CHAPTER- THREE
WORKING OF BANKS IN INDIA

Before Independence: -- 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.5lakhs, 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.175lakhs 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.94lakh had failed. These were mostly small banks.

**After Independence And Before Nationalization:** The Government of India nationalized fourteen major Indian scheduled banks in the private sector, having deposits of Rs.50crores or over each, as on the last Friday of the June 1969, with effect from July 19, 1969. The aggregate deposits of these fourteen banks, at the end of 1968, amounted to Rs.2741.8crores, nearly 72 percent of the total deposits of the Indian scheduled banks. Their advances amounting to Rs.1743.6crores were 65 percent of the total advances. These banks had a paid-up capital of Rs.28.5crores, which was about 1 percent of their aggregate resources. Their owned funds at the end of 1968
amounted to Rs 66 crores and their aggregate net profits amounted to Rs 6.6 crores.

The oldest of the major banks was Allahabad Bank (1865) and the youngest was United Bank of India (1950). Amalgamating four existing banks it would not be proper to consider it as an altogether new bank set up since United Bank of India. This way, United Commercial Bank established in 1943 was the youngest of all these banks. Allahabad Bank, before, its nationalization, was subsidiary of a foreign bank – Chartered Bank. All others were fully Indian banks mostly set up and dominated by big industrial houses. They were constitutes as joint stock companies with limited liability and, therefore, each of these banks used to add ‘The’ before its name and ‘Ltd.’ after its name. (For example, The Central Bank of India Ltd., The Bank of India Ltd. etc.). From the point of view of the number of offices opened by each of the major banks before nationalization, Punjab National Bank had the highest (544) and Allahabad Bank the lowest number (128) as at the end of 1968. Actually, the position and size of a bank are judged on the basis of its deposits and advances. On this basis, Central Bank of India was the biggest followed by Bank of India, Punjab National Bank, Bank of Baroda, United Commercial Bank, Canara Bank, United Bank of India, Allahabad Bank, Syndicate Bank, Indian Overseas Bank, Indian Bank and Bank of Maharashtra. At the end of 1968, Central Bank of India had aggregate deposits amounting to Rs 433.27 crores. Bank of Maharashtra was the smallest of these banks, having deposits of Rs 73 crores.
It is remarkable to note that even among the 14 banks; the bulk of the deposits and advances (about 63 percent) was controlled by the first five major banks. Of the total owned funds of Rs. 66 crores, the big five banks accounted for about 64 percent, while their share in the aggregate net profit was about 70 percent. Some large business houses, which controlled these banks, claimed a lion's share of the bank's resources. By nationalizing the major banks, the Government secured control over what Mrs. Indira Gandhi described as "the commanding height of the economy."

The most important reasons for nationalization of banks related to the structure, policies and working of the private commercial banks. The banks had expanded their business and increased the number of their offices. There was a five-fold increase in their deposits between 1951 and 1969. Over the years, the Indian banks were made sound and viable through a system of licensing and inspection by the Reserve Bank and encouragement of mergers and amalgamations. The Reserve Bank was given wide powers to regulate the functioning of banks. Practically, however, banks were not serving the public interest and they had failed to provide credit for the desired priority channels. Instead, they had become tools in the hands of monopolists and been encouraging speculative activity. The 'social control' measures had failed to prevent misuse of bank credit. All these factors led to the take-over of major banks in 1969. The immediate causes responsible for nationalization of banks were political in nature, but there was adequate justification for the action purely on economic and social considerations.
Smt. Indira Gandhi announcing the nationalization in a broadcast to the nation on July 19, 1969 said; “The purpose of expanding bank credit to priority areas which have hitherto been somewhat neglected as also (1) the removal of control by a few, (2) provision of adequate credit for agriculture and small industry and exports, (3) the giving of a professional bent to bank management, (4) the encouragement of new classes of entrepreneurs, and (5) the provision of adequate training as well as reasonable terms of service for bank staff still remain and will call for continuous efforts over a long time. Nationalization in necessary for the speedy achievement of these objectives.”

