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PERFORMANCE OF VARIOUS BANKING AGENCIES IN INDIA OVER A PERIOD OF TIME**K. RANGASWAMY****RESEARCH SCHOLAR****DEPARTMENT OF STUDIES IN ECONOMICS & CO-OPERATION****UNIVERSITY OF MYOSRE****MYSORE****DR. D.V.GOPALAPPA****ASSOCIATE PROFESSOR****DEPARTMENT OF STUDIES IN ECONOMICS & CO-OPERATION****UNIVERSITY OF MYOSRE****MYSORE****ABSTRACT**

This paper attempts to analyse the performance and trends of the various banking agencies in India over a period of time i.e., between 1990-91 to 2008-09. Indian banking has come a long way since from the British period. The data analysis reveals that the public sector banks continued to play a very prominent role in both deposit mobilization and credit disbursement even during the privatisation era. They contribute about 75 per cent of the total deposits mobilised and total loans advanced by all the schedule Commercial Banks (CBs). And at the end the paper suggests that the government need to inject new policies and programmes to stabilize the existing public banking to achieve the maximum social welfare.

KEYWORDS

Banks, CCBs, CBs and RRBs.

INTRODUCTION

Banks constitute an important segment in the financial arena of all the countries in the world whether they are developed or developing or underdeveloped. Coming to India the banking is an ancient business, even it is referred in the writings of Manu. There was a reference that the bankers have played an important role during the Mogul period. During the early part of the East India Company era, 'Agency Houses' were involved in the banking activities. Modern banking (i.e. in the form of Joint-stock Companies) may be said to have had its beginnings in India since 1786, with the establishment of the General Bank of India. The establishment of the Bank of Calcutta in 1806 marked the beginning of the modern banking era in the country. Further, two more Presidential Banks viz., Bank of Bombay and Bank of Madras were set up in 1840 and 1843 respectively. These banks had functioned independently for about a century before they were merged into the newly formed Imperial Bank of India (IBI) in 1921. The IBI was the forerunner of the present State Bank of India (SBI). The latter was established under the SBI Act of 1955 and took over the IBI. With the launching of Swadeshi movement in 1905, there were outbursts of banking activities i.e., Bank of Burma (1904), Bank of India (1906), Canara Bank (1906), Bank of Rangoon (1906), Indian Specie Bank (1906), Indian Bank (1906), Bank of Baroda (1908) and the Central Bank (1911). However, there is a breakthrough in the Indian banking system which is developed considerably since 1935. Reserve Bank of India (RBI) has started its operation in 1935 through an Act as the Central Bank of India. A critical review of the growth of banking in India in the pre-independence period reveals that the banking system had neither a definite shape nor policy except the creation of RBI in 1935.

After independence, the RBI was nationalised in 1949 and was given wide powers in the area of bank supervision through the Banking Companies Act (later renamed Banking Regulations Act). The nationalization of the IBI through the formation of the SBI and the subsequent acquisition of the state owned banks in eight princely states by the SBI in 1959 made the government the dominant player in the banking industry. The Indian Government had nationalised 14 major private banks in 1969 with a deposit of Rs.50 crores by each bank. This raised the proportion of scheduled bank branches in government control from 31 per cent to about 84 per cent. Further in 1980 six more private banks each with deposits exceeding Rs 200 crores were nationalised further raising the proportion of government controlled bank branches to about 90 per cent. Currently the Indian Banking system can be classified into two categories viz., scheduled banks and non-scheduled banks the scheduled banks consists of three types CBs, Regional Rural Banks (RRBs) and Central Co-operative Banks (CCBs).

The present paper basically tries to focus on the performance of the various banking agencies in India over a period of time i.e., between 1990-91 to 2008-09. During this period financial sector reforms have taken place and already we have spent about 21 years. Therefore, it is intended to study the performance of various banking institutions like CCBs, CBs and RRBs in the first ten years of reforms and also in the second phase i.e., post liberalisation regime. This is mainly because there was lot of apprehension from the academics that the banking system will be down played during the liberalisation period. The study is based on the secondary data collected from various reports of the Apex Bank, National Federation of State Cooperative Bank (NAFSCOB), National Bank for Agriculture and Rural Development (NABARD), Centre for Monitoring Indian Economy (CMIE), Planning Commission of India, Ministry of Agriculture and Finance (Government of India) and RBI. The information is also taken from published articles and other Government Reports. The data has been converted into moving averages to work out the Compound Growth Rates (CGRs) for more accuracy.

