Volume : 3 | Issue : 4 | April 2014 • ISSN No 2277 - 8160

Research Paper Commerce

A Review of Commercial Banks Since Nationalization

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ABSTRACT

The Banking Industry one of the basic instruments of economic growth. It must be on a sound footing as it constitutes an important link in various socio-economic activities. It is constitute an important segment in financial arena of all countries whether developed or developing or underdeveloped. Since it is considered the backbone of economic development, any change in its processes is deemed to have repercussions on the country's growth. The essential part of the banking system is its financial viability. Therefore, the banking system is a vital part and decides the progress of the nation's economy. Banks play an important role in the mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of the nation. Several committees have emphasized the need to improve the performance of the commercial banks. In India, the priorities in banking operations underwent far reaching changes since the banking sector reforms have been set in motion. In this paper a review of commercial banks since nationalization in India with especial reference to the public sector banks.

KEYWORDS:

1. INTRODUCTION

The banking sector is the core segment in deciding the progress of the entire economy of the country. Activities of a modern economy are significantly influenced by the functions and services of banks and became an indispensable part of socio-economic life of the people. In India, the banking sector was restricted mainly to the urban areas and neglected in the rural and semi-urban areas. After the nationalization of 14 major banks in 1969 and six more in 1980, the scenario changed. Since then the banking sector in India has played a pivotal role in the Indian economy. Financial institutions in India can broadly be classified into banking and non-banking institutions. Banking institutions are of three types: Commercial Banks, Industrial and Investment Banks and Rural Banks. Most active sector of the Indian money market is the commercial banking sector. Commercial in India can be classified in to three groups; Public Sector, Private Sector and Foreign Banks. The majority commercial banks in India is in the public sector with the State Bank of India and its associated banks.

Banks play a very significant role in the economic development of a country. Banks have control over a major part of the supply of money in circulation in fact, banks are the main stay of the economic development of a country. The public sector banks account for the major share of banking business in our country. But the public sector banks are functioning under pressure from government, regulatory agencies and the public. After liberalization, various new private sector banks and foreign banks have joined the banking industry. The banking areas have been almost completely flooded with new entrants including private banks, foreign banks, non-banking finance companies (NBFCs), the merchant bankers and chit funds etc. The foreign banks and new private sector banks have spearhead the hi-tech the revolution mainly targeted at the cream corporate-clientele of banks.

2. METHODOLOGY

The study has been conducted on the basis of secondary data. The secondary data has formed the major source of study. The secondary data has been compiled from statistical tables relating to banks, Reserve Bank of India bulletins, Centre for Monitoring Indian Economy reports, economic surveys of various years, and other publish resources.

3. EVOLUTION OF COMMERCIAL BANKS

The commercial banking Industry in India started in 1786 with the establishment of the Bank of Bengal in Calcutta. The Indian Government at the time established three Presidency banks, viz., the Bank of Bengal (established in 1809), the Bank of Bombay (established in 1840) and the Bank of Madras (established in 1843). In 1921, the three Presidency banks were amalgamated to form the Imperial Banks of India, which took up the role of a commercial bank, a bankers bank and a banker to the Government. The Imperial Bank of India was established with mainly European shareholders. It was only with the establishment of Reserve Bank of India (RBI) as the central bank of the country in 1935, that the quasi-central banking role of the Imperial Bank of India came to an end.

In 1860, the concept of limited liability was introduced in Indian banking, resulting in the establishment of joint-stock banks. In 1865, the Allahabad Bank was established with purey Indian shareholders. Punjab National Bank came into being in 1895. Be3tween 1906 and 1913, other banks like Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up.

After independence, the Government of India started taking steps to encourage the spread of banking in India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank taking over the Imperial Bank of India and integrating with it, the former state-owned and state-associated banks. Accordingly, State Bank of India (SBI) was constituted in 1955. Subsequently in 1959, the State Bank of India (subsidiary bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries.

4. FUNCTIONS OF COMMERCIAL BANKS

The main functions of commercial banks can be segregated into three main areas:

Payment System: Banks are at the core of the payments system in an economy. A payment refers to the means by which financial transactions are settled. A fundamental method by which banks help in setting the financial transaction process is by issuing and opayingcheques issued on behalf of customers, further, in modern banking, the payments system also involves electronic banking, wire transfers, settlement of credit card transactions, etc. In all such transactions, banks play a critical role.