Six more banks, nationalization on April 15, 1980 were: Andhra Bank, Corporation Bank, New Bank of India, Orient Bank of Commerce, Punjab and Sind Bank and Vijaya Bank. These six banks had shown a phenomenal growth in their operations during the past decade. The priority sector advances of the six banks constituted 30.9 percent of their total advances at the end of 1978. Their record in branch expansion was also quite impressive. It is remarkable to note that the six banks had an average of 40 percent of their branches in the rural areas. Among the six banks, Punjab and Sind Bank in particular, exhibited the highest growth-rate in branch-expansion, deposit-mobilization and advances. Keeping their all-round progress in view, the question arises that why these six banks were nationalized.
The reason given officially for nationalizations were simple and straightforward and almost the same ones as in 1969. Better credit-planning and larger allocations to priority sectors were the guiding factors. The cut-off point this time was placed at over Rs.200 crores of deposits as on March 14, 1980 as against Rs.50 crores in 1969.

The Ordinance for the acquisition and transfer of the six banking companies says in the preamble that these have been taken over “having regard to their size, resources, coverage and organization, in order further to control the heights of the economy, to meet progressively, and serve better, the needs of the development of the economy and to promote the welfare of the people, in conformity with the policy of the state towards securing the principles laid down in clauses (B) and (C) of article 39 of the constitution.” The nationalization of six more banks in 1980 can, thus, be considered as an extension of the measure of nationalization initiated in 1969.

New Bank of India, one of the six banks nationalized in 1980, had been making losses during the past four years. With the introduction of prudential accounting standards in April 1992, the imbalance in the financial position of the New Bank of India came into sharper focus. In these circumstances, it became necessary in the interests of depositors to merge it with a stronger bank. In September 1993, it was merged with the Punjab National Bank. This was the first time that a nationalized bank was merged.
After Nationalization: -- It was intended to achieve the broad aims of bank nationalization through a two pronged approach: one, expanding the banking network in all parts of the country with special emphasis on setting up adequate banking facilities in hitherto unbanked or under-banked areas: and two, making bank credit available to all segments of the economy and regions of the country. As it is obvious from the account given below, remarkable success has been achieved in both these respects.

1. Branch Expansion
2. Dispersal Of Bank Offices
3. Mobilization Of Deposits
4. Credit Expansion
5. Lending to Priority Sectors and Weaker Sections of the Society
6. Rural Credit
7. Credits To Export Sector
8. Lead Bank Scheme
9. Innovations And Diversification Of Business
10. Technological Development
11. Prudential Norms

Branch Expansion: -- A significant feature of banking development after nationalization of major banks has been the increasing tempo of branch expansion. Over the period of several decades in which modern banking developed in India till June 1969, commercial banks had opened 8,262 offices. The number of offices of commercial
banks has increased to 73926 at the end of June 2007. As a result of branch expansion by banks, the national average population per bank-office has declined from 65,000 at the time of nationalization in 1969 to less than 12,000 at the end of June 2007.

A rapid branch expansion was witnessed in the seventies and the eighties. In recent years, however, there has been considerable emphasis on the consolidation of the banking system. Towards that end the branch Licensing Policy for the period April 1985 to March 1990 (extended up to March 1993) was formulated keeping in view the need for banks to concentrate on consolidation of their position and achieving a coverage of 17,000 population (1981 census) per bank office in rural and semi-urban areas of each block and providing banking facilities in those pockets of rural areas where wide spatial gaps existed. With the adoption of the Service Area Approach in 1989, it had become necessary to allow opening of additional branches in rural areas so that the number of villages allocated to a rural branch was within a manageable limit of 15 to 25 villages per bank branch. In other areas, opening of branches was allowed purely on viability criteria.

