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# UNIT 6 COMMERCIAL BANKING IN INDIA

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## 6.0 OBJECTIVES

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By the end of this unit you should be able to:

- describe the basic components of banking structure in India
- list the objectives of the State Bank of India
- state the contributions of SBI
- explain the reasons for nationalisation of banks in India
- point out the problems faced by commercial banks in India.

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## 6.1 INTRODUCTION

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In Unit 5 you have learnt about the evolution of banking system, the functions of commercial banks and the methods of credit creation by commercial banks. Now you will study the banking system in India. In this unit you will learn about the banking structure in India, the role of State Bank of India, nationalisation of commercial banks and the problems of commercial banks in India.

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## 6.2 BANKING STRUCTURE IN INDIA

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The structure of banking in India depends upon several factors like India's economic system, economic goals, policies and programmes, and the need for flow of finance to various sectors, like export and import sector, small scale and large scale industrial sectors, agriculture and rural economy etc.

Banking structure in India can be broadly divided into seven categories: 1) Central bank, 2) development banking, 3) commercial banking, 4) cooperative banking, 5) rural banking, 6) export-import banking and 7) housing banking.

- 1) **Central Banking:** Reserve Bank of India is the Central Bank of the country. It performs all the functions of a central bank like note-issue, bankers' bank, clearing house and credit control. In addition, it helps the country in its economic development.
- 2) **Development Banking:** Development banks provide long-term finance particularly to industry. They also underwrite the capital issues of companies, invest in equity shares, preference shares, debentures, etc. The development banks in India include Industrial Finance Corporation of India, Industrial Development Bank of India, State Finance Corporations and Industrial Credit and Investment Corporation of India.

- 3) **Commercial Banking:** Commercial banks provide short-term finance to business, trade, industry, agriculture, transport sector, housing and export and import sectors. Commercial banks in India can be broadly divided into three categories: 1) public sector banks, 2) private sector banks and 3) foreign banks. Public sector banks include State Bank of India along with its subsidiaries and twenty nationalised banks. Private sector banks are the non-nationalised banks like Vysya Bank Ltd., the Karnataka Bank Ltd., etc. Foreign banks like Grindlays Bank, Bank of America, Bank of Tokyo, British Bank of Middle East, etc., are the branches of the commercial banks incorporated in various foreign countries.
- 4) **Cooperative Banking:** Cooperative bank is an institution established on the basis of cooperative principles and dealing in ordinary banking business. They include industrial cooperative banks, State Cooperative Banks, District Central Cooperative Banks, Primary Cooperative Banks, etc.
- 5) **Rural Banking:** Rural banks finance all kinds of agriculture and rural activities. Regional rural banks are specialist institutions established for the purpose of providing finance exclusively to rural activities. National Bank for Agriculture and Rural Development (NABARD) is an apex bank providing finance to commercial banks and regional rural banks for the purpose of directly providing financial assistance for agriculture and other rural activities.
- 6) **Export-Import Banking:** Export-import banks provide finance exclusively for foreign trade. Export-Import Bank of India was established as an apex bank to finance exporters and importers through commercial banks.
- 7) **Housing Banking:** Housing banks are those banks which provide finance for construction of houses, plots, house repairs, etc. National Housing Bank was established at apex level in the country to provide housing finance through commercial banks and other agencies.

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## 6.3 ROLE OF STATE BANK OF INDIA

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The Imperial Bank of India was instituted by the amalgamation of three presidency banks of Bombay, Calcutta and Madras in 1921.

Before the establishment of Reserve Bank of India (RBI), Imperial Bank acted as the sole banker to the government, custodian of government funds, bankers' bank, clearing house, etc. There was a change in the status and working of the Imperial Bank after the establishment of R.B.I. in 1935. It remained a commercial bank. It occupied a pivotal position in the banking industry by virtue of its large resources, business and branches. Out of the total deposits of all the scheduled banks by the end of 1954, the share of Imperial Bank was 24.5%. It also acted as an agent to the Reserve Bank of India where the latter had no branches.

### 6.3.1 Establishment

The government took the historic decision of nationalising the Imperial Bank on 20th December, 1954. This decision was taken on the basis of the recommendations of the Committee on All India Rural Credit Survey appointed by the R.B.I. An important recommendation of the committee relates to the setting up of "State Bank of India as one strong, integrated, state-partnered commercial banking institution with an effective machinery of branches spread over the whole country for stimulating banking development by providing vastly extended remittance facilities for cooperative and other banks and followed a policy which would be in effective consonance with the national policies adopted by Government without departing from the principle of sound business."