Financial Intermediation: The second principal function of a bank is to take different types of deposits from customers and then lend these funds to borrowers, in other words, financial intermediation. In financial terms, bank deposits represent the banks' liabilities, while loans disbursed and investments made by banks are their assets. Bank deposits serve the useful purpose of addressing the needs of depositors, who

want to ensure liquidity, safety as well as returns in the form of interest. On the other hand, bank loans and Investments made by banks play an Important function in channelling funds into profitable as well as socially productive uses.

Financial Services: In addition to acting as financing intermediaries, banks today are increasingly involved with offering customers a wide variety of financial services including investment banking, Insurance –related services, etc. Income from providing such services improves a bank's profitability.

5. NATIONALIZATION OF COMMERCIAL BANKS

The following factors were responsible for Nationalization of Commercial Banks in 1969.

i.Private ownership of commercial banks and concentration of economic power:

Until nationalization, all major banks were controlled by one or more business houses. These business houses used the resources contributed by the mass of the people for their own personal benefits. They financed those projects which ultimately enhance their own financial resources. Thus, private ownership of banks resulted in concentration of income and wealth in few hands.

ii.Urban-bias:

prior to nationalization, commercial banks had shown no interest in establishing offices in semi-urban and rural areas. More and more branches were opened in cities resulting in concentration of banking facilities in urban areas.

iii.Neglect of Agricultural Sector:

There was a total neglect of the agricultural sector and its finance prior to nationalization of banks. The banks increasingly advanced finances to commercial and industry with the result their share in the scheduled banks advances increased from 70 per cent in 1951 to 87 per cent in 1968. Agricultural accounted for only 2.2 per cent of the total advances.

iv.Violation of norms:

Commercial banks often violated the norms and priorities laid down in the plans and granted loans to event those industries which figured nowhere in the priority list.

v.Speculative activities:

Private Commercial banks earned large profits and indulged in speculative activities. They even extended advances to hoarders and black marketers against high rates of interest.

vi.Neglect of priority sectors:

Not only there was a complete neglect of agricultural sector other sectors such as export, small-scale industries etc. Were also completely neglected.

6.PROGRESS OF COMMERCIAL BANKS AFTER NATIONALIZATION

After the nationalization of banks in 1969, commercial banking operations have become an integral part of India's economic policy. Following development have taken place since nationalization in 1969.

i.Expansion of Branches:

There has been an unprecedented growth in the branch network since nationalization. Compared to just 8262 branches offices in 1969, the number of branch office in 2008 has increased to 76885 indications a greater access to banking facilities to the common man. As a result, the population per bank office has reduced from 55,000 in 1969 to around 15,000 in 2008.

ii.Branch opening in rural and unbanked areas:

there has been a qualitative change in branch expansion programmed ever since the nationalisation of banks. Before nationalization, thete was a clear urban bias in the operations of banks. But after nationalization they have started moving towards rural and less developed areas. This will be clear from the fact that compared to just 22 per cent bank offices in rural areas in 1969, the percentage of rural branches bank improved to about 41 per cent in June, 2008. This has helped in checking imbalances in disbursement of banking finance in India.

iii.Deposit Mobilization:

there has been a substantial rise in the rate of deposit mobilization since nationalization. The aggregate deposits of commercial banks have increased form Rs.4,665crore in 1969 to around Rs. 31,97,000 crore in December, 2008 forming more than 80 per cent of the national income. Considering state-wise deposit mobilization, we find Maharashtra leads all other states and accounts for around one-fifth of the aggregate deposits received by the banks. It is followed by Delhi, Uttar Pradesh, West Bengal, Tamil Nadu, Karnataka and Andhra Pradesh. These all together account for 65 per cent of the aggregate deposits of the banks.

iv.Promotion of New Entrepreneurship:

Banks, of late, have been financing the schemes which promote entrepreneurship.

7. GROWTH OF PRIORITY SECTOR IN INDIA DURING POST REFORMS PERIOD

Both public sector banks and private sector banks play a vital role in economic development by financing the priority sector of the economy. It is, therefore, important to analyse the performance of scheduled commercial banks in India with respect to priority sector lending and its various components. An attempt has been made to present here the performance of scheduled commercial banks in India in this regard after banking sector reforms.

