Joint Stock Banking in Rajasthan

A Retrospect and Prospect

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The following article is the outcome of a series of discussions which the author had initiated with some of the Executive heads of the leading banks in Jaipur with a view to exchanging ideas on the proposed merger of Rajasthani Scheduled Banks.

UNTIL very recently, joint-stock banking had not developed in any of the States that now form Rajasthan. Before 1943, modern banking was confined only to the towns of jodhpur, Jaipur, Alwar and Sambhar Lake. All four were served by branches of the Imperial Bank of India, while Sambhar Lake was also served by a branch of the Central Bank of India. Besides, the Imperial Bank of India's pay-office at Sikar and the branch of the former People's Bank of Northern India at Bundi, both opened a few years earlier had soon been closed down as they had proved unrernunerative. In order to meet the growing financial needs of the community, a few States had, however, stalled their own State banks. The foremost amongst these was the Bikaner State Savings Bank which was established primarily to mobilise the savings of the local population for financing the Ganga Canal Project. Bundi, Dungarpur, Jhalawar and Shahpura weir among the other States which had started small State-owned banks. Far from providing modern banking facilities, these banks, working as they did under the indigenous system, dealt with commercial business only to a limited extent.

Having realised the limitations of running purely State banks, the State Governments were inspired by the results achieved in the field of banking in other parts of the country to start semi-State institutions with the aid of capitalists. As a result of such joint enterprise, the States of Jaipur, Me war and Bikaner successfully floated the Bank of Jaipur and the Bank of Rajasthan in 1943 and the Bank of Bikaner in 1944. The Jodhpur Commercial Bank was another important venture, started in 1944, as a result of private enterprise in Jodhpur State. As the State hanks did not prove a success, the assets and liabilities of the Bikaner State Savings Bank were transferred, in 1944, to the Bank of Bikaner. But for a variety of reasons, the other four small State banks were allowed to continue their business till early this year when they were merged with the Bank of Rajasthan. In addition, some other small joint-stock banks were started in different parts of Rajasthan during the Second World War. Notable among them are the Pareek Commercial Bank, Bikaner, the Laxmi Safe Deposit Bank, Jaipur, the Bank of Bans war a and Shri Gopal Industrial Bank, Bharatpur.

The integration of Rajasthan in 1949 seems to have brought with it problems of far reaching character for these local scheduled banks. The protection from competition, to which they largely owe their present prosperity, was now lost. Shorn of Government protection, the operation of adverse economic forces seems to have considerably affected the working of these banks, which had been started during the period of war and inflation. Besides, after the federal financial integration, from April 1, 1950, they became liable to income-tax. Thus, the working of the banks, particularly during the post-integration period, which we shall presently analyse in some detail, reveals that they appear to have yielded to the temptation of following unhealthy banking practices. If unchecked,, the trouble that they may store up for the future will have far reaching consequences, not merely for themselves but also for Indian banking as a whole.

At present Rajasthani banks are suffering from rising costs, intense unhealthy competition, low earnings and inadequate reserves. We shall now examine the working of the local scheduled banks in relation to each of these factors.

Rising Costs

Operating expenses of banks all over the world have of late been on the increase and the rising trend in Indian banks in this regard is, thus, in consonant e with the movement abroad. True, the pressure of rising costs necessarily bears more heavily on smaller than on larger banks. The Rajasthani banks currently find themselves in even greater discomfiture ,on account of their rate-war and uneconomic increase in branch banking in an area comparatively underdeveloped for the multiplication of banking facilities. This is amply proved when we compare *inter se* the ratio of operating expenses to total income, on the one hand and, the percentage of interest charges and salaries paid to total expenditure of these banks, on the other.

Thus, save in one case, the ratio of operating expenses of tile banks in Rajasthan is much higher than that of all Indian Scheduled banks; and, no less comfortable is the position of the latter in so far as it relates to the percentages of the main items of expenditure. In the case of the Bank of Bikaner, interest charges accounted for 47.4 per cent of the bank's total expenditure as compared with only 21 per cent in the case of all Scheduled banks.

Unhealthy Competition

Particularly since the integration of the State in 1949, certain mi--ealthy tendencies have crept in the working of the Rajasthani banks. There has been, for example, an increase in branch banking to an extravagant degree with the result that the provision of banking facilities at some place£*has led to an uneconomic overlapping-. This tendency is particularly marked in the case of the Bank of Bikaner which has increased its branches in Rajasthan. That the expansion has been as a result of tones other than genuine banking needs seems to be proved by Table 11 which clearly brings out the variation in the number of offices and the volume of deposits over a period of nearly three sears.

Thus, the total deposits of all the Rajasthani scheduled banks have declined, as between 1949 and 1951, by Rs 151 lakhs. A closer analysis, however, reveals that the Bank of Bikaner and the Bank of Rajasthan have between them increased their deposits by Rs '294 lakhs in the same period as against an aggiegate of Rs 443 lakhs lost by the Bank of Jaipur and the Jodhpur Commercial Bank. There has been to some extent what is caned, " deposit-snatching ". This is obvious from the practice currently prevailing amongst these banks of bidding against one another for attracting deposits. The practice of attracting deposits by offering higher rates of interest has become so well known that substantial depositors, like the Dharmarath Department and local bodies, etc., have started inviting, on a fixed date, the representatives of the banks with a view to making deposits available to the highest bidder. As a consequence, the deposit rates have naturally moved up to uneconomic levels all over the State. At places where branches of more than one bank are functioning, fixed deposits command a *de facto* rate of almost 4 per cent, current deposits 2 per cent, call money (at one week's notice) 3½ per cent, and, savings bank deposits 2¾ per cent. Obviously, these higher deposit rates have largely helped in raising the operating costs of the banks. As already noted, in one case, they accounted for as much as 47.4 per cent of the bank's total expenditure. On the other hand, the rate-war has affected lending rates also and in order to attract clientele, credit facilities are now offered on more liberal conditions. However, this intense competition is apparently limited to the local banks only and none of the branches of the scheduled banks registered outside the State seems to have raised or lowered, in consequence, its deposit or lending rates. Branches of outside banks, which are fewer in number, are confined only to big and important towns where their clientele are more or less fixed. Generally speaking, in their case, the deposit rates currently ruling are 2 to 3 per tent for fixed deposits, ¼ per cent for current deposits, 2 to 2½ per cent for call money, and 1½- per cent for savings bank deposits.