The government accepted the recommendation and established the State Bank of India on 1st July, 1955 by nationalising the Imperial Bank of India. The State Bank of India (subsidiary banks) Act was passed in September, 1959 and in course of time, 8 major State-associated banks were amalgamated with the main bank as its subsidiaries. They are: Bank of Saurashtra, Bank of Patiala, Bank of Bikaner, Bank of Jaipur, Bank of Rajasthan, Bank of Indore, Bank of Baroda, Bank of Mysore, the Hyderabad State Bank and the Travancore Bank.

### 6.3.2 Objectives

One of the main objectives of nationalising the Imperial Bank was to spread banking facilities by establishing a large network of branches all over the country; According to the State Bank of India Act, the bank had a statutory obligation to open 400 new branches in the rural, semi-urban, and unbanked areas during the first five years of its existence or such extended period as might be permitted by the Bank. In this connection, the bank created a special fund known as the **Integration and Development Fund**, which would be utilised for meeting partially the losses attributable to the additional branches established in pursuance of the Act and such other losses or expenditure as might be approved by the Central Government in consultation with the Reserve Bank of India. This fund was created with the dividends due to Reserve Bank of India, the contributions of the Reserve Bank of India and the Central Government.

The State Bank of India was expected to operate its activities in conformity with the broad economic policies of the government. **Another important objective** of the bank was to **promote agricultural finance and to solve the problems of the existing system of agricultural finance.**

In addition, the bank aimed at providing special facilities for the training of the personnel of the bank and imparting knowledge on cooperative principles.

The SBI was also expected to help the Reserve Bank of India in its credit policies and in helping the RBI in checking any monetary disequilibrium in the money market.

### 6.3.3 Progress

At the time of establishment of the State Bank of India, two main responsibilities were placed on its shoulders. **Firstly**, the State Bank had to ensure smooth transformation from profit-seeking commercial banking to a truly socially oriented institution to serve the cause of the country. **Secondly**, it was required to undertake developmental activities which were not normally included in the business of commercial banks. The State Bank of India made a commendable progress during the last 35 years (upto March 1990) in different spheres of the economy. It has become a pioneer in the banking industry and has emerged as a model bank to all other commercial banks in the country. The significant achievements of SBI are discussed below:

- 1) **Branch Expansion:** The objective of the bank during the days of its establishment was to open 400 branches within 5 years of its establishment. The bank achieved this target well in time. Since then it has been opening its offices in rural, semi-urban, unbanked and under-banked areas. The number of branches in India increased from 466 at the end of June 1955 to 8,422 by the end of March, 1990.
- 2) **Deposit Mobilisation:** The State Bank of India formulated several innovative schemes of deposit mobilisation. Further, its vast branch network was an added advantage for accelerating deposit mobilisation. The bank's aggregate deposits increased from Rs. 188 crore in June 1955 to Rs. 37,666 crore by the end of October, 1990. A substantial amount of these deposits was mobilised from rural and semi-urban areas.
- 3) **Advances:** The bank's total advances at the end of 1955 were Rs. 99 crores. The total advances of State Bank of India and its associates (excluding investment in government securities) increased to Rs. 25,322 crore by October, 1990.

The bank has become the major financial institution, providing finance for short-term and medium term for agriculture, small-scale industries; medium and large industries, weaker sections of the society, etc. Normally, commercial banks are not allowed to enter into medium term financing but RBI was allowed to provide medium-term finance to industries. Bulk of the credit of the SBI fell to the share of industries like iron and steel, engineering, fertilisers and chemicals, and the small scale industries.

- 4) **Export Finance:** The bank's role in the field of export promotion includes export financing, exploring and developing new markets for Indian exports (both traditional and non-traditional). The Bank maintains an information service for its customers on export possibilities of various commodities. The Bank also circulates information to Indian exporters and importers. It established the international division in Bombay in

1970. This division seeks to bring together Indian exporters and foreign importers in addition to providing a wide range of information. The Bank also assists in securing foreign currency loans.