"Approach to Future Branch Expansion" circulated by the RBI in September 1990, prescribed that the phase of consolidation was to continue with emphasis on all-out effort to improve operational efficiency, quality of assets and financial strength of banks and the future growth of bank offices will depend on well-established need, business potential and financial viability of the proposed offices.
The main thrust of the branch licensing policy for 1990-95 continued to be on providing freedom to banks to rationalize the structure of their branches. Accordingly, the distance stipulation of 400 meters between two branches of banks in towns was withdrawn. Banks were allowed to open one specialized branch per center each in the category of industrial finance, NRI and Treasury branches without the prior approval of the Reserve Bank. They could also convert their non-viable rural branches into Satellite Offices on certain conditions and provide locker facilities in extension counters. Banks were allowed to close, on mutual consultation, one loss-making branch at rural centers served by two commercial bank branches excluding RRBs.

On expiry of the Branch Expansion Programme, 1990-95, no fresh branch expansion programme was drawn up. Banks have been given the operational freedom to open and relocate branches at semi-urban, urban and metropolitan centers subject to approval of respective boards and ensuring track record of profit in the last three years. The loss-making banks are subject to restrictions on opening of branches. With regard to opening up a branch in rural areas, prior approval of the Reserve Bank is required subject to certain conditions. Banks falling under the category of having achieved 8 percent capital adequacy ratio, declaring net profit for the last three consecutive years, containing their non-performing assets within 15 percent of their total advances and with a minimum of Rs.100 crore as owned funds have to prepare a plan of Action for opening branches.
during the next 12 months. This has to be forward to the Reserve Bank for prior approval after taking clearance from the concerned Board of Directors.

Commercial banks have opened specialized branches for industrial finance, agriculture finance, small-scale industries, capital market services, corporate finance, asset recovery management in addition to overseas NRI and other purposes.

Some Indian banks have opened their branches in foreign countries. There were 135 branches of Indian banks in operation at the end of June 2007.

**Dispersal Of Bank Offices:** -- Two aspects need to be underlined in this context: first, the trust of expansion was primarily in unbanked areas; secondly, branch expansion was planned in such a manner as to reduce regional disparities in banking development.

Of the new offices opened between July 1969 and June 1993, about 66 percent offices were opened in unbanked centers. Since a large number of unbanked centers were in rural areas, the pace of branch expansion made considerable progress in penetration into the rural areas. The proportion of bank offices in rural areas to the total was 22.1 percent at the end of June 1969. This proportion increased to 57.8 percent at the end of June 1993. Despite slow expansion of rural branches in subsequent years the proportion of rural branches was 50.6 percent as on June 30, 2007.
The regional disparities in the distribution of bank offices have also declined substantially after 1969. The under-banked States and Union Territories have received special attention in banking development. Regional disparities in respect of distribution of bank-offices still continue; the southern region accounts for the largest share, while the north-eastern and eastern regions are lagging far behind other regions. But the disparities are less pronounced now.

Mobilization Of Deposits: -- The commercial banks have made concerted efforts at deposits mobilization through a series of measure and schemes. The aggregate deposits of scheduled commercial banks had increased from Rs.881crores at the end of March 1951 to Rs.4646crores at the end of June 1969. The deposits increased very rapidly after nationalization of major banks. Aggregate deposits of scheduled commercial banks at the end of September 2004 stood at Rs.961678crore. The average annual rate of growth in deposits between 1969 and 1997 was about 18 percent, as compared with 9.3 percent between 1951 and 1969. Aggregate deposits showed a sustained increase of 19.8 percent during 1997-98 and 27.3 percent during 2006-2007. Nationalized banks accounted for about 80 percent of the total aggregate deposits with banks. It is important to note that time deposits constitute the major part of aggregate deposits with banks. These were 89.4 percent of aggregate deposits at the end of September 2007.
An all-round increase in bank deposits has been largely due to rising money supply in the economy. However, the expansion of bank offices and the attempts at deposits mobilization by banks has also greatly helped in raising the volume of resources available to banks in the form of deposits from the public. It is true that the high rate of inflation in the post-nationalization years would cut the growth-rate in deposits by more than half, but a real average annual growth rate of 8 or 9 percent is still very impressive.

