
Growth and Development of Banking Sector with Inclusive Approach in India

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Abstract

Today's increasing complex and volatile business environment characterized by globalization, liberalization and transnational invasion ensures that managing in India would not be the same again. Enhancing competitiveness in the global market place presents the challenge to policy makers, business leaders and entrepreneurs in any industry including banking.

The world's second largest populated country, India, is the apple of the eye for the world now. The world economies are seeing it as their potential market. This has been going on since quite some time now, ever since 1991 reforms of liberalization, globalization and privatization. Indian markets in urban areas have grown appreciably and on the verge of saturation, so corporate have started tapping rural markets, since more than 60 percent of India's population lives in rural areas. Banking Industry in our Country is fast developing and it has been assigned a crucial role in countries economic development. Branch expansion and employment generation has touched new heights in the country. In view of its expanding role in the national economy and huge public funds at the disposal of banks, it is the need for the hour for banking sector to explore and adopt developmental aspects to meet the current challenges. Hence an attempt has been made to examine the progress of banking sector and adoption of development aspects to suit the needs of people in India. For this purpose the study covers a total period of 43 years from 1969 to 2012 with regard to the aspects of expansion in bank branches, deposit mobilization and priority sector lending both by the public and private sector banks in India.

Keywords: *Globalization, Liberalization, Banking sector, Branch expansion, Deposit mobilization, Inclusive growth.*

Introduction

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The world's second largest populated country

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development. Branch expansion and employment generation has touched new heights in the country. In view of its expanding role in the national economy and huge public funds at the disposal of banks, it is the need for the hour for banking sector to explore and adopt developmental aspects to meet the current challenges. Hence an attempt has been made to examine the progress of banking sector and adoption of development aspects to suit the needs of people in India.

Objectives

1. To analyze the growth and development of commercial banking in India.
2. To examine the public and private sector bank branches in India.
3. To examine deposit mobilization in public and private sector banks in India.
4. To examine the progress in priority sector lending by banking in India.
5. To analyze the inclusive approach of RBI and banking sector in India.

Period of the Study

The study covers a total period of 43 years 1969 to 2012 with regard to the aspects of expansion in bank branches, deposit mobilization and priority sector lending both by the public and private sector banks in India.

Growth of commercial banking in India

The beginning of Commercial Banking in India was made in the 17th century when the British established Agency Houses in the country. Before that some indigenous bankers were working. The bank called the bank of Hindustan was established in 1770. But the commercial banking in systematic form was initiated in the early part of 19th century when the presidency. Banks were established. The Banking Companies Act, 1860 encouraged the growth of joint stock banks in India. The

establishment of the Oudh commercial Bank in 1881 can be considered as the first Indian Bank. The Imperial Bank of India was set up in 1920 with the merger of three Presidency Banks, which was nationalized in 1955 to create the State Bank of India. At the time of independence India had 648 banks with 4,819 branch offices.

Phases of Commercial Banking Growth

The growth of commercial banking in India has passed through four distinct phases since independence. They are: I) Foundation phase, II) Expansion phase, III) Consolidation phase and IV) Reform phase

I) Foundation phase (1951-65)

During this phase (1951-65) formulation of necessary legislative framework for facilitating re-organization and consolidation of the banking system was undertaken.

II) Expansion phase (1965-85)

This phase had begun in mid 1960s and gained momentum after the nationalization of 14 top commercial banks in 1969. During this phase emphasis was laid on the expansion of banking services throughout the country.

III) Consolidation phase (1985-90)

During this phase (1985-90) attention was paid for improving efficiency in terms of staff productivity, profitability of banks, customer service, credit management, etc.

IV) Reform phase (1991 and after):

This is an important phase of commercial banking growth in India. With the introduction of banking sector reforms, in recent years, the composition of banking system has seen considerable change. Some important initiatives like new accounting and prudential norms relating to capital adequacy, income recognition, etc., are given due weightage during this period.

Trends in Commercial Banking Growth

The important trends in the growth of commercial banking in India, particularly since nationalization may be analyzed as given below.

Expansion of Bank Branches

Rapid economic development presupposes rapid expansion of commercial banks. Initially, the banks were conservative and opened branches mainly in metropolitan cities and other major cities. The public sector banks growth is quite impressive. There were only 7,015 public sector banks in 1969, accounting for nearly 85% of the total number of bank branches while the share of the private sector banks were 15% in India. The total number of public sector banks shot up to 47,359, accounting for 90% of the total number of banks while the share of the private sector banks stood at 10% in India by 2001. The New Economic policy introduced in July 1991 supplied the needed impetus to increase bank branches in the country. The public banking sector broke the all time record in 2011 with 71,065 bank branches accounting for slightly over 88% of the total number of bank branches under the public sector in India. Thus, public sector banking increased by more than ten fold over a period of four decades (Table -1) while the private sector banks stood at 9304 accounted for 11.6% of the total number bank branches in 2011 implying the fact that the private sector banking increased by more than seven fold while the public sector banks increased by more than ten fold over a period of forty years in India. As a result, the average population served per bank office was around 65000 in 1969 has comedown to 13888 in 2007 i.e. 7.20 bank branches for one lakhs population.