1. EVOLUTION OF THE COOPERATIVE BANKS IN INDIA

In India the Cooperative movement came into existence after the enactment of Cooperative Credit Societies Act of 1904. The Cooperatives were seen as the premier institutions for disbursement of agricultural credit especially in remote and inaccessible areas and have much higher proportion of customers from the marginal and small borrowers as compared to RRBs and CBs (Bergengren, 1937). All India Rural Credit Survey Committee (1954) stated that in the villages the Credit Cooperative Society will be suitable with the slogan that "the Co-operation has failed but Co-operation must succeed". With the implementation of the Cooperative Act 1904, it was brought to light many deficiencies and limitations in its functioning. Therefore, the government of India, to remove all these defects and limitations passed the Cooperative Societies Act in 1912. Further, the government of India appointed a committee under the chairmanship of Edward MacLagan in 1915 to examine whether the movement was on sound lines and also to suggest measures for the improvement. The Royal Commission on Agriculture further examined the program of rural credit in 1926-27 and the Commission recommended that the structure of cooperative banking system in India, need to contain two main components, viz., Urban Cooperative Banks and Rural Cooperative Banks. Further, the same committee recommended that the Rural Cooperative Credit structure in India, which is mainly responsible for providing finance to the rural people, needs to be in three tiers, i.e., Primary Agricultural Cooperative Societies (PACS), District Central Cooperative Banks (DCCBs) and State Cooperative Banks (SCBs).

A. PRIMARY AGRICULTURAL COOPERATIVE SOCIETIES (PACS)

The PACS is one of the most important tiers of the cooperative structure in the Indian banking system. These societies have been playing a pivotal role in the village level which is presented in Table-1. This is explained with the secondary data analysis relating to its deposits, borrowings and loans and advances over a period of 19 years. To compare the performance between the initial period of liberalisation to post liberalisation period the data has been classified into two

parts the first part consists of the data from 1990-91 to 1999-2000 and the second part consists of 2000-2001 to 2008-2009. The table reveals that growth rates for the deposits, borrowings and loan outstanding (Loans & Advances) have been much better during the liberalisation regime compared to post liberalisation regime. This may be due to the government's weak policies like loan waving scheme. Because of the scheme, the society's financial position has become weak as there is mismatch between the repayment and lending. Moreover, the government may not sanction the subsidy i.e., announced for the loan waving in time. However, the overall compound growth rates of the PACS seem to be positive in case of loans and advances constituting 22.47 per cent and it is a welcome trend. But one has to take caution to see that the growth rate is not declining further.

TABLE-1: PERFORMANCE OF THE PACS IN INDIA OVER a Period of Time.

Years	No. of PACS	Deposits (₹ in Crore)	Borrowings (₹ in Crore)	Loans & Advances (₹ in Crore)
1990-91	91337	4150	18623	7308
1991-92	91422	5037	19870	12562
1992-93	91507	3345	17377	2053
1993-94	91592	5028	22363	12088
1994-95	91110	6737	26748	23545
1995-96	92327	8854	30674	37138
1996-97	91588	11860	33664	42612
1997-98	92838	14177	35651	47592
1998-99	95156	17449	41597	54431
1999-2000	101546	24799	51840	66969
CGR	0.80	31.00	15.00	50.00
2000-01	98843	33001	65566	84370
2001-02	98247	40785	77714	103848
2002-03	112309	47447	85643	117713
2003-04	105735	52108	94010	127063
2004-05	108779	56239	104785	135070
2005-06	106384	56680	115524	144437
2006-07	97224	62021	124982	159184
2007-08	94950	68495	132580	176065
2008-09	95633	75179	140501	188331
CGR	-0.86	9.54	9.81	9.65
OCGR	0.75	21.19	14.25	22.47

Note: OCGR Overall Compound Growth Rate.

Sources: Various Reports of NABARD, RBI and NAFSCOB.