Credit Expansion: -- The credit policy of banks, as directed by the Reserve Bank, was directed towards promoting investment, aiding production and experts, and assisting the priority sectors and weaker sections of the society.

Bank credit (loans and advances together with bills purchased and discounted) of scheduled commercial banks increased from Rs.3599crore to Rs.465435crores between June 1969 and June 2007. Between 1969 and 1980 the average annual rate of increase in bank credit was around 18 percent, as against 10.6 percent between 1951 and 1969. Between 1980-81 and 1989-90 the average annual rate of increase was 16.8 percent. On an average basis, expansion in bank credit between 1990-91 and 1996-97 was around 19 percent but it varied widely from year to year. Expansion during 2006-2007 was 29.8 percent, which was smaller than the increase of 18.4 percent in 2005-2006. There was a decline in advances made for food procurements, i.e., food credit. The growth rate of non-food credit in 2006-2007 (23.0 percent) was also lower than that in 2005-
2006 (18.1 percent). A large part of the bank credit is allocated to the non-food sector and during the year 2006-2007 the non-food credit constituted as much as 90.3 percent of total bank credit. A relatively lower rate of growth in bank credit in recent years is largely due to the fact that corporate entries have started raising large amount of funds from the capital market. Deceleration in industrial growth was also an important factor underlying the sluggish credit growth. Banks have restricted credit in the context of prudential norms. Weak banks, in particular, have become cautious with regard to lending for the fear of enlargement of non-performing assets (NPAs). The increase in the risk-adjusted yields on Government securities has had the effect of making investments in risk-free Government securities relatively more attractive.

Investment in Government securities by scheduled commercial banks increased from Rs.1055 crore in March 1969 to Rs.16776 crore in March 1985 and 4,58,367 crore in September 2007. This was in addition to investments in other approved securities. Bank’s response was facilitated by the fact that Government securities, which are risk-free, were available at market related rates of interest in the auctions as well as under the Reserve Bank’s open market operations.

Apart from leading credit to the non-food segment of the commercial sector, the banks also invest their funds in various financial papers including commercial papers, PSU bonds and the bonds floated by private companies.
Lending to Priority Sectors and Weaker Sections of the Society: -- Apart from financing public food procurement and exports, commercial banks, both in the private sector and the public sector, have extended liberal credit facilities to the priority and neglected sectors of the economy which include agriculture, small-scale industries and other priority sectors comprising small borrowers such as road and water transport operators, retail traders and small businessmen, professional and self-employed persons, and persons desirous of receiving higher education. In June 1969, advances provided to the priority sectors were 14.6 percent of net bank credit. With a view to enlarging the flow of bank-credit to neglected sectors, banks were advised by the Government that their priority sectors lending should reach a level of not less than one-third (33.3 percent) of their outstanding credit by March 1979. The guidelines set out in March 1980 stipulated bank finance to the priority sectors to reach 40 percent of their total advances by 1985. As a sub-target, it was prescribed to step up advances to agriculture to the level of 16 percent by March 1983 and go beyond this level by 1985 so as to reach the level of 15 percent as 'direct' advances. Under the latest revision, the overall stipulation of priority sector lending of 40 percent of net bank credit remains unchanged. The share of, 'weaker sections' at 25 percent of priority sector advances or 10 percent of total advances also remains unchanged. As sub-targets, it has been decided to club the 'direct' and 'indirect' categories of advances for agriculture within the sub-target of 18 percent for agricultural lending as a whole subject to the stipulation that 'indirect' agricultural leading should not exceed one-fourth of the total agricultural lending i.e. 4.5
percent of net bank credit. All advances to small-scale industries are treated as priority sector advances. It is stipulated that each bank should earmark 40 percent of total credit to small-scale industries to small units with investment in plant and machinery up to Rs.5lakh and other small units availing credit limits up to Rs.5lakh. Targets are laid down for attaining credit-deposit ratios at rural and semi-urban branches, financing under Differential Rate of Interest (DRI) schemes. Integrated Rural Development Programme (IRDP), Self Employment to Educated Unemployed Youth (SEEUY), Self-Employment Programme for Urban Poor (SEPUP), etc.