Table.1
Year-wise Priority Sector Advance of Commercial Banks in India

(Rs. in creore)

Year	Public Sector Banks			Private Sector Banks		
	TPS Advances (Rs.)	Total Advances (Rs.)	% age share of PS to Total Advances	TPS Advances (Rs.)	Total Advances (Rs.)	% age share Of PS to Total Advances
1990-91	42276	121678	34.74	2688	12067	22.28
1991-92	44995	135832	33.13	2819	12432	22.68
1992-93	48384	138295	34.99	3319	13165	25.21
1993-94	53197	148388	35.85	3846	15452	24.89
1994-95	61794	167063	36.99	4064	18765	21.66
1995-96	69609	204257	34.08	6283	20154	31.17
1996-97	79131	222158	35.62	8832	27055	32.64
1997-98	91319	254916	35.82	11614	35062	33.12
1998-99	107200	295654	36.26	14155	44161	32.05
1999-00	127807	351383	36.37	18019	56877	31.68
2000-01	146546	405430	36.15	21550	82748	26.04
2001-02	171185	473951	36.12	25709	115020	22.35
2002-03	203095	529244	38.37	36705	143091	25.65
2003-04	244456	616570	39.65	48920	174107	28.10
2004-05	310093	817344	37.94	69384	226944	30.57
2005-06	409748	1075073	38.11	106586	302941	35.18

2006-07	521180	1374327	37.92	143768	390064	36.86
2007-08	608963	1702039	35.78	163223	470745	34.67
2008-09	720083	2052041	38.07	193532	552791	35.01
2009-10	864564	2350132	38.15	222894	617093	36.12
2010-11	1028615	2659407	37.54	241135	685240	35.19
2011-12	11307	2905251	38.75	265099	724712	36.58
2012-13	12836	3217865	39.24	284140	759531	37.41

Source: Complied and calculated from Report on Trend and Progress of Banking in India from 1990-91 to 2012-13

Table 1 depicts that priority sector advances of private sector banks increased from Rs.2,688 crore to Rs. 3,274 billion and that of public sector banks increased from Rs. 42,276 crore to Rs. 12,836 billion during 1990-91 to 2012-2013.

Table.2
Year-wise Agricultural Advances by Commercial Banks in India

(Rs. in creore)

Year	Public Sector Banks			Private Sector Banks		
	AGR Advances (Rs.)	% age of Total PS Advances	% age share of Total Advances	AGR Advances (Rs.)	% age Total PS Advances	% age share of Total Advances
1990-91	16871	39.91	13.87	496	18.45	4.11
1991-92	18464	41.04	13.59	519	18.41	4.17
1992-93	19935	41.20	14.41	566	17.05	4.30
1993-94	21204	39.86	14.29	634	16.48	4.10
1994-95	23513	38.05	14.07	816	20.08	4.35
1995-96	26351	37.86	12.90	1233	19.62	6.12
1996-97	31012	39.19	13.96	1953	22.11	7.22
1997-98	34305	37.57	13.46	2746	23.64	7.83
1998-99	40078	37.39	13.56	3257	23.01	7.38
1999-00	46190	36.14	13.15	4239	23.53	7.45
2000-01	53685	36.63	13.24	5394	25.03	7.57
2001-02	63082	36.85	13.31	8022	31.20	6.97
2002-03	73507	36.19	13.89	11873	32.35	8.30
2003-04	84435	34.54	13.69	14730	30.11	8.46
2004-05	112475	36.27	13.76	21475	30.95	9.46
2005-06	155220	37.88	14.44	36712	34.44	12.12
2006-07	205091	39.35	14.92	52056	36.21	13.35
2007-08	248685	40.84	14.44	57702	35.35	12.13
2008-09	298211	42.5	17.2	76062	46.8	15.9
2009-10	370730	41.6	17.1	89769	45.9	15.6
2010-11	414991	41.31	16.5	92136	46.6	15.7
2011-12	4786	37.2	15.8	1042	39.4	14.3
2012-13	5306	36.31	15.0	1119	37.5	12.8

Source: Complied and calculated from Report on Trend and Progress of Banking in India from 1990-91 to 2012-13

Table 2 depicts that the performance of public and private sector banks regarding agricultural advances increased manifold. The agricultural advances of private sector banks increased drastically from Rs.496 crore to Rs.1119 billion and those of public sector banks increased from Rs. 16,871 crore to Rs. 5,306 billion during 1990-91 to 2012-2013.

8.CONCLUSIONS

Commercial banks form the most important part of the Indian financial landscape in terms of their role in channelling credit to the commercial sector and facilitating the process of financial inclusion. There has been a steady increase in the number of foreign banks and their branches operating in India. The average population per bank branch acts as a basic indicator of the penetration of banking services.

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