B. THE DISTRICT CENTRAL COOPERATIVE BANKS (DCCBs)

The DCCBs are the second tier of the cooperative credit structure; these banks are mainly located at the district level and are called the intermediate banks between the SCBs on the one hand and PACS on the other hand. Table- 2 clearly reveals the performance of the DCCBs in India from the liberalisation period i.e., 1990-91 to 2008-09. To understand the performance of the DCCBs the data has been classified as in the case of PACS. Currently around 373 DCCBs with 13,233 branches are working in the country. The performance of the DCCBs in terms of the deposits, borrowings and investment are very high during the first part of 10 years when compared to the second part, but it is vice-versa in case of the loans & advances of the DCCBs. Further, the overall CGRs of the DCCBs seems to be highest in case of investment (17.06 per cent) compared to other variables. This is mainly because the opportunities for the DCCBs to lend loans is limited. Therefore the investment has been more in the money market.

TABLE-2: PERFORMANCE OF THE DCCBs IN INDIA OVER A PERIOD OF TIME

Years	No. of Banks	No. of Branches	Deposits (₹ in Crore)	Borrowings (₹ in Crore)	Investments (₹ in Crore)	Loans & Advances (₹ in Crore)
1990-91	356	11005	52250	9172	11927	117119
1991-92	351	11211	52345	10593	12841	119835
1992-93	352	11417	52157	7752	11013	114404
1993-94	359	11623	52532	13433	14669	125267
1994-95	361	11787	55489	20390	18297	50125
1995-96	364	12077	62226	25973	21980	61189
1996-97	367	12223	76592	30270	27677	73656
1997-98	368	12546	92542	33268	36191	86056
1998-99	369	13031	113832	36917	48001	100693
1999-2000	369	13265	135657	40122	57947	116148
CGR	0.59	2.07	16.00	24.00	27.00	1.00
2000-01	370	12787	161178	44661	66610	134124
2001-02	371	13068	182437	49226	74548	155434
2002-03	365	12865	201005	54081	83936	173134
2003-04	367	12866	215988	58564	95115	186184
2004-05	368	12858	229667	61845	101578	198108
2005-06	370	12991	243925	65808	107567	212447
2006-07	371	12928	259210	72700	112702	234288
2007-08	372	13151	284727	81676	126165	258172
2008-09	373	13233	321797	86952	150079	278642
CGR	0.14	0.29	8.2	8.50	9.67	9.02
OCGR	0.27	0.95	13.27	12.97	17.06	9.04

Sources: Various Reports of NABARD, RBI and NAFSCOB.

C. THE STATE COOPERATIVE BANKS (SCBs):

The SCBs are one of the important financial institutions under the cooperative credit structure in India. SCBs are at the apex of the three tier cooperative structure dispensing mainly short and medium term credit and these banks are mainly located at the state level. Table-3 clearly reveals the performance of the SCBs in India in the liberalisation and post liberalisation period. The performance of the SCBs in terms of the number of banks and branches are grown positively during the two periods i.e., 1991-92 to 1999-2000 and 2000-01 to 2008-09. Currently 31 SCBs are working throughout the country. In addition to this the

performance of the SCBs in terms of the deposits, borrowings, investment and loans and advances are achieved highest growth in the liberalisation regime compared to the post liberalisation regime.

TABLE-3: PERFORMANCE OF THE SCBS IN INDIA OVER A PERIOD OF TIME

Years	No. of Banks	No. of Branches	Deposits (₹ in Crore)	Borrowings (₹ in Crore)	Investments (₹ in Crore)	Loans & Advances (₹ in Crore)
1990-91	28	665	702320	372460	10553	109
1991-92	28	665	702320	372460	10553	109
1992-93	28	691	34876	14422	10208	102
1993-94	28	717	35020	15451	11589	116
1994-95	28	742	35211	16161	12310	123
1995-96	28	768	37008	17510	13099	131
1996-97	28	769	42569	18864	14813	148
1997-98	28	813	52671	22135	21357	214
1998-99	29	843	64510	25569	27648	276
1999-2000	29	867	76507	29657	33653	337
CGR	0.34	3.37	13.00	11.00	19.00	19.00
2000-01	30	865	87201	32852	36027	360
2001-02	30	899	98062	34602	39428	394
2002-03	30	931	107895	35652	43870	439
2003-04	30	929	118145	37191	49306	493
2004-05	30	953	126042	40179	56290	563
2005-06	30	962	134603	45065	62555	626
2006-07	31	938	140937	53693	68048	680
2007-08	31	986	153157	60628	73606	736
2008-09	31	992	176800	65339	91206	912
CGR	28.2	1.47	8.00	9.00	12.00	12.00
OCGR	0.79	2.17	12.00	10.00	15.00	15.00

Sources: Various Reports of NABARD, RBI and NAFSCOB.

