management.
For example, Punjab National Bank Ltd. in 1895, The Bank Of India Ltd. in 1906, The Canara Bank Ltd. in 1906, The Indian Bank Ltd. in 1907, The Bank Of Baroda Ltd. in 1908, The Central Bank Of India Ltd. in 1911 and many other banks were established on the same line. But most of the weak banks went bankrupt due to wrong policy decisions taken by the management and due to severe banking crisis during 1913-18, the period of World War I. However, the stronger and well-managed banks like those mentioned above survived, the crisis.

In 1920, the “Imperial Bank Of India Act” was passed for amalgamating the three Presidency Banks. As such, the ‘Imperial Bank Of India’ was established in 1921. It was given power to hold government funds and manage the public debts. The branches of the bank were functioning as clearing-houses (Agency for effecting settlement of funds among banks). However, it was not authorized to issue currency.

Even though the need for a Central Bank was felt in the 18th century, it could materialize only in the 20th century. On the basis of the recommendations of the Banking Enquiry Committee, the Reserve Bank of India Act was passed in 1934. Accordingly the Reserve Bank of India was constituted in 1935 to regulate the issue of Bank notes, securing monetary stability in India and to operate the currency and credit system of the country to its economic development. Initially, it was constituted as a private shareholders'
bank with a fully paid up capital of Rs.5 crore. After independence, there was a general attitude towards its nationalization. Thus, the 'Reserve Bank Of India' (Transferred to public ownership) Act was passed in 1948. Accordingly, the entire share capital of the bank was acquired by the Central Government from the private shareholders against compensation and it was nationalized on January 1, 1949. The total value of compensation paid by government amounted to Rs.5.54 crore or Rs.118.63 per share of Rs.100 paid up. It is interesting to note that the paid up capital of Reserve Bank continues to remain at Rs.5.00 crore even now.

In 1955, the 'State Bank Of India Act' was passed. Accordingly the 'Imperial Bank' was nationalized and 'State Bank Of India' emerged with the objective of extension of banking facilities on a large scale, specifically in the rural and semi-urban areas and for various other public purposes.

In 1959, the 'State Bank Of India' (Subsidiary Banks) Act was passed by which the public sector banking was further extended. The following banks were made the subsidiaries of State Bank Of India:

(i) The State Bank Of Bikaner
(ii) The State Bank Of Jaipur
(iii) The State Bank Of Indore
(iv) The State Bank Of Mysore
(v) The State Bank Of Patiala
(vi) The State Bank Of Hyderabad
(vii) The State Bank Of Saurashtra
In 1963, the first two banks were amalgamated under the name of 'The State Bank Of Bikaner and Jaipur'. In 1969, fourteen major Indian commercial banks were nationalized. These banks are Allahabad Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, Union Bank of India, United Bank of India, United Commercial Bank and Vijaya Bank. And in 1980 six more banks were nationalized. These banks constitute the public sector banks while the other scheduled banks and non-scheduled banks are in the private sector.

**Development Of Commercial Banks:** -- Modern researchers have revealed that the business of banking was perfectly understood and fairly practiced by the people of ancient India. During the early muslim and mughal periods the indigenous bankers played an important role in financing trade and lending money to business men and rulers. However, the development of modern banking in India began with the banking activities undertaken by the English Agency Houses at Calcutta and Mumbai, which combined banking with trading. It appears that the earliest bank on western lines was established at Chennai in as early as 1683. M/s. Alexander and Co established the first joint-stock bank, the Bank of Hindostan, at Calcutta in 1770. The bank was wound up in 1832 after the failure of the founder company. The most important step taken in the direction of banking development was the establishment of Presidency Banks at Calcutta.
(1806), Mumbai (1840) and Chennai (1843). Besides ordinary banking functions, these banks also functioned as bankers to the Government. In 1921, these three banks were amalgamated to give birth to the Imperial Bank of India. It was this bank, which performed some of the functions of a central bank also until the establishment of Reserve Bank of India in 1935. The Imperial Bank was nationalized as the State Bank of India in 1955.