- 5) **Lead Bank Scheme:** Under the Scheme the State Bank of India and its associates and the 20 nationalised banks were allotted the districts and were asked to play the 'lead role'. The allotment of districts to the various banks was based on such criteria as the size of the bank, the adequacy of its resources for handling the volume of work, contiguity of districts, the regional orientation of banks, the desirability of each State to have more than one lead bank operating in the territory and, to the extent possible, for each bank to operate in more than one state. Thus, under the Scheme leading banks share the responsibility for surveying and developing the banking potential of all the districts in the country. Under the Scheme, 90 districts were allotted to the State Bank of India and its subsidiaries. The SBI has prepared detailed survey reports for almost all the districts. The bank has also taken up various studies in all the community development blocks in the lead districts allotted to it.
- 6) **Small-Scale Industries:** A scheme for financing small-scale industries was formulated by the State Bank of India immediately after its inception. The scope of the scheme was extended in 1960 to cover the grant of term loans for the purchase of fixed assets also. In addition, the bank decided to reach out to the prospective borrowers through a system of surveys and offer a package of credit covering the entire requirements of the borrower. In addition to the comprehensive credit facilities, the bank also liberalised the terms and conditions.

The bank also introduced the Entrepreneur Scheme in 1967. Under this scheme, importance was given to the competence of the entrepreneur and technical feasibility and economic viability of the project. The Bank also introduced the Rural Industries Project in 1969 to help small artisans. The Bank was also actively associated with the half-a-million jobs programme sponsored by the government for the educated unemployed. The Bank started implementing the recommendations of its study team from 1975 on all aspects of small industry financing and aimed at improving the qualitative aspects of financing, implementing, nursing programmes, etc.

Bank assistance to small scale industries which was Rs. 10 lakh at the end of 1956 increased to Rs. 3,412 crore (including that of associate banks) by the end of March, 1990, benefiting 13.51 lakh small scale units.

- 7) **Agricultural Finance:** The Bank grants direct advances to farmers for all agricultural activities mainly on the basis of the progressiveness of the farmers and the economic viability of the schemes.

The bank introduced the Small Farmers Scheme and Farm Graduate Scheme in 1969. In the first scheme the Bank primarily insisted upon group guarantee of the small farmers without insisting upon any other security. The Farm Graduate Scheme sought to extend credit to technically-qualified personnel, particularly Graduates in Agriculture, Dairy Science, etc.

Total direct assistance of the State Bank of India group to agriculture increased from Rs. 176 crore in 1975 to Rs. 2,757 crore by June, 1986. Similarly, indirect finance provided by the banks increased from Rs. 65 crore at the end of 1975 to Rs. 511 crore by the end of June, 1986. Total advances to agriculture were to the tune of Rs. 3,168 crore by the end of March, 1990.

In 1971, the SBI decided to move away from scattered lending and to adopt intensification of the area approach. An important feature of the strategy was to select intensive centres, preferably in backward areas. Agricultural Development Branches (ADB) were set up at such centres. Upto the end of 1977 the Bank had opened 314 agricultural development branches, each providing credit to agriculturists by way of crop loans, investment loans and other needs in the area comprising about 100 villages. Finance is also provided for activities allied to agriculture like dairy and poultry, and also for the construction of godowns, transport facilities and marketing of crops, etc.

A village adoption scheme has been formulated by the State Bank. According to this scheme, a branch adopts a few villages for intensive and integrated financing of farmers for meeting the various loan requirements, irrespective of size of holding, nature of loan

requirement and size of loan. A system of group guarantees has been instituted in the case of non-viable farmers.

In addition to providing direct finance to farmers, the Bank also provides finance indirectly through primary credit societies.