2. PROGRESS OF THE COMMERCIAL BANKS (CBs) IN INDIA

The CBs are the most important segment of the Indian banking system. The All India Rural Credit Review Committee was set up under the chairmanship of B. Venkatappaiah in 1966, to study the flow of agricultural credit through the CBs. This committee recommended that the CBs should play a complementary role, along with cooperatives in extending rural credit, because in the beginning the CBs were engaged only to finance the trade and industry and totally they had neglected the agriculture sector. The Gorawala Committee report (1954) strongly suggested that the CBs should lend the resources to the agricultural sector. Therefore, they started to provide credit to the agriculture sector. The then Prime Minister, Indira Gandhi, stated that "Operations of the banking system should be informed to a larger social group and should be subjected to close public regulation. Government has come to the conclusion that the desired regulation and rate of progress consistent with the urgency of our problems could be secured only through the nationalization of these banks". In this connection, 14 major CBs were nationalised in July 1969, (Incidentally six more banks were nationalised in April 1980) and these banks have been actively involved in the disbursement of agricultural credit (Shivamaggi, 1993). Further, for the development of agriculture, different programmes like Village Adoption Scheme, Agricultural Development Branches, Lead Bank Scheme and Rural Service Centers were formulated by CBs from time to time (Sharma and Asha 2009). Moreover, on the recommendations of RBI, CBs also started preparing Special Agriculture Credit Plans (SACP) from the year 1994.

The Table-4 clearly highlights the performance of the CBs in India from the liberalisation period i.e., 1990-91 to 2008-09. During the first regime as stated in other sections, the performance of the CBs in terms of number of banks and branches are high when compared to the second regime, currently around 175 CBs with 76,050 branches are working in India. Specially during the post liberalisation regime number of CBs are steadily declining when compared to the first regime. Moreover, the performance of the CBs in terms of borrowings from the RBI, investments and outstanding (loans and advances) are very low during the first part when compared to the second part but there is a consistency in terms of deposits mobilised. In addition to this, when we observe the overall CGRs of the CBs it is very much high in case of the investment (22 per cent) followed by the borrowings and outstanding (loans and advances) this constitutes about 19 per cent. Finally, it is concluded that the CBs have achieved high growth rates and the performance is high during the first part of liberalisation compared to the post liberalisation regime.

TABLE-4: PERFORMANCE OF THE CBS IN INDIA OVER A PERIOD OF TIME

Years	No. of CBs	No. of Branches	Deposits (₹ in Crore)	Borrowings (₹ in Crore)	Investment (₹ in Crore)	Loans & Advances (₹ in Crore)
1990-91	274	59752	173515	27326	64584	143692
1991-92	276	60220	201199	22574	75817	159808
1992-93	276	60570	612280	79564	230735	477024
1993-94	276	61169	713703	67058	270714	501670
1994-95	276	63755	836136	69936	328211	550681
1995-96	282	64234	985429	82567	387131	629595
1996-97	288	64938	1144310	91191	447350	736892
1997-98	296	65544	1326277	91598	504550	852659
1998-99	300	66306	1544828	89551	679375	969791
1999-2000	301	67041	1833212	111467	883430	1137625
CGR	1.51	1.45	17.00	6.00	20.00	14.00
2000-01	297	65412	2179206	141029	1146985	1338722
2001-02	301	65919	2562937	208161	1352178	1614895
2002-03	298	66190	2971921	249336	1592394	1910659
2003-04	294	66535	3432089	290405	1884757	2248608
2004-05	291	67188	3985232	351377	2221079	2753701
2005-06	288	68355	4586903	467987	2736326	3531278
2006-07	222	69471	5384191	614505	3496971	4648881
2007-08	183	71839	6453840	743502	4562566	5975082
2008-09	175	76050	7917921	892047	5800180	7431111
CGR	-6.79	1.65	17.00	25.00	22.00	24.00
OCGR	-1.40	1.00	17.00	19.00	22.00	19.00

Sources: Various Reports of NABARD, RBI and NAFSCOB.

