

Progress of Banking Industry In Erode District

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Abstract

An attempt was made to review the progress of banking in Erode District by making an analysis of banking development of three sectors such as Public Sector, Private Sector and Co-operative Banks, which constitute the organised banking system of the District.

Introduction

Banking is an important sector and acts as a backbone of economic progress. The banks render vital services to the masses belonging to the various sectors of the economy like agriculture, industry whether small scale or large scale. The banking system is one of the few institutions that impinge on the economy and affect its performance for better or worse. They act as a development agency and are the source of hope and aspirations of the masses.

The role of commercial banks has occupied a new meaning and significance, in view of the changing structure and requirements of a

developing economy. The increased horizon of commercial banks identifies itself with the problems and responsibilities for making banking an instrument for bringing about the social and economic transformation of a developing country. Banks have become the prime movers and pace setters for the achievement of socio-economic objectives of the country.

The commercial banks provide a range of services to the whole community in many ways. Apart from the basic banking services such as deposits, loans and advances, banks have been traditionally rendering certain ancillary services also to their customers. Among the services

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introduced by modern commercial banks during the last quarter of century, the credit cards deserve special mention. By providing these diversified services, banks help in the growth of trade and industry to a great extent¹.

The present financial system in India is large with a variety of banks, financial institutions, capital market institutions, non-banking institution and a number of indigenous banks. Among the financial institutions in India, banks are prominent financial intermediaries and in fact, financial inter-mediation is largely synonymous with banking².

In India, banks have been broadly classified in to scheduled and non-scheduled banks. A scheduled bank is that which has been included in the second schedule of the Reserve Bank of India Act, 1934. The banks that are not included in the second schedule of the Reserve Bank of India Act are non-scheduled banks. The banks that perform all kind of banking business and generally finance trade and commerce are called commercial banks. Commercial banks in India are divided in to two viz., Public Sector Banks and Private Sector Banks. All the Public Sector Banks are scheduled banks and the share of Public Sector

Scheduled Banks in the total banking business is more than 90%.

The Social Control Act of 1968 brought banking industry under the purview of social lending and the nationalisation of banks marked a phase of Government control and domination³. The ordinance to nationalise the 20 major banks to serve better the needs of development of the economy in conformity with the national priorities and objectives.

The government of India went for setting up of various committees to give recommendations to improve the working of commercial banks in India. To improve the performance of financial sector, in August 1991⁴ the Government of India appointed a Committee under the Chairmanship of Shri.M.Narasimham to review the different aspects relating to the structure, organisations and functioning of the financial system in India.

Progress of Banking Business In Erode District

Erode District has a place of unique importance in the industrial map of Tamilnadu. Industries, trade and agriculture occupy a place of prominence in the economy of the district. To mobilise

¹Shekar, K.C., Banking Theory and Practice, Sahibabad: Bikas Publishing House Pvt. Ltd., 1974, pp.7-9.

²Ajit,D.,'The Role of Banks in Economic Development of India',Prajnan,Vol.XXV, Nos 3-4, 1997,p.311.

³Jain J.L. and K. Balachandera, 'Managing Financial Risks in Banking', The Banker, August, 1997, p.23

⁴Report of the Narasimham Committee on the Financial System, New Delhi: Nabhi Publication, 1993.

the savings of the people and to cater to the credit needs of agriculture, industries, trade and services a number of financial institutions have been set up in the district. As on 31 March 2006, there were 19 public sector banks, with a net work of 146 branches, 21 private sector banks with 69 branches, 41 co-operative banks. With such a vast network of branches the banking institutions of Erode District has a unique role in shaping the finances of the district.

The number of branches of commercial banks branches in the district has increased from 198 as on March 1995 to 215 as on March 2006. Of these, 29 branches belong to State Bank group, 117 branches belong to Nationalised banks and 69 branches belong to Private Sector Banks.

The total deposit of all the banks in Erode district as on March 2006 stood at Rs. 3607 crores. The deposit, which was Rs. 958 crores as on March 1997 increased by nearly four times in ten years. The total advance shows an increasing trend with the figure rose from Rs.977 crores in the year 1996-97 to Rs. 3266 crores as on March 2006. The advances under priority sector crossed Rs. 2000 crore mark and the figure stood at Rs.2452 crores as on

March 2006 when compared to Rs.806 crores in the year 1996-97.