Private Sector banks are also required to fulfill targets applicable to public sector banks in respect of priority sector assistance and also for agriculture and allied activities. Foreign banks operating in India are required to achieve a target of 32 percent of their net bank credit in lending to the priority sector with two specific sub-targets of 10 percent for small-scale industries and 12 percent for exports.

The appreciable expansion achieved in the direction of lending to priority sectors is evidenced by the fact that scheduled commercial banks' advances to the priority sector increased from Rs.505crore to Rs.18407crore between June 1969 and March 1985. Percentage of advances to priority sectors in total bank credit increased from 14.0 percent in June 1969 to 39.9 percent in March 1985, as against the target of 40 percent of total bank credit to be reached by March 1985. Total priority sector advances of the public sector banks increased to
Rs.29230 crore as at the end of June 1988, constituting 45.7 percent of total net bank credit. In the subsequent years, the amount of priority sector advances increased in absolute terms, but it declined in term of percentage. The priority sector advances constituted 44.6 percent and 42.3 percent of total net bank credit as at the end of June 1989 and June 1990, respectively. The percentage share in June 1991 and June 1992 was 40.9 percent and 39.3 percent, respectively. Advances to the priority sectors further declined to around 35 to 37 percent in subsequent years.

Reforms introduced in the area of priority sector lending aimed at enlarging the definition of priority sector so as to include loans to traditional plantation crops, loans for housing up to Rs.5 lakh, investment made by banks in special bonds of NABARD/ SIDBI, and contributions to Rural Infrastructure Development Fund. Banks have an option to invest shortfall in priority sector lending in NABARD/ SIDBI, thus exercising freedom not to lend to commercially unviable activities.

The priority sector advances of public sector banks amounted to Rs.137200 crore and formed 43.5 percent of the net bank credit as on last Friday of March 2007, as against 41.8 percent a year earlier. The priority sector advances of Indian private sector banks also improved from 40/9 percent to 41.4 percent. The priority sector advances of foreign banks at 39.0 percent of net bank credit in March 2007 also exceeded the prescribed minimum of 32 percent in their case. During the year 2006-2007 the coverage of priority sector
credit was widened to include advances to NBFCs for on lending to truck operators satisfying priority sector norms (owning up to 10 vehicles); advances up to Rs.1.50 crore to Software industry, advances to food and agro based processing sector, lending to NBFCs or other financial institutions for on-lending to the tiny sector and investments in venture capital.

Out of the priority sector advances of public sector banks, as at the end of March 2007, the largest proportion is shared by small scale industries (39.8 percent) followed by agriculture (37.4 percent) and a group of other priority sectors (22.8 percent). The advances for small-scale industries and agriculture as proportion of net bank credit constituted 17.3 percent and 16.3 percent respectively at end March 2007. In the case of private sector banks, the share of small-scale industries constituted 18.9 percent of net bank credit as against 9.5 percent share of agriculture. As regards foreign banks operating in India, the export credit as a proportion to net bank credit constituted as high as 25 percent (more than twice the target of 12 percent). The advances provided to small-scale industries accounted for 11 percent of their net bank credit.

Rural Credit: -- The ruralization of Indian commercial banking has meandered through many policy prescriptions. Rural branches of commercial banks constitute about 50 percent of total branches. In addition to Co-operative banks, Commercial banks and Regional Rural Banks (RRBs), sponsored by the scheduled commercial banks, provided multi-purpose and multi-term credit for agriculture and
allied activities. As a result, both farmers and non-farmers in the rural sector have comparatively an easy access to the lending window of the commercial banks.

The scheduled commercial banks supplement efforts of NABARD and the co-operative banking in extending credit facilities to the rural sector of the economy. Banking credit to rural sector includes priority sector advances as well as credit extended under various schemes.