**Financing Land Mortgage Banks:** The bank assistance to land mortgage banks is of three types:

- 1) subscription to the debentures issued by the Central land mortgage banks;
  - 2) granting advances on the security of such debentures;
  - 3) provision of interim financial accommodation to central land mortgage banks against government guarantee.
- 8) **Small Business Finance:** The Bank has formulated its policies for meeting the credit need of the small borrower engaged in economic activities such as distribution, transport, etc.
- 9) **Employment-oriented Lending:** This scheme was initiated in 1971. The Bank was the first to formulate an employment oriented lending scheme to finance, on concessional terms, technically-qualified or experienced persons to set up small industrial units. A similar scheme was also extended to agricultural graduates. Schemes such as entrepreneur scheme, farm graduate scheme and scheme relating to agro-service centres were implemented more vigorously, in addition to devising new schemes for doctors, dentists, engineers, graduates etc. Initially emphasis was laid on self-employment, but was subsequently modified to cover self-employment/additional employment on account of expansion and removal of under/partial employment.
- 10) **Different Interest Rate Scheme:** This scheme was introduced in August, 1972. Bank group's advances under this scheme increased from Rs. 3.9 crores to Rs. 1,361 crores during December, 1973 to March, 1990. This scheme resulted in the generation of gainful economic activities. Loan is granted on reasonable terms and conditions under this scheme. Total beneficiaries under this scheme stood at 18.45 lakhs by the end of June, 1986.
- 11) **Merchant Banking Division:** The State Bank set up the merchant banking division in 1972, which in addition to serving the clients, helps the small and medium entrepreneurs who wish to set up industrial enterprises and enter the capital market for the first time. This division assists technocrats and new entrepreneurs who do not know how to make arrangements regarding financial planning, arranging capital structure, public issue, etc.

#### Check Your Progress A

- 1) State the seven categories of the banking structure in India.

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- 2) Fill in the blanks:

- i) After the establishment of ..... the status and working of the **Imperial Bank** underwent a basic change.
- ii) **Integration** and Development Fund was created to help **SBI** in pursuing the policy of ..... expansion.
- iii) **Development** banks provide long-term finance, particularly to.....
- iv) The **SBI** had to ensure smooth **transformation** from profit-seeking commercial banking to a truly ..... oriented institution.

- 3) **State** whether the following are True or False.

- i) **SBI** was expected to follow policies which conform with the broad economic policies of the country.
- ii) **SBI** has given priority to export finance over industrial finance.
- iii) In spite of its best efforts **SBI** has not been able to significantly influence the credit scene in rural India.
- iv) **SBI** is the only commercial bank allowed to extend medium term loan.

## 4.4 NATIONALISATION OF COMMERCIAL BANKS

Prior to their nationalisation, Indian commercial banks neglected agricultural sector, small industry, export sector, weaker sections of the society, etc. The agricultural sector accounted for only 2.1% of the total credit in March, 1967 as against 64.3% for industry and 19.4% for commerce. Commercial banks were found falling short of meeting the social commitments and the needs of economic development.

The Government of India had, therefore, to impose social control over banks with a view to prevent monopolistic trends, concentration of economic power and misuse of economic resources. Thus the basic goal of social control was to achieve the social ends without taking over the banks into public ownership.

Consequent upon this, National Credit Control Council was set up on December 22, 1967 to assess periodically the available resources of credit and to ensure its equitable and purposeful distribution among the several sectors. This council was expected to assess the demand for bank credit, determine priority for the grant of loans, coordinate the lending and investment policies of commercial and cooperative banks. But such an arrangement was not considered satisfactory by many. Thus, opinions and arguments continued for and against nationalisation.

### 6.4.1 Arguments for Nationalisation

The supporters of nationalisation argued that:

- Banks in India were owned and controlled by a few big shareholders and industrialists. They influenced the pattern of allocation of bank credit.
- Banks used to grant loans only to the directors out of the deposits mobilised from the public.
- Banks used to participate in speculative activities and anti-social activities in order to maximise profits.
- Banks provided credit to big industries and completely neglected small scale industrial sector.
- Banks did not finance the agriculture and allied activities though the Indian economy was basically agricultural economy.
- Banks credit flow was not in accordance with the priorities of Five Year Plans and policies of the government.
- There was no complete safety to the depositors money.

### 6.4.2 Arguments Against Nationalisation

Some people criticised the nationalisation. Their arguments were as follows:

- Nationalisation of banks would result in reduction in efficiency as was the practice in other nationalised industries in the country.
- Nationalisation will generate monopolistic tendencies in banking industry, which would not be possible to control.
- There were several other ways and means to eradicate malpractices rather than nationalising the banks.
- Since nationalisation of banks was aimed at financing agriculture, weaker sections of the society etc., there would not be any security of funds of the depositors.
- Nationalisation involves huge burden in the form of paying the compensation to the shareholders.
- Nationalisation would not result in socialism but result in State Capitalism.

It was eventually felt that nationalisation was necessary for the achievement of the objectives of social control viz.,

- i) Removal of control by a few.
- ii) Provision of adequate credit to agriculture, small industry and exports.
- iii) Giving of professional bent to bank management, and
- iv) Encouragement to new class of entrepreneurs.