The first joint-stock bank with limited liability, the General Bank of India, was set up in 1786, but it perished in 1793. The act of 1860 permitted the organization of joint-stock banks with limited liability. As a result some big banks came into existence, prominent among them being the Allahabad Bank (1865), the Alliance Bank of Simla (1865), the Oudh Commercial Bank (1881), the Punjab National Bank (1894), and the People’s Bank of India (1901). Up to 1874, mostly the Europeans established 14 joint-stock banks with limited liability. The first fully Indian bank was the Oudh Commercial Bank followed by the Punjab National Bank and the People’s Bank of India. However, all the banks established during the period, except the Allahabad Bank the Punjab National Bank, failed subsequently.

The next stage of the development of joint-stock banking began in 1906 with the launching of the Swadeshi Movement. As a result the Bank of India (1906), the Canara Bank (1906), the Indian Bank of Madras (1907), the Bank of Baroda (1908), the Central Bank of India (1911) and a large number of small banks were established before the outbreak of First World War in 1914. in 1913, there were
13 big banks, each having capital and reserves exceeding Rs.5 lakhs, and about 500 small banks operating in the country.

As in all other countries, banking in India had its teething troubles. The banking crises developed from time to time and resulted into failure of many banks. There was a serious banking crisis between 1913 and 1917 when 87 banks with a total paid-up capital of Rs.175 lakhs had failed. Another crisis developed between 1921 and 1924. The Great Depression of 1930s also affected the banks adversely. Between 1922 and 1936, no less than 373 banks had collapsed. 372 more banks closed their doors between 1936 and 1940. The banks in southern India particularly had failed in a large number during this period.

The Second World War gave an opportunity of development and expansion of banking in India. Some of the most important banks established during the war period were the United Commercial Bank, the Hindustan Commercial Bank, the Hindustan Mercantile Bank, the Bank Of Rajasthan, the Bank Of Maharasthra, the Indian Overseas Bank, and the Dena Bank. But the growth of banking was neither well planned nor properly controlled. Between 1939 and 1943, 482 banks with a total paid-up capital of Rs.94 lakh had failed. These were mostly small banks.

In 1947, the partition of the country put a heavy strain on the banks. The Reserve Bank and the Government helped the banks
facing crisis and some of these escaped failure. Between 1947 and 1951, the number of bank failures each year was 37, 45, 53, 45, and 62 respectively.

An important feature of banking development during the war and post-war period was that the association of industrialists with banks became closer. Most of the industrial houses organized banks of their own or obtained control over already established banks. In a virtual scramble for funds, many banks undertook branch expansion quite out of proportion to their resources and without any careful assessment of the business prospects of the towns. Other conspicuous features of the mushroom banks were the inter-locking of shares between banks and other companies in which management was interested, large unsecured advances to persons connected with the management, and advances against speculative shares with inflated prices.

The Reserve Bank of India was given wide powers of supervision and control over banks under the Banking Companies Act 1949 – renamed as the Banking Regulation Act from March 1966. It gave suitable direction to the banking development. In 1960, after the failure of the Palai Central Bank, the Reserve Bank intensified its efforts to strengthen the banking structure. During the period 1960-67, over 200 banks were amalgamated. In July 1969, 14 major Indian scheduled commercial banks were nationalized with the result that together with the State Bank Group, 80 percent of the banking business came under the direct control and ownership of the public
sector. After the nationalization of six more banks on April 15, 1980. The share of public sector banks in total deposits and outstanding credits increased to 90.8 percent and 90.7 percent respectively. Commercial banking in India is now a strictly regulated sector in the Indian economy.