The Rural Infrastructure Development Fund (RIDF) managed by NABARD has emerged as a popular and effective scheme for financing rural infrastructure projects. The corpus of these funds is contributed by the scheduled commercial banks to the extent of the short fall the banks may post for meeting the priority sector lending targets. NABARD's efforts towards increasing the access of the rural poor to formal banking services through promotion and credit linking of Self Help Groups of the rural poor, and other micro-finance initiatives gathered momentum since 1998-99.

Pursuant to the announcement made in the Union Budget for 1998-99, 'Kisan Credit Card' scheme was formulated. Co-operative banks, Regional Rural Banks and Commercial Banks together have issued more than 50 lakh cards and card-cum-passbooks to the farmers by end March 2000. NABARD and commercial banks have been asked to issue an additional 75 lakh Kisan Credit Cards by March 2001.
With a view to providing institutional mechanism for promoting rural savings as well as for providing credit for viable economic activities in the local areas, the Reserve Bank announced a set of guidelines in 1996 for setting up of Local Area Banks in the private sector. As on June 30, 1999, eight such banks were given approval in principle.

Credit To Export Sector: -- The export sector has all along received high priority in the provision of bank credit. Under directions from Reserve Bank several measures have been introduced to ensure the availability of adequate and timely credit to the export sector. The term of various export credit schemes have been liberalized from time to time. The Reserve Bank provides export credit refinance to scheduled commercial banks. Foreign banks in India treat export credit as priority sector advances.

Banks are required to lend 12 percent of advances as export credit. Export credit as a percentage of net bank credit, however, declines to 10.6 percent in 2006-2007 from 11.4 percent in the previous year, reflecting decline in export. The outstanding export credit of scheduled commercial banks amounted to Rs.54504crores as on June 18, 2007, indicating an increase of Rs.2833crore or 8.9 percent over the same period in the corresponding year.

The interest rates charged on export credit were progressively reduced during 2005-2006 and 2006-2007 to step up the rate of
growth of exports. During 2006-2007 export credit refinance limits of banks showed a more than three-fold increase from Rs.3403 crore in March 2006 to Rs.10269 crore in March 2007.

Lead Bank Scheme: -- The Lead Bank Scheme (LBS) was introduced by the Reserve Bank in December 1969 on the basis of the recommendations of a study group appointed by the National Credit Council under the chairman of the late Prof. D.R. Gadgil. The basic objective was one of orienting banking development in the country towards an "area approach" and thus ensuring that the developmental needs of all regions and all sections of the community are served by the banking system in conformity with national priorities. The administrative unit 'district' was taken as the nucleus of this approach and all the districts in the country were allotted among different banks in the public and private sectors. Each bank was expected to survey the potential for banking development in the allotted districts, to identify institutional and credit gaps and to take the initiative in endeavoring to fill them and thus intensively involve itself in the process of economic advancement of the districts concerned. The Lead Bank does not have a monopoly over banking business in the districts allotted to it. However, it acts as the leader of all the other banks in those districts, works closely with them and the other financial institutions in the area and the Government Departments, and jointly sponsors the banking development of those districts so as to help in their overall economic development. The Lead Banks prepare district credit plans, but non-Lead Banks have as much responsibility as the Lead banks in promoting development.
efforts in the districts concerned. Lead Banks undertake the formulation of District Credit Plans for their lead districts and also Annual Action Plans before the commencement of each year. The credit plan is a comprehensive plan indicating credit targets for institutional credit agencies in the district on a block-wise, sector-wise, scheme-wise and bank-wise basis. The Lead Bank Scheme covered 667 districts of the country at the end of March 2007.

The main focus of Lead Bank Scheme is to enhance the proportion of bank finance to priority sector. The scheme controls and co-ordinates the activities of banks and other development agencies in achieving the sectoral targets set on annual basis.