An ordinance was promulgated on the night of July 19, 1969, nationalising 14 leading scheduled banks each having deposits of more than Rs. 50 crore. The 14 nationalised banks

were: Allahabad Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Central Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, United Bank of India, United Commercial Bank and Union Bank of India.

Later the Government nationalised six more commercial Banks on 15th April, 1980. These banks were Andhra Bank, Corporation Bank, New bank of India, Oriental Bank of Commerce, Punjab and Sind Bank, and Vijaya Bank.

### 6.4.3 Objectives of Bank Nationalisation

More specifically the objectives of nationalising banks in India were:

- 1) to mobilise savings of people to the maximum extent possible and to utilise them for productive purpose;
- 2) to ensure that the banking operations are guided by a larger social purpose and are subject to close public regulations;
- 3) to ensure that the legitimate credit needs of private sector industry and trade, big and small, are met;
- 4) to ensure the needs of the productive sector and in particular, agriculture, small scale industry, self-employed professionals are met;
- 5) to actively foster the growth of the new and progressive class of entrepreneurs and create fresh opportunities for hitherto neglected and backward areas in different parts of the country; and
- 6) to curb the use of bank credit for speculative and for other unproductive purposes.

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## 6.5 BANKING DEVELOPMENT SINCE NATIONALISATION

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Nationalisation of banks on 19th July, 1969 changed the complexion and dimensions of commercial banking in India. It helped hasten the pace of geographical and functional diversification. The new dimensions placed varying responsibilities on the shoulders of commercial banks such as expansion of bank offices in unbanked and remote rural areas on a massive scale, meeting the credit requirements of export sector, agricultural sector, small scale sector, cottage and rural industries, self-employed persons, artisans, weaker sections of society and small traders, etc.

- 1) **Branch Expansion:** The branch expansion of commercial banks is very significant in fulfilling the socio-economic goals of the country. After nationalisation, the traditional concentration of banks in and around urban centres has reduced. There is wide dispersal of branches in semi-urban, rural, backward and unbanked areas. During the 18 years of nationalisation, i.e., up to June, 1987 banks opened a record number of 53,890 branches. The number of rural branches increased from 1,832 to 30,201 during the period June, 1969 to June, 1987.

The massive branch expansion in rural, underbanked and unbanked areas resulted in reduction in regional imbalances in banking facilities.

- 2) **Growth of Deposits:** Another area of bank progress is the acceleration of deposits. Consequent upon the massive efforts made by banks, deposits increased phenomenally from Rs. 4,645 crore to Rs. 1,81,260 crore during the period June, 1969 to November, 1990. The proportion of fixed deposits in the total deposits increased during this period.
- 3) **Credit Expansion:** There is significant improvement in the credit of banks during the post-nationalisation period. Total credit shot up from Rs. 3,509 crore in 1969 to Rs. 1,06,603 crore in November, 1990.
- 4) **Growth of Farm Credit:** Commercial banks have been giving special attention to agricultural sector after nationalisation. Several measures were implemented to provide credit to agricultural sector, viz., lend bank scheme, area approach, differential interest rate scheme, village adoption scheme, financing through cooperatives, Small Farmers' Development Agency, Marginal Farmers' and Agricultural Labourers' Agency, Organisation of Farmers' Service Societies and sponsoring of regional rural banks.

The banks provide direct finance to agriculturists in the form of short-term crop loans,

term loans for purchasing of **bullocks**, bullock **carts**, **agricultural implements**, digging of wells, land **development etc.**, and also loans for **allied** activities like poultry, **dairy**, piggery, fisheries, bee-keeping **etc.** The percentage of **credit** to **agriculture** increased **from** 5.4 to 18.3 during 1969 and 1986.