**Nationalization Of Commercial Banks:** -- On July 19, 1969, the Government of India through an ordinance nationalized 14 scheduled commercial banks which had deposits worth Rs.50crores or more. The names of these 14 banks are — (1) Punjab National Bank, (2) Central Bank, (3) Canara Bank, (4) United Bank Of India, (5) Indian Overseas Bank, (6) United Commercial Bank, (7) Bank Of India, (8) Allahabad Bank, (9) Bank Of Baroda, (10) Union Bank, (11) Dena Bank, (12) Syndicate Bank, (13) Indian Bank, (14) Bank Of Maharashtra. Rs.87crores were paid as compensation to the shareholders of 14 banks. On April 15, 1980, six more banks were nationalized. The names of these banks are — (1) Andhra Bank, (2) Punjab and Sindh Bank, (3) Vijya Bank, (4) Corporation Bank, (5) New Bank Of India, and (6) Oriental Bank Of Commerce. Each of these six banks had deposits of more than Rs.200crores. After nationalization, Government acquired full ownership over these banks. On account of the merger of New Bank Of India with Punjab National Bank in 1993, the number of nationalized banks was reduced to 19.
Objective Of Nationalization: -- According to the Banking Companies Act, 1970, "The main objective of the nationalization on banks is to control the heights of the economy and to meet progressively and serve better, the needs of development of the economy in conformity with the national policies and objectives." However, the prime minister in the parliament outlined the important objectives of bank nationalization on July 21, 1969. The following are the principal objectives of bank nationalization --

1. Mobilization Of Saving
2. Expansion Of Banking Facilities
3. Public Confidence In Banking System
4. More Credit To Productive And Priority Sector
5. Development Of Neglected And Backward Areas
6. Decentralization Of Economic Power
7. Check On Speculative purposes
8. Fulfillment Of Social Objectives

Mobilization Of Savings: -- Nationalization of banks aimed at mobilizing savings of peoples to the largest possible extent and to utilize them for the productive purposes. In the words of Mrs. Indira Gandhi, "Nationalization of major banks is a first step towards mobilization of public savings and bring the institutes making their productive use, within the orbit of state ownership."

Expansion Of Banking Facilities: -- Expansion of banking facilities in rural and sub- urban areas was another important aim of nationalization of banks.
Public Confidence In Banking System: -- Before nationalization, many private banks had failed. Hence, it was essential to restore the public confidence in the banking system. Deposits of people are fully safe in nationalized banks because there is no question of failure of nationalized banks.

More Credit To Productive And Priority Sector: -- Another important objective of nationalization of banks was to ensure that the needs of productive sectors of the economy and in particular of those of farmers, small scale industrialists and self-employed professionals are met.

Development Of Neglected And Backward Areas: -- Nationalized banks were expected to foster growth of new and progressive entrepreneurs and create fresh opportunities for neglected and backward areas in different parts of the country.

Decentralization Of Economic Power: -- Nationalization sought to decentralize economic power by breaking the monopoly control of big industrialists upon the banking system.

Check On Speculative purposes: -- Nationalization also aimed at curbing the use of bank credit for speculative and other unproductive purposes.
Fulfillment Of Social Objectives: -- Nationalization sought to ensure that the operations of banking system are guided by larger social purposes and are subject to close public regulation.

Arguments For Nationalization Of Banks: -- The main arguments given in favour of nationalization of banks are as follows --

1. Concentration Of Wealth And Economic Power
2. Check On Credit To Directors
3. Indifference To Agriculture And Small Scale Industries
4. Safety To Depositors
5. Check On Credit For Undesirable Activities
6. Expansion Of Banking In Rural Areas
7. Check On Unhealthy Competition
8. Financing Economic Plan
9. Check On Trade Cycles
10. More Credit To The Poor
11. Check On Monopoly And Foreign Banks
12. Necessary For Building A Socialistic Pattern Of Society
13. Effective Implementation Of Monetary Policy

Concentration Of Wealth And Economic Power: -- The scheduled banks in India were owned and controlled by a few industrial houses which used the funds (deposits) of the banks to build up huge industrial estates. They monopolized big industries, which led to concentration of economic power in a few hands. Nationalization of
banks would bring the banks under the control of government and ensure the use of their resources in the general interest of the public.

**Check On Credit To Directors:** -- The resources of the banks were made available to the directors at concessional rates. In 1969, loans of Rs.265crore were advanced to industries in which the directors of these banks had their personal interest. Nationalization of banks would check the growth of industrial monopolies by a fair distribution of public funds.

**Indifference To Agriculture And Small Scale Industries:** -- Most of the commercial banks were catering the needs of the large industries and trade. In 1969, agricultural loans were merely 2% of the total bank credit while the share of small-scale industries was also only 6%. On the contrary, 64% of the total bank loans were granted to big industries and 20% to the trading activities. Thus, the agricultural sector was totally ignored by these banks, which is the backbone of Indian economy. It was hoped that nationalized banks would properly cater the credit needs of agriculture and small industries.