Innovations And Diversification Of Business: -- Commercial banks have been encouraged to diversify into fresh areas of business, viz; merchant banking, equipment leasing, venture capital, mutual funds, housing finance and other financial services. They have introduced innovative schemes of deposit mobilization, providing consumer credit, issuing credit cards etc., Several banks have set up separate subsidiaries for the purpose. Two banks have set up subsidiaries to commence factoring services. Some banks have set up subsidiaries for undertaking primary/satellite dealership in Government securities market. Several banks have also set up housing finance subsidiaries. All such activities are termed as 'Para banking activities'.
The Government Securities market in India has traditionally been narrow and captive with low coupon rates. Distributional investors such as banks and other institutions dominated the market to meet their statutory requirements. These banks/institutions had invested huge sums of money. However, there was no active secondary market in securities. The raising of coupon rates on Government securities, freeing of inter-bank call notice market from ceilings on interest rates, introductions of new instruments (like 182 days Treasury Bills, inter-bank participations. Commercial paper, Certificate of Deposit, etc.), where the rates of interest are not administered but determined by market forces, and such other liberalizations have been much helpful to commercial banks. To encourage bill culture, step like lowering of bills discounting rates, stipulation of norms for use of bills for credit purchases and credit sales etc., have been taken. Prudential norms for lending have been laid down for banks so as to reduce the risks for individual banks and enable them to grow on healthy lines.

Over the years, banks have been growing into broad-based financial service institutions. The innovations of Commercial banks indicate their adaptive skills and the vital role they have been playing in the process of development, spanning rural and urban, agricultural and non-agricultural and organized and unorganized sectors of the economy — each sector needing different approaches, skills and techniques. Here lies the real achievement of Commercial Banks in India.
Technological Development: -- Information Technology and the Communication Networking System have revolutionized the functioning of banks the world over. In India, it is only recently that the world of information technology preparedness has made inroad in the sphere of banking operations. With regard to the payments and settlement systems, since the introduction of MICR cheques in the mid- eighties, the Reserve Bank has proceeded to make significant improvements with respect to their application of information technology. These include introduction of Electronic Funds Transfer (EFT), introduction of inter-bank electronic payment system, introduction of a clearing bank for extension of delivery versus payment mode of trading in Government securities, introduction of Automated Teller Machines (ATMs) by major banks and the pitting in place of a Shared Payments Network System (SPNS) termed SWADHAN in Mumbai. The Reserve Bank has also operationalised the Very Small Aperaturte Terminal (VSAT) network to provide reliable communication backbone to the financial sector. The setting up of the Indian Financial Network (INFINET), based on satellite communication using VSAT technology, at Hyderabad has facilitated connectively within the financial sector. The Reserve Bank has made a pro-active effort in deciding to move towards a Real Time Gross Settlement (RTGS) system. The MICR cheque processing centers, in existence at the four metros, have been extended to some more centers, out of 26 additional centers identified for the purpose. An improved processing system for MICR cheques commenced in August 1999. At the end of September 1998, 3668 branches were fully computerized and 6961 branches were partially computerized.
To provide extended banking hours to the customers, many banks are going in for Shared Payment Network System (SPNS), installation of Automated Teller Machines (ATMs) and Cash Dispensers. The number of ATMs had grown to 1300 in 2006-2007. These apart, many banks are providing services like tele-banking and Internet banking services and have become members of the Society For World-Wide Inter-Bank Financial Telecommunication (SWIFT). Such reliance on SWIFT is essential if banks dealing in foreign exchange are to access international markets in an effective manner.

**Prudential Norms:** In trying to improve the financial health and creditability of banks, a major step that has been undertaken is to introduce internationally accepted prudential norms relating to income recognition, asset classification, provisioning and capital adequacy. These have already been discussed earlier under 'financial reforms'. As regards Capital to Risk Weighted Assets Ratio (CRAR), 26 of the 27 public sector banks have already achieved 14 percent CRAR at the end of March 2007. There were 14 banks with CRAR above 10 percent and 4 banks with CRAR between 8 and 10 percent. Similarly majority of the Indian private Sector banks and foreign banks in India had CRAR above 12 percent at the end of March 2007.