- 5) **Finance to Small Scale Industry**: Small Scale **industries** have been playing a **pivotal** role in our economy. Commercial banks have been financing **small scale industries** based on the guidelines of the Reserve **Bank of India** which stipulate three categories of small scale industries: (a) **artisan** and village cottage industries, (b) **small industries** in the tiny **sector**, and (c) large size **small scale units**. Commercial **banks financial** assistance to **small scale industries** increased **from** Rs. 251 crore to Rs. 7,636 crore during the period 1969 to 1986.
- 6) **Financing to other Priority Sectors**: Commercial banks also provide credit to other priority sectors like self employed persons, transport operators, retail traders and small business, assistance to education, housing etc. Loans to this sector increased **from** Rs. 28 crore to Rs. 4,719 crore during the period June, 1967 to June, 1986.
- 7) **Export Credit**: After nationalisation, commercial banks have been providing credit to **export** sector on priority basis and on **concessional** terms and conditions. **The** amount of **loans granted** to this sector was to the tune of Rs. 2,377 crore in June, 1986.
- 8) **Credit to Weaker Sections**: The nationalised banks provide loans and advances to the people of weaker sections also. These include small and marginal **farmers**, landless labourers, tenant **farmers** and share croppers, **artisans**, village and cottage industries, beneficiaries of Integrated Rural Development Programme, Scheduled Castes and Scheduled Tribes and beneficiaries of differential rate of interest scheme.

**Check Your Progress B**

1) What is bank nationalisation?

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2) List out the **names** of the banks nationalised in India.

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3) State whether the following are True or False.

- i) Nationalisation of commercial banks has achieved its objectives.
- ii) Prior to nationalisation, commercial banks in India were generally Concerned with profit maximisation only.
- iii) Nationalisation has enhanced the **efficiency** of commercial **banks**.
- iv) **Bank** nationalisation in India **was** prompted by the necessity of credit facilities **reaching the** rural sector and **weaker** sections of the society.

4) Fill in the blanks.

- i) 14 major **commercial** banks in **India** were **nationalised** on July **19**, .....
- ii) On April 15, 1980 another ..... banks were added to the list of **nationalised** banks in India.
- iii) **The percentage** of credit to agriculture increased **from** ..... to ..... during **1969** and 1986.

- iv) The bank expansion in rural, underbanked and unbanked areas resulted in reduction in regional ..... in banking facilities.

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## 6.6 PROBLEMS OF COMMERCIAL BANKS IN INDIA

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Though the commercial banks made significant progress in terms of branch expansion, deposit **mobilisation**, loans to priority sector and weaker sections of the society, they are still facing a number of problems in different respects.

- 1) **Problems in Branch Expansion:** Banks were asked to open their branches in rural and backward areas where minimum **infrastructure** facilities like roads, communication, transport, education, safe buildings for bank operations are not available. In some place there is a problem of even the security to the bank employees.
- 2) **Problems in Deposit Mobilisation:** There has been heavy competition among public sector banks in deposit mobilisation as all of them **have** been providing the same service. Banks also face competition in mobilising deposits from National Savings Organisation, Non-Banking Companies, Unit Trust of India, Mutual Funds etc. It is felt that despite their efforts deposit mobilisation efforts of banks have not been adequate to meet the needs of the present economic needs. It was also criticised that the schemes of deposit mobilisation of banks are not suited to the needs of the prospective depositors in **rural** areas.
- 3) **Absence of Coordination:** For providing finance to the same borrowers, **there** are several financial agencies like commercial banks, cooperative banks, regional rural banks and state financial corporation. In view of these multiple organisations **and** absence of coordination among these institutions it has resulted in duplicate financing, over-financing or under-financing.
- 4) **Inadequate Finance to Agriculture:** Though the **commercial banks** have made spectacularefforts to meet the financial needs of the agricultural sector and its allied activities, still a more vigorous effort is required as the total assistance of commercial banks to agricultural sector is not even 10% of their needs.
- 5) **Inadequate Banking Facilities in Rural Areas:** The number of banks in rural areas is quite inadequate compared to the needs of banking services, as is evident **from** the fact that only 5 per cent of the villages are covered by the banks.
- 6) **Regional Imbalances:** **Though** the commercial banks have spread their branches in different parts of the country, these are not equally distributed. According to Reserve Bank of **India's** Report about half of the branches **concentrate** in the Southern and Western regions. The states like **Assam, Jammu & Kashmir, Manipur, Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal** may be **termed** as **underbanked** areas.
- 7) **Low Profitability:** Financing of priority sectors, opening branches in rural as well as unbanked and backward areas, granting loans to weaker sections at low rate of interest, increase in cost of salaries and establishment and increase in overdue resulted in decline in the rate of profitability of most of the **commercial banks** in India. The low profitability is also caused due to increase in costs, inefficiency, bureaucratic **attitude**, absence of effective cost control, increase in Statutory Liquidity Ratio and Cash Reserve Ratio etc.
- 8) **Low Efficiency:** Nationalisation of banking industry has brought in all the limitations of public sector to it. These are bureaucratic attitude of the managers, **absence of** initiative, red-tapism, inordinate delays, lack of commitment, responsibility, indifference to work etc. These result in low efficiency of the banks.
- 9) **Political Pressure:** Nationalisation of banks has brought political interference and political pressure **at** all levels of **the** banks. The political pressure results in the poor selection of staff, granting loans and advances to undeserving, etc.
- 10) **Problems of Liberal Credit Policy :** Liberal Credit Policy which is essential to **meet** the credit requirements of the weaker **sections**, agricultural sector, etc. **resulted** in insecurity of bank funds and ultimately of depositors money. Liberal credit policy has also resulted in poor recovery of funds and absence of recycling of bank funds.