Rural Branches

Apart from the numerical increase in the branches of commercial banks, there has been a rural bias in branch expansion after nationalisation. This has resulted in an improved dispersal of banking

facilities. As against 22 per cent (1,860 branches) bank branches located in rural areas in June 1969, there were went to 35,206 (58.5 %) bank branches in 1991, but these were 31,554 (39.3 %) bank branches in 2009 and in 2012 these were 35,850 (36.9 %) branches.

Removal of Regional Imbalances

Another important development in the branch expansion of commercial banks during the last four decades is opening up of branches in backward areas. Branch expansion has been faster in the states like Assam, Orissa, Bihar, Madhya Pradesh and Uttar Pradesh than in developed states like Maharashtra, Gujarat and Tamil Nadu after nationalisation. This has progressively reduced regional inequalities in banking facilities in the country to some extent. Table 2 reveals the progress of branch expansion of commercial banks since nationalisation:

Deposit Mobilisation

Expansion of bank deposit has been an important feature in recent years. Planned economic development, deficit financing and increase in currency issue have led to increase in bank deposits. At the same time, banks have contributed greatly to the development of banking habit among people through sustained publicity, extensive branch banking and relatively prompt service to the customers. But nationalization gave a great fillip to deposit mobilization, due partly to the expansion of a network branches and partly to the incentives given to savers.

Table - 3 reveals that, there has been a substantial rise in the deposits of the banks during last four decades, from 1969-2012 the aggregate deposits of public sector banks have gone up from Rs 4823 crores in 1969 to Rs 56,13,195 crore in 2012 that is to say bank deposits have gone up by almost 1163 fold : whereas the deposits in the case of private sector banks from 1981 to 2012 has gone up by almost 8 times and the aggregate total deposits from 1981 to 2012 registered a growth of

deposits by about 131 fold . In addition, the share of rural deposits in total deposits has gone up significantly from 3 per cent in 1969 to about 15 per cent presently. At present, bank deposits have been growing at a rate faster than the rate of growth of national income. This tremendous growth in bank deposits is due to the following reasons.

- i) Rapid branch expansion
- ii) Growth of banking habits
- iii) Larger availability of cash with the banking system
- iv) Lower cash reserve ratio
- v) Favourable business conditions in the country
- vi) Greater confidence of people in the banking system
- vii) Higher rates of interest, etc.

Since 1950-51 deposit mobilization and supply of credit by banks were going at a rapid rate particularly after bank nationalization 1969. For instance, for growth of deposits in India of all Scheduled Commercial Banks was as under.

1951 - 1971 (20 Years) - 700% or 7 times.

1971 - 1991 (20 Years) - 3.260% or 33 times.

1991 - 2012 (21 Years) - 1990% or 20 times.

It is clear that, the most rapid deposit expansion was during 1971-1991 nearly 33 times. This was because of Nationalization and the tremendous expansion of banking. In general, there has been regular continuous rise in bank deposits indicating clearly that banking habit is growing in India more, and more people are keeping their cash with banks than with themselves.

Priority Sector Lending

The commercial banks have made a remarkable progress in priority sector lending during the last four decades. Before 1969, Agriculture, Small scale industries and other priority sectors were totally

neglected by banks. The share of these sectors in the total advances of banks was just 14.6% in June 1969. Therefore, channelization of more funds to priority sector was made one of the important objectives of bank nationalisation. Table - 4 shows that, the commercial banking system and particularly the public sector banks have extended by the public sector banks to priority sectors went up from Rs. 441 crore in June 1969 to Rs. 11,30,700 crore in March 2012 i.e., 37.5 per cent of total credit.

During the last four decades since nationalisation in July 1969, Indian Commercial banks have transformed themselves beyond recognition. Their major business before 1969 was to finance trade and industry. In accordance with the national plans, policies and priorities, banks have now taken up major responsibilities for developing and diversifying the Indian economy. They have come in a big way to help agriculture and hitherto neglected sectors. The new avenues for profits have made them enter the following new fields of activity. In addition, commercial banks are providing a lot of developmental inputs.

They include:

- i) Core banking services
- ii) Supply of venture capital
- iii) Merchant banking services
- iv) Supply of housing loans
- v) Insurance service
- vi) Supply to SHGs,
- vii) Supply of micro credit
- viii) Mutual fund business
- ix) Supply of credit and ATM Cards to customers etc.
- x) Educational loans

All the 10 items listed above are steered in the direction of achieving faster rate economic growth and development.