The progress of banking business during the period between 1996-97 and 2005-06 has been analysed through the following five variables considered as the best growth indicators.

1. Branch expansion.
2. Growth of Deposits
3. Growth of advances
4. Credit Deposit ratio and
5. Advance to priority sectors.

To review the progress of banking business, the above five variables were identified and simple statistical tools like percentage and growth rate were employed. The secondary data required for the study were collected from the publications of the Lead bank of the district (Lead Bank Office, Canara Bank, Erode).

Branch Expansion

Rapid economic development pre-supposes rapid expansion of commercial banks. Branch expansion gained momentum after nationalisation of major commercial banks and the introduction of the Lead Bank Scheme. The number of bank offices of scheduled commercial banks in India registered comparatively a higher rate of increase i.e. 332 percent in the post-nationalisation period.

The percentage share of branches of each sector to the total number of bank branches in the district is presented in Table 1

Table: 1 : Sector wise - Branch Expansion during 1996-97 to 2005-06

As on 31st March	PSBs	Per cent	Private Sector Bank	Per cent	Co-op. Sector Banks	Per cent
1997	140	57	58	23	49	20
1998	140	57	58	23	49	20
1999	140	57	58	23	49	20
2000	141	56	60	24	51	20
2001	141	56	63	24	53	21
2002	142	55	64	25	54	21
2003	142	55	63	24	54	21
2004	143	56	67	26	47	18
2005	146	57	69	27	41	16
2006	146	57	69	27	41	16

Source: Banking statistics published by Lead Bank office, Canara Bank, Erode, 1997 to 2006

The total number of branches in the district was increased from 247 to 256 over a period of ten years. Table 1.1 shows that the total Public Sector Banks in the district has increased from 140 in the year 1996-97 to 146 in the year 2005-06. The total private sector banks have increased from 58 to 69.

The co-operative banks have reduced from 49 to 41 over the period of 10 years. The table also shows that on an average 56% of the branch net work is constituted by branches of Public Sector Banks and Private Sector Banks constitutes 25%.

The branch expansion of Public sector Banks in the district is given in the table 1.2.

Table : 2 : Branch Expansion of PSBs during 1996 – 97 to 2005 - 06

As on 31 st March	Other PSBs	Per cent	Total
1997	95	68	140
1998	95	68	140
1999	95	68	140
2000	96	68	141
2001	96	68	141
2002	98	69	142
2003	98	69	142
2004	99	69	143
2005	101	69	146
2006	101	69	146

Source: Banking statistics published by Lead Bank office, Canara Bank Erode, 1997 to 2006.

Table 1.2 shows that the number of branches in the Erode District remains the same. There is neither increase not decrease in numbers of bank branches at District level.

Growth of Deposit

Commercial banks play an important role in mobilizing the savings of economically surplus units, which are widely scattered. Commercial banks, in view of their vast branch network spread over the country, obtains the savings on a short or medium term basis and are placed in an especially privileged position to collect them. If the banks fail to tap these savings, the surplus money lying idle in the hands of the people could not be of any use in a nation's endeavour of economic development.

Savings and investments are the most important ingredients of capital formation for an economy. Therefore, the promotion of domestic savings is must to boost the process of capital formation and development. Thus, the commercial banks are in the nature of a catalyst, converting savings into capital for productive investments⁵.

Deposits mobilised by the constituents of the banking system of the district is presented in Table 1.3 which shows that there has been very good growth in the size of the deposits of the banking system as a whole which is contributed by the increase in the deposits of all the three sectors. Private sector banks have recorded a higher growth of deposits than that of public sector and co-operative sector banks. There has been a slight decline in the growth of deposits of co-operative sector banks during the year 2004-05 and 2005-06.