**Safety To Depositors:** -- Many private banks had failed prior to nationalization. It eroded public confidence in the banking system. Nationalization of banks would provide 100 percent safety to depositors. It would inspire public faith in banking system leading to increase in bank deposits.
Check On Credit For Undesirable Activities: -- Prior to nationalization, credit policy of commercial banks encouraged socially undesirable activities like hoarding, black marketing, speculation, etc. Anti-social elements such as hoarders and black marketers borrowed heavily to make huge profits by creating artificial shortages of essential commodities. Nationalized banks would control such misuse of funds.

Expansion Of Banking In Rural Areas: -- Prior to their nationalization, commercial banks had shown no interest in opening their branches in rural areas and semi-urban areas due to lack of profitability. More and more branches were set up in cities resulting in concentration of banking facilities and unwarranted competition among them. It was argued that nationalization of banks would facilitate the expansion of banking activities in rural areas.

Check On Unhealthy Competition: -- It was also argued that nationalization of banks would eliminate unhealthy competition in the private banking system. Also, the employees of nationalized banks would get better salaries and facilities.

Financing Economic Plan: -- Commercial banks were accused of violating the priorities laid down by the government in plans while granting the loans to industries. Many industries, which nowhere figured in the priority, got huge funds whereas the priority sectors got meager resources. After nationalization, however, resources of these
banks would be available to the government for financing economic plans of the country. The government can use these resources in the most fruitful channels.

**Check On Trade Cycles:** -- The private commercial banks contributed to inflation by creating credit beyond limits. Sometimes, these banks did not co-operate with the Reserve Bank of India in controlling the supply of credit as they did not want to sacrifice their profits. Further, sometimes these banks provided unsecured loans. It was argued that nationalization of banks would ensure regulated supply of bank credit and stability of prices.

**More Credit To The Poor:** -- Private banks avoided giving loans to the poor because they could not offer sufficient securities. But nationalized banks would take care of poor persons like rickshaw-pullers, washer men, carpenters, cobblers etc.

**Check On Monopoly And Foreign Banks:** -- It was argued that nationalized banks would eliminate the monopoly of foreign exchange banks. After nationalization of banks, the country may soon become self-sufficient in foreign exchange business.

**Necessary For Building A Socialistic Pattern Of Society:** -- So long as commercial banks would remain in private hands, the government would not be able to fulfill its commitment of building a
socialistic pattern of society. Nationalization of banks is necessary in order to achieve this objective.

**Effective Implementation Of Monetary Policy:** -- The effective implementation of monetary policy requires proper control of the Reserve Bank of India over the banking activities of scheduled commercial banks. After nationalization of commercial banks, the Reserve Bank would be in a position to exercise effective control over the activities of these banks.

**Achievements Of Nationalized Banks:** -- After bank nationalization in 1969, the commercial banking system in India has improved and has shown impressive progress. The following are the noteworthy achievement of the nationalized banks –

1. Expansion Of Branches
2. Rural Orientation Of Banking Facilities
3. Increase In Deposits
4. Increase In Banking Habit
5. Credit Expansion
6. Credits To Priority Sectors
7. Lesser Importance To Large Scale Industries
8. Differential Rate Of Interest Scheme
9. Export Credit
10. Reduction In Regional Disparities
11. Development Role Of Banks
12. New Schemes
Expansion Of Branches: -- The post- nationalization period has witnessed an unprecedented expansion of bank branches. The 'Lead Bank Scheme' has played an important role in branch expansion programme. The nationalized banks have given special attention to provide banking facilities in under banked regions. In 1969, these banks had 4,553 branches. In 2007, total branches of nationalized banks were 42,803. Now there is one bank branch for every 15,000 people. Whereas in 1969 there was one bank branch for every 65,000 people.