- 11) **Unfair** Competition : Many nationalised banks **generally** have their branches in the same area. Each of them, therefore, faces unfair and **unnecessary** competition in deposit mobilisation.
- 12) **Problems** in Financing **Small** Scale Industry : The basic problem associated with the financing of small industrial units is the chronic sickness of small units and consequently mounting **overdues** and poor recoveries.

### Check Your Progress C

- 1) Commercial banks in the post-nationalisation period have faltered on the front of :
  - i) export finance
  - ii) agriculture advances
  - iii) large scale industry
  - iv) deposit mobilisation
  - v) weaker sections of society
- 2) Which of **the** following problems are faced by commercial banks most acutely?
  - i) Shortage of staff
  - ii) Safety of funds
  - iii) Regional imbalances in branch distribution
  - iv) Low efficiency
- 3) Which of the following may be stated as the objectives of bank nationalisation ?
  - i) providing maximum credit facility to **trade**
  - ii) ensuring adequate credit facilities to unbanked and underbanked areas
  - iii) helping the emergence of new entrepreneurial class
  - iv) satisfying customers

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## 6.7 LET US SUM UP

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Banking structure in India consists of a central bank, commercial banks, development banks, cooperative banks, export-import banks, rural banks and housing banks.

State Bank of India is the oldest, largest and premier commercial bank in India. It is primarily oriented towards social needs like branch expansion, deposit mobilisation, advances to **agriculture**, industry and exports, special financial schemes for rural areas, small scale industry and weaker sections of society. Though SBI has contributed significantly towards meeting these needs, yet a lot more is **needed** to make **an impact**.

In order to orient banking to the social and development needs of the country as well as to reduce the control of big industrialists, Government of India nationalised 14 leading commercial banks on July 19, 1969. To this were added 6 more banks on April 15, 1980. Nationalised banks have no doubt been able to work in the stipulated direction. There has been significant expansion in branches, deposit mobilisation and advances of these banks. Credit to small **scale** industry, agriculture and allied activities, rural sector **and** economically weaker sections has grown remarkably. However, nationalised banks have been facing problems like political pressures, opening new branches in areas devoid of any infrastructure, low profitability and efficiency and unfair competition.

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## 6.8 KEY WORDS

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Commercial Banks : Banks which provide short loans and advances.

Cooperative Banks : A banking institution established and **run** on cooperative principles.

Development Banks : Banks which provide long term **and** medium **term** credit.

**Export-Import** Banks : Banks which provide finance exclusively for foreign trade.

Lead **Bank** Scheme : The banks should adopt particular districts for intensive development;

## 6.9 ANSWERS TO CHECK YOUR PROGRESS

- A) 1) i) Central Bank, Development banking, Commercial banking, Rural banking, Export-Import banking, Housing banking.  
 2) i) RBI, ii) branch, iii) industry iv) socially  
 3) i) True ii) False iii) True iv) True
- B) 3) i) False ii) True iii) False iv) True  
 4) i) 1969 ii) 6 iii) 5.4; 18.3 iv) imbalances
- C) 1) ii) and iii)  
 2) iii) and iv)  
 3) ii) and iii)

## 6.10 TERMINAL QUESTIONS

- 1) Explain the banking structure in India.
- 2) Argue for and against nationalisation of commercial banks in India.
- 3) What are the objectives of nationalisation of commercial banks in India.
- 3) Evaluate the extent of achievement of objectives of nationalisation by nationalised commercial banks in India.
- 5) Explain the establishment, structure and functions of the State Bank of India.
- 6) Evaluate the growth and achievements of the State Bank of India.
- 7) Explain the development of commercial banks in India.

**Note :** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.