3. PERFORMANCE OF THE REGIONAL RURAL BANKS (RRBs) IN INDIA

The RRBs were introduced to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalised sections. Although the CCBs and the CBs had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups, the CCBs have been concentrating on the rural rich, while the CBs had a clear urban bias. In this connection, the Government of India appointed a Committee under the chairmanship of Narasimham in 1975. This Narasimham Committee after conducting a survey recommended that there was an urgent need to try new experiments, especially to increase the rural credit. In this context, the Government of India had established the RRBs on October 2, 1975 to strengthen the institutional rural credit system in India.

The RRBs are jointly owned by the Government of India, the concerned state governments and sponsored banks. These institutions shared the capital in the proportion of 50 per cent, 15 per cent and 35 per cent respectively. The major objectives of the RRBs are; to develop the rural economy by providing credit facilities for agriculture, trade, commerce, industries and other productive activities in rural areas, particularly to the small and marginal farmers. Further, the RRBs were instrumental in extending credit for poverty alleviation schemes. And also it is felt that the RRBs are instrumental in recognizing the diversified economic activities in the rural areas (Narayana, 1992 and Bhatt, 2006).

The Table – 5 clearly reveals the performance of the RRBs during the liberalisation period from 1990-91 to 2008-09. However, the performance is far better during the first part of liberalisation period compared to the second part i.e., 2000-01 to 2008-09. This is mainly because, most of the RRBs, were amalgamated during the post liberalisation regime compared to the liberalisation regime. The GOI in consultation with sponsor banks and the NABARD took a decision to amalgamate the RRBs mainly to downsize the public sector organizations. The process of amalgamation resulted in the reduction of the number of RRBs from 196 to just 86 RRBs in March 2010. Currently there are only around 86 RRBs and 15,235 branches working in 518 districts across the country. The overall CGRs clearly indicate that the growth rates are positive for all the variables.

TABLE-5: PERFORMANCE OF THE RRBs IN INDIA OVER A PERIOD OF TIME

Years	No.of RRBs	No.of Branches	Deposits (₹ in Crore)	Borrowings (₹ in Crore)	Investments (₹ in Crore)	Loans & Advances (₹ in Crore)
1990-91	196	14443	4151	1184	2981	1938
1991-92	196	14527	6748	1615	4856	1977
1992-93	196	14539	17808	4522	13201	6572
1993-94	196	14543	22488	5201	17074	8400
1994-95	196	14542	25726	5612	19646	10549
1995-96	196	14509	29958	6189	23038	13878
1996-97	196	14497	35298	6771	25968	17170
1997-98	196	14461	43288	7334	28743	20952
1998-99	196	14475	54338	7992	31490	23986
1999-2000	196	14499	67226	8788	36609	27488
CGR	0.00	-0.02	20.00	10.00	15.00	23.00
2000-01	196	14301	81476	9839	45363	32007
2001-02	196	14311	97579	10638	56780	38036
2002-03	196	14350	115059	11921	72409	46106
2003-04	196	14311	132931	13080	86515	55837
2004-05	196	14446	150988	13919	99731	66901
2005-06	196	14484	168591	14918	105966	81142
2006-07	133*	14494	189822	17422	114086	98696
2007-08	96*	14521	216620	22603	123616	118075
2008-09	91*	14761	253571	28572	135515	143798
2009-10	86*	15235	296559	33520	145491	169926
CGR	-10.07	0.50	15.00	14.00	13.00	21.00
OCGR	-3.29	0.07	18.00	11.00	16.00	20.00

Note: * indicates that in the respective years so many RRBs were amalgamated.

Sources: Various Reports of NABARD and RBI.

CONCLUSION

Indian banking has come a long way since from the British period. Since then the public sector banks continued to play a very prominent role in both deposit mobilization and credit disbursement even during the privatisation era. They contribute about 75 per cent of the total deposits mobilised and total loans advanced by all the scheduled CBs. Though there are so many private banks who have been competing with the public sector banks, as we know whatever the better facilities provided by the private banks, one way or the other, the exploitation is more. Hence, we need to inject new policies and programmes to stabilize the existing public banking to achieve the maximum social welfare.

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