Rural Orientation Of Banking Facilities: -- Before nationalization there was unbalanced growth of banking in India as most of the bank branches was confined to urban areas and sub-urban. However, in the post nationalization period, the main thrust of bank branch expansion policy has been on increasing banking facilities in rural areas. As a consequence, there has been a significant increase in the rural branches of banks since 1969. The total branches of nationalized banks in rural areas were 703 only in June 1969, which rose to 19,927 in 2007. After nationalization, about 70% of new branches were opened in rural and sub-urban areas. In 2007, about 54% of the total bank branches were in the rural areas.

Increase In Deposits: -- Since nationalization of banks, there has been a spectacular rise in their deposits. Aggregate bank deposits in 2006- 2007 were 6,58,938crores as against Rs.4616crores in July 1969. Between 1969 to 2007, bank deposits increased at the rate of
20% per annum as against 9.2% increase between 1951 to 1969. This phenomenal rise in bank deposits was partly due to branch-expansion of banks and mobilization of savings by nationalized banks.

**Increase In Banking Habit:** -- In 1969, per capita bank deposits were Rs.80 only which increased to Rs.10247 in 2006-2007. Likewise, bank credit per capita increased from Rs.60 in 1969 to Rs.6705 in 2006-2007. At present bank deposits is 45% of national income as against 18% only in 1969.

**Credit Expansion:** -- In 1969, total bank credit of scheduled banks was Rs.3275crores, which increased to Rs.243076crores in 2007. One of the major factors, which have contributed to this phenomenon, is massive deposit mobilization.

**Credit To Priority Sectors:** -- One of the main objectives of bank nationalization was to extend credit facilities to the small borrowers in the priority sectors like agriculture, small scale industries, road and water transport, retail trade, small business etc. To achieve this objective, nationalized banks formulated various schemes to provide credit to the priority sectors and neglected sectors.

Before nationalization, scheduled banks advanced Rs.2366crores as loans from 1951 to 1969. The big industries got 75% of the total amount of credit, whereas agriculture was given just
2% of the total amount advanced. In 1969, priority sector was given loans of Rs.147200 crores in 2007. The share of priority sector in total bank credit was only 15% in 1969, which went up to 53.5% in 2006-2007.

**Lesser Importance To Large Scale Industries:** -- The sectoral allocation of bank credit has undergone great qualitative change after the nationalization of banks. Before nationalization, large and medium industries and wholesale trade accounted for about 78% of the total bank credit. However, their share in the total bank credit declined to about 49% in 2007.

**Differential Rate Of Interest Scheme:** -- With the objective of providing bank credit to the weaker sections of the society at concessional rate, the 'Differential Rate Of Interest Scheme' was started in April 1972. Under this scheme, the public sector banks have been providing loans at 4% rate of interest to weaker sections of the society. Nationalized banks are required to advance at least 1% of their total credit under this scheme, 40% of such loans are provided to scheduled caste people. This scheme has shown remarkable success. Under this scheme, loans of Rs483 crores were outstanding in 2007.

**Export Credit:** -- Public sector banks treat the export sector on the priority basis in their credit policy. In 1922, it was made obligatory for the commercial banks to provide 10% of their net loans for export
trade. In 2006-2007, these banks provided loans of Rs.43118.854 for export trade.

**Reduction In Regional Disparities:** -- After nationalization, systematic efforts have been made to open bank branches in the rural and sub-urban areas preferably in areas with no banking facility earlier. In 1969, there were only 2, 41, 67 and 140 bank branches respectively in Nagaland, Himachal Pradesh, Assam and Haryana whereas in 2006-2007 their number increased to 75, 790, 1,256 and 1,523 respectively. This branch expansion policy has certainly contributed to the reduction in regional imbalances.

**Development Role Of Banks:** -- After nationalization, these banks have given up their traditional policy of maximizing profits for the shareholders and have rather adopted the developmental role in the interest of the country.