Foreign Banks

Apart from the 80,369 indigenous bank branches some of the foreign banks are also operation in India, which are commonly addressed as Foreign Exchange Banks. The foreign banks here refer to those banks which are incorporated in foreign countries, but have opened branches in India. They are mainly private sector foreign banks. Most foreign banks perform essentially the same range of services as local banks with a different focus. At present more than 40 foreign banks have opened their branches in India and as on June 30, 2008 there were 279 such branches. Some of the foreign banks are: Citi bank, Grindly's Bank, Federal Bank, Hong Kong Bank, Deautsche Bank etc.,

Inclusive approach adopted by the RBI and other Banks in India

The New Economic Reforms initiated in India on 24th July, 1991 significantly impacted the economy of India. The RBI adopted liberal approach in permitting the establishment of private commercial banks with a view to provide access to banking facilities to the people who were either to left out from participating in the nation building process and reap the benefits of development. To carry the mantel of inclusive philosophy, the RBI aimed to provide banking facility to all people. As a result of this, now here is a bank branch for every eleven thousand people in the country; which no mean achievement in the economic history of India.

This financial inclusiveness goes a long way in bringing tremendous economic prosperity in the country in the days to come. The forty years performance of progress achieved by the banking sector reflects the inclusive approach adopted by the banking sector in India.

Conclusion

The Indian Banking system had gone through a series of crises and consequent bank failures and thus its growth was quite slow during the first half of the 20th Century. But after Independence, the Indian Banking System was recorded rapid progress. This was due to planned economic growth, increase in money supply, growth of banking habit, control and guidance by the Reserve Bank of India and above all, nationalization of banks in July, 1969. Thus the banking sector particularly public sector banking played a tremendous role in providing the needed impetuous to meet the challenges from time to time. No one denies the fact that banking sector played a crucial role in achieving fast rate of economic growth in all sectors in the country. Even then there are new 5 lakh villages waiting for banking services. Further, in the banked areas also, new depositors have to be attracted and the existing depositors have to be motivated to increase their deposits to meet the investment requirements so that all the resources put to optimum use in the country.

Table: 1 Expansion of Public and Private Sector Bank Branches from 1969 to 2011 in India

Year	Public Sector Banks	Private Sector Banks	Grand Total
1969	7015 (84.9)	1,247 (15.1)	8,262 (100.00)
1981	26,408 (84.4)	4,182 (13.6)	30,590 (100.00)
1991	41,282 (91.2)	3,983 (8.8)	45,265 (100.00)
2001	47,359 (90.0)	5,253 (10.0)	52,612 (100.00)
2011	71,065 (88.4)	9,304 (11.6)	80,369 (100.00)

Source: RBI, Statistical Table relating to banks in India from 1969 to 2011, Bombay

Note: Figures in percentages indicate percentages to the total.

Table:2 - Expansion of rural commercial banks in India by June-2012

As on June 30	Total No. of Branches	Rural branches	Rural branches as percentage of the total
1969	8,262	1,860	22
1991	60,220	35,206	58.5
2009	80,156	31,554	39.3
2012	97,111	35,850	36.9

Source: Economic Survey, 2003-04, 2004-05, 2006-07, 2007-08, 2008-09, 2012-13

Table-3 Deposit Mobilization by Public and Private Banks from 1969 to 2012 in India (Rupees in crore)

Year	Public sector banks	Private Sector Banks	Grand Total
1969	4823	--	--
1981	41,022.00 (90.8)	41,182.4 (9.2)	45,204.4 (100.00)
1991	1,75,598.20 (90.3)	18,732.6 (9.7)	1,94,330.0 (100.00)
2001	7,95,061.90 (86.0)	1,29,871.5 (14.0)	9,24,933.0 (100.00)
2012	56,13,195.00 (94.69)	3,14,870 (5.31)	59,28,065 (100.00)

Source: RBI, Statistical Table relating to banks in India from 1969 to 2012, Bombay

Note: Figures in percentages indicate percentages to the total

Table:4 Public sector banks' advances to priority sectors

S. No	Priority Sectors	June 1969	March, 2001	March, 2003	March, 2009	March, 2012
1	Agriculture	162	45,296	88,143	2,98,211	4,78,600
2	Small scale industries	251	46,045	54,268	1,02,550 (March,07)	3,96,600
3	Other priority sectors	20	130	125114	2,30,563	2,88,800
4	Total priority sector advances	441	1,27,478	1,71,485	7,20,083	11,30,700
5	Total bank credit	3017	3,16,427	3,94,064	16,93,437	30,18,500
6	Percentage of priority sector advances to total bank credit	14.6	40.3	43.5	42.5	37.5

Source: Economic Survey, 2009-10, 2012-13

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