**Table: 3 : Sector wise Growth of Deposit during 1996-97 to 2005-06
 (Rs. in crores)**

As on 31 st March	PSBs	Per cent	Pvt. Banks	Per cent	Co.op. Banks	Per cent	Total
1997	852	100	260	100	202	100	1314
1998	871	102	274	105	221	109	1366
1999	836	98	257	99	212	105	1305
2000	937	110	304	117	221	109	1807
2001	931	109	342	132	264	131	1537
2002	1563	183	598	230	401	199	2559
2003	1861	218	619	238	423	209	2903
2004	2422	284	704	271	450	223	3576
2005	2423	284	746	287	317	157	3486
2006	2349	276	931	358	327	162	3607
Growth rate		11.58	11.72		10.82		

⁵Dhawan,C.L., 'Role of Banks a Vehicle of Economic Progress and Instrument of Social Change', The Banker, December, 1975, p.25.

Source: Banking statistics published by Lead Bank office, Canara Bank, Erode, 1996-97 to 2005-06.

Deposits mobilised by the Public Sector Banks is presented in table 4

**Table: 4 : Growth of Deposits of PSBs during 1996-97 to 2005-06
(Rs. In crores)**

As on 31 st March	Other PSBs	Per cent	Total
1997	629	74	852
1998	631	73	871
1999	587	70	836
2000	636	68	937
2001	558	60	931
2002	1127	72	1563
2003	1380	74	1861
2004	1889	78	2422
2005	1866	77	2423
2006	1759	75	2349

Source: Banking Statistics published by Lead Bank office, Canara Bank, Erode, 1996-97 to 2005-06.

Table 4 shows that there has been continuous increase in the size of deposits of Public Sector Banks. The growth rate of Public Sector Banks remains the same. The total deposit in the year 1996-97 was Rs. 223 crores and it was Rs. 590 in the year 2005-06.

Growth of Advances

Lending of funds to the constituents, mainly traders, business and industrial enterprises, constitutes the main business of the banking company. The major portion of a bank's funds is employed by way of loans and advances, which is the most

profitable employment of its funds. The major part of banks' income is earned from interest and discount on the funds so advanced. Marketing in banking refers to buying and selling of money. Banks are granting loans and advances for agriculture, allied activities, trade and services. The total advances granted by three banking sectors of the district with their growth rate are presented in Table 5.

**Table: 5 : Sector Wise Advances during 1996-97 to 2005-06
 (Rs. In crores)**

As on 31 st March	PSBs	Percent	Private Sector Bank	Percent	Co-oper ativeBank	Percent
1997	464	100	232	100	281	100
1998	558	120	243	105	331	118
1999	727	157	298	128	277	99
2000	733	158	381	164	232	83
2001	905	195	374	161	244	87
2002	1113	240	409	176	349	124
2003	1201	258	361	156	430	153
2004	1554	335	434	187	461	164
2005	1696	366	487	210	399	142
2006	2105	454	738	318	423	151
Growth Rate		11.83	11.09		10.61	

Source: Banking statistics published by Lead Bank Office, Canara Bank, Erode 1997 to 2006.

Table 5 shows that the loans and advances disbursed by Public Sector Banks rose from Rs.464 Crores in 1996-97 to Rs.2105 Crores in 2005-06 registering a growth rate of 11.83 per cent. Loans and advances of Private Sector Banks registered a growth rate of 11.09 per cent and that of Co-operative Banks 10.61 percent. Public Sector Banks have recorded a higher compound growth rate than that of Private Sector and Co-operative Banks.

**Table: 6 : Advances of Public Sector Banks during 1996-97 to 2005-06
(Rs. In crores)**

As on 31st March	PSBs	Percent	Total
1997	343	100	464
1998	420	122	558
1999	577	168	727
2000	564	164	733
2001	715	208	905
2002	893	260	1113
2003	962	281	1201
2004	1254	366	1554
2005	1326	387	1696
2006	1614	471	2105

Source: Banking statistics published by Lead Bank office, Canara Bank, Erode, 1996-97 to 2005-06.

The total loans and advances granted by Public Sector Banks in the district with their growth rate in percentage is presented in Table 6 which shows that the loans and advances of public sector banks registered a growth rate of 11.83 per cent.