**New Schemes:** -- After nationalization, public sector banks have introduced various new schemes to mobilize saving of the people of low-income group. Some of these schemes are – (i) Retirement Plan Account, (ii) Cumulative Deposit Cum Annuity Scheme, (iii) Deposit Linked Life Insurance Scheme, (iv) House Building Deposit Scheme, (v) Monthly Interest Scheme, (vi) Prize Bonds Scheme, (vii) Gift Cheques Scheme etc.
Progress Of Commercial Banking In India: -- After independence, the adoption of economic planning has provided direction and purpose to the commercial banking in India. Hence, a number of changes have taken place in structure and functioning of Indian banking system. Significant among them are discussed below –

1. Decrease In Number Of Banks
2. Branch Expansion
3. Branch Expansion In Rural Areas
4. Increase In Bank Deposits
5. Increase In Cash Deposit And Investment Deposit Ratio
6. Credit Expansion
7. Development-Oriented Banking
8. Advances To Priority Sectors
9. Credit To Export Sector
10. Foreign-Exchange Business
11. Reduction In Competition
12. New Functions
13. Increase In Small Customers

Decrease In Number Of Banks: -- The number of commercial banks has considerably declined since independence. The number of commercial banks has declined sharply from 474 in 1951 to only one in 2006. This decline in the number of banks is mainly due to the Reserve Bank's policy of merger and amalgamation of small and non-viable banks with big banks.
Branch Expansion: -- There has been a rapid as well as manifold branch expansion of commercial banks in India. The numbers of branches of scheduled banks were 2,647 in 1951, which rose to 8,262 in 1969, and 68,480 in January 2007. The banking coverage as a whole has also much improved from one branch for 87,000 persons in 1951 to one branch for every 12,000 persons in 2007.

Branch Expansion In Rural Areas: -- After nationalization of major commercial banks in 1969, there has been a remarkable increase in the rural branches of the banks. The numbers of branches in rural areas in 1969 were merely 1,960 (22%), which rose to 35,771 in January 2007, which was about 51% of the total branches. Besides, there are 21% branches in semi-urban areas. Thus, 74% branches of commercial banks are in rural and semi-urban areas.

Increase In Bank Deposits: -- Total deposits of commercial banks have increased from Rs.908 crores in 1951 to 9,52,510 crores in January 2007. Thus, there is an increase of about 957 times in the bank deposits. At present total deposits of these banks is nearly 61% of national income as against only 18% in 1969. Besides, per capita deposit is Rs.6132 as against Rs.88 only in 1969.

Increase In Cash Deposit And Investment Deposit Ratio: -- After 1969, these banks have registered a rise in their cash deposit and investment deposit ratio. In 1971, cash reserves of these banks were 16% of their total deposits, which decreased to 10% in 2006. On the
other hand, the investment deposit ratio was 23% in 1971, which rose to 39% in 2006. But, credit deposit ratio of the banks has decreased from 79% in 1971 to 55% in 2006.

**Credit Expansion:** -- The credit given by the Indian commercial banks has also increased manifold after independence. Total advances of these banks increased from Rs.547crore in 1951 to 3,599crores in 1969 and further to Rs.503586crores in January 2007. Besides, these banks invested Rs.324473crores in government securities. Thus, banks had given 55% of their deposits as loans and advances whereas invested 38% in government securities. Before 1969, banks provided loans mainly to traders. But after 1969, 40.8% of the loans are advanced to the priority sectors including agriculture, small-scale industries, etc.

**Development -Oriented Banking:** -- Before independence, the banks were concentrated in the big commercial centers and they provided mostly short-term loans for the growth of commerce and some traditional industries. But after independence, commercial banking has adopted the development role and actively contributing to the economic development of the country. The banks are now providing not only short-term loans but also medium-term as well as long-term loans and catering the needs of industrial and agricultural sectors.
Advances To Priority Sectors: -- one of the main objectives of nationalization of commercial banks in 1969 was to extend credit facilities to the borrowers belonging to the neglected sectors of the economy. To achieve this objective, the banks formulated various schemes to provide loans to the borrowers of priority sectors such as agriculture, small-scale industries, road and water transport, retail trade and small business, etc.

In 1969, priority sectors were given loans of Rs.441 crores, which increased to Rs.109200 crores in 2007. The share of priority sectors in total bank credit was only 15% in 1969, which went up to 48.5% in 2006-2007.

Credit To Export Sector: -- Commercial banks are now providing adequate credit facilities to the export sector. In January 2007, the amount of outstanding loans against export sector was Rs.38504 crores. Which was 10% of the total amount of loans given by the commercial banks.

Foreign Exchange Business: -- till recently only foreign banks operating in India undertook foreign exchange business. But now Indian commercial banks have also started dealing in foreign exchange business. By the end of January 2007, nine Indian banks had set up 95 branches and 16 representative officers in 25 countries.
Reduction In Competition: -- There has been a remarkable reduction in mutual competition of commercial banks. In this respect, first agreement regarding enforcement of uniform interest rates by commercial banks was arrived at in 1958. However, this agreement was cancelled in 1996 and the Reserve Bank Of India allowed the banks to determine their own interest rates.

New Functions: -- After independence, Indian banks have abandoned their traditional conservative attitude and have been assuming new and progressive functions – (i) They have started underwriting new issues and have been helpful in the conclusion of deferred payment agreements between industrial houses and the foreign firms. (ii) They have started to provide hire-purchase finance. (iii) To solve the problem of collection of debts of small-scale industries, banks have started ‘factoring services’ with the help of Small Industries Development Bank. (iv) Since 1995, banks have been providing loans both to private and public sectors for infrastructure projects. (v) After the establishment of National Housing Bank in 1988, these banks have started to give loans for housing.

Increase In Small Customers: -- The Indian system is becoming more and more popular especially after the nationalization among the common people. About 60% of depositors of the commercial banks are from low and middle-income groups. Thus, there is a clear shift from big customers to the small customers. Saving bank accounts have increased manifold. Moreover, various schemes have been
introduced to provide concessional credit to the economically and socially backward persons engaged in productive activities. The banks are now providing more and more credit facilities to the small farmers, artisans, small business firms, etc.

Utility Of Commercial Banks: -- Commercial banking in modern times is indispensable for economic progress of a country. In fact, the functions of modern commercial bankers and their utility to the community are so enormous that we simply cannot afford even to imagine, let alone experience, the inconveniences we would experience if commercial banks are closed. A short strike of even one day by the employees of commercial banks disrupts the entire economic activities in the country. All economic activities – some directly while others indirectly – come to a standstill. It serves the community in numerous ways. Firstly, by accepting deposits, the banks promote the habit of thrift and saving among the people. These savings of the people later result in capital formation, which is the basis of economic progress in the country. Secondly, the banks also encourage industrial innovations and business expansion through funds provided by them to the entrepreneurs. Thirdly, the banks exercise considerable influence on the level of economic activity through their ability to create money to the economy. Fourthly, through their lending policy, the banks can influence the course and direction of economic activity within the economy. Fifthly, the various utility functions performed by the banks are of great economic significance for the economy. Such functions as cheap remittance of
funds, accepting and discounting bills of exchange, agency functions, such as, collection of dividends and interest on behalf of customers are very important for the working of the modern economy. In fact, the economic development of a country is not possible without a sound system of commercial banking.

**Objectives of Study :-**

The objectives of the study can be narrated as follows –

1. To develop familiarity with the concept of Bank and commercial Banks.
2. To outline various type of commercial Banks.
3. To focus on working of commercial Banks.
4. To throw light on state of commercial Banks in India and aboard.
5. To study and analyze “An Appraisal of Working of Commercial Banks in India With Special Reference To Punjab National Bank”.

**Hypothesis :-**

The Study is based on the following Hypothesis –

2. Commercial banks have favorable Conditions in India.
Research Methodology :-

Following Methodology had been adopted in connection with our research work on “An Appraisal of working of Commercial Banks in India with special Reference to Punjab National Bank” –

1. **Collection of facts from published materials** - a detailed bibliography of relevant literature consisting of books, bulletins, reports and other Publications of the reserve Bank of India, Punjab National Bank, etc. has been made.

2. **Visits to Libraries and Research centers** - Various government libraries and universities have been visited in order to acquaint with literature on the subject.

3. **Contact with officers of the Punjab National Bank** - Concerning officers of Punjab National Bank were contacted in order to discuss the matter related with the research work.

4. Necessary data has been collected from secondary sources only.

5. Technique of classification and tabulation of date has been used adequately as per requirement of research work.

6. Wherever need was felt random sampling method was adopted for the Purpose of this research work.

7. Analysis and interpretation has been made after considering the above methods.