Credit Deposit Ratio

Credit Deposit ratio is a measure of the relationship between advances and deposits. This ratio measures the efficiency and effectiveness of the bank in converting deposit into advances. Total deposits include demand deposits, savings deposits, term deposits and deposits of other banks. The Credit Deposit Ratio of Public Sector Banks is presented in table 7

Table: 7 : Credit Deposit ratio of PSBs

As on 31 st March	Other PSBs
1997	55
1998	64
1999	87
2000	78
2001	97
2002	71
2003	65
2004	64
2005	70
2006	90
Growth rate	10.16

Source: Banking Statistics published by Lead Bank Office, Canara Bank, Erode 1997-2006

Table 7 reveals that the Credit Deposit Ratio of Canara bank at district level fluctuated between 54 per cent and 83 per cent during ten year period. For the first three-year period, there was an increase in the Credit Deposit Ratio and there was a fall in the next five-year period. Again, it increases to 83 per cent in the year

2005-06. The Credit Deposit Ratio of public sector banks in the district was fluctuating between 55 percent and 90 per cent during ten-year period. There was gradual increase in the Credit Deposit Ratio during the year 1999-2000, 2000-01 and 2005-06.

Advance to Priority Sector

Before nationalization of top 14 banks in 1969, commercial banks had completely neglected agriculture on the ground that rural credit was to be undertaken by co-operative credit societies and co-operative banks. Moreover, as the commercial banks were owned and controlled by big industrialists before nationalisation, small industrial concerns and business units were also ignored by banks.

However, after nationalisation, the commercial banks were asked to be especially concerned with the financing of priority sectors. The commercial banking system and particularly the Public Sector Banks under the influence of the Finance Ministry took to priority lending enthusiastically. Priority Advances granted by the constituents of the banking system of the district are presented in table 3.8

Table: 8 : Sector wise- Priority Sector Advances during 1996-97 to 2005-06

As on 31 st March	PSBs	Per cent	Pvt. Sec Banks	Per cent	Co-op Banks	Per cent
1997	450	56	87	11	269	33
1998	410	50	112	14	301	36
1999	453	52	117	13	308	35
2000	563	54	161	15	319	31
2001	659	55	164	14	365	31
2002	744	59	176	14	335	27
2003	853	58	191	13	416	29
2004	1096	69	223	14	274	17
2005	1398	67	305	15	396	18
2006	1746	71	423	17	284	12
Growth rate		11.75		11.64		10.16

Source: Banking Statistics published by Lead Bank Office, Canara Bank, Erode 1997-2006

Table 8 reveals that the total advances extended by the public sector banks to agriculture, small-scale industries and other priority sectors went up from Rs. 450 crores in March, 1997 to Rs. 1746 crores in March, 2006. As a result, advances to priority sectors as percentage of total credit increased from 56 per cent in March 1997 to 71 per cent in March 2006. The rate of progress was quite rapid soon after nationalisation but later progress was more modest. In case of Private Sector Banks, the advances to priority sector were fluctuating between 11 percent and 17 per cent over a period of ten year. The priority advances by co-operative banks were fluctuating between 12 per cent and 36 per cent. On an average 59 percent by Public Sector Banks, 14 percent by private banks and 27 percent by co-operative banks have granted priority sector advances.

The performance of compared to other Public Sector Banks is illustrated in the table 9

Table: 9 : Priority Sector Advance by PSBs (Rs. In crores)

As on 31st March	Other PSBs	Per cent
1997	325	72
1998	274	67
1999	303	67
2000	406	72
2001	478	73
2002	547	74
2003	607	71
2004	778	71
2005	968	69
2006	1157	66
	Growth rate	11.43

Source: Banking Statistics published by Lead Bank Office, Canara Bank, Erode 1997-2006

Table 9 displays the priority advances granted by public sector banks at the district level. The total advances had increased, by five times in a decade, from Rs.125 crores in March 1997 to Rs. 589 crores in March 2006. This rapid growth is due to the reason that the commercial banks were forced to allocate 40 per cent of their available resources as loan to the priority sector. The priority advances granted by other Public Sector Banks have increased by three and half times from Rs. 325 crores in 1996-97 to Rs. 1157 crores in March 2005-06. In their anxiety to reach the target of 40 per cent, the banks went in for indiscriminate lending. At the same time, banks were also worried at the poor and unsatisfactory recovery performance of the agricultural and small sectors.

Conclusion

Banking system of Erode District comprises of public sector, private sector and co-operative banks, with a wide network of branches spread all over the district. Canara bank with the highest number of branches in its fold (45) is the lead bank of the district representing 35 rural branches, 7 semi urban branches and 3 urban branches.

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