Low Earnings and Inadequate Reserves

The suicidal rate-war presently going on between the local banks has seriously affected the margin of profit available to them. In one case, the ratio of net return on deposits has been reduced, in 1951, to 1.54 per cent, while in the case of the other two banks it is a little over 2 per cent. However, in future, it is bound to be affected in their case as well, for, they have also lately entered into this rate-war, A margin of 1½ per cent or 2 per cent on deposits is disturbingly insufficient to cover other items of operating Expenses as also for making provition for possible losses or depreciation on investments. At the same time, none of the banks has generally been able to declare a dividend of more than 3 per cent or build up sufficient reserves, even after working for nearly a decade during a period of general prosperity.

The size of reserve funds is one of the tests for judging the soundness of a bank. According to sound banking convention, the reserve fund should grow equal to 5 per cent, of the earning assets of a bank within a period of ten years or so. With this aim in view, appropriations equal to ½ per cent of the earning assets should, therefore, be made from net profits each year. But the Rajasthani banks fall far short of this standard. In their case, the ratio of reserves to earning assets has ranged from 1.21 per cent to 3.81 per cent, as it is clear from Table III which reveals the true position of reverse funds as at the close of 1951.

These figures clearly bring out the inadequacy and insufficiency of their reserve funds. A closer examination would, however, show that in the case of the Bank of Bikaner, the reserve fund is not even sufficient to meet the actual depreciation of Government securities amounting to Rs 390 lakhs, on the basis of their market prices as estimated from the fall in All-India Index Number of Prices of Government Securities in 1951 of 7.2 per cent. Therefore, it is not surprising

TABLE I

	Operating expenses as % of earnings		Percentage of total expenditure in 1951		
	1947	1951	Interest charges	Salary	Others
1. All Indian Scheduled Banks	68.0	76.7	21.0	37.2	41.8
2. Bank of Bikaner	75.3	81.4	47.4	36.2	16.4
3. Bank of Jaipur	71.1	82.4	36.7	40.8	22.5
4. Bank of Rajasthan	74.2	75.5	27.1	44.6	28.3
5. Jodhpur Commercial Bank ..	76.7	96.1	42.2	33.3	24.5

TABLE II

	On or about the time of Integration in 1949*		1951	
	No. of offices including HO	Amount of deposits Rs lakhs	No. of offices including HO	Amount of deposits Rs lakhs
1. Bank of Bikaner	38	741	50	1,012
2. Bank of Jaipur	48	826	36	591
3. Bank of Rajasthan	20	131	22	154
4. Jodhpur Commercial Bank ..	20	343	18	133
		2,041		1,890

TABLE III

	Years of standing	Amount of reserves	Percentage of reserves to earning assets	Uncovered depreciation on investments	
				At average rate	At market rate
		(Rs. lakhs)		(Rs. lakhs)	(Rs. lakhs)
1. Bank of Bikaner ..	7	10.00	1.21	7.14	not shown
2. Bank of Jaipur ..	9	11.65	2.09	1.97	6.39
3. Bank of Rajasthan ..	9	4.56	3.81	not shown	1.97

TABLE IV

	Paid-up *Rs*	*Quotation* *Rs*
1. Bank of Bikaner ..	25	20 Nominal
2. Bank of Jaipur ..	50	18-8 „
3. Bank of Rajasthan ..	50	Not quoted.

* *N.B.*—The figures for the Bank of Bikaner and the Bank of 'Rajasthan are for the year ended March 31, 1949; those for the Bank of Jaipur and the Jodhpur Commercial Bank are for the years ended December 31, 1948 and July 31, 1949 respectively,

to find their shares quoted not only at less than their face value but at below their intrinsic: value. Their latest quotations are given in Table IV. .

It is not in the interest of shareholders, depositors or of the general public that banking be conducted at a loss or at a level of subnormal profit. The continuance of such conditions eventually results in banking crisis with far reaching repercussions on the economy of a country. 'The Rajasthani banks are, as we have noted, not in a very comfortable position in this respect. Having inadequate resources, they are currently invoked in cut-throat competition. Experience has shown that in such cases amalgamation offers the best solution. In fact, the Rajasthan (Government have already sponsored a move for the merger of the three prominent banks in the State the Bank of Bikaner, the Bank of Jaipur and the Bank of Rajasthan. 'These banks are at present acting as bankers arid treasuries to the State Government in their respective areas. Realising that the implementation of the unfavourable recommendation of the Rural Banking Enquiry Committee as regards their appointment as agents of the Reserve Bank for the management of Government cash work would damage the position of these banks seriously, thereby resulting in curtailment of banking facilities now available to the Government and the people of the State, the Reserve Bank have[1] agreed to appoint the proposed united bank as their agent for handling the accounts of the State Government on the same terms and conditions as have been granted to the Imperial Bank of India in other places. Coming as it does at this opportune moment when the other factors are also working in the same direction, the move for the merger of these banks deserves full support. While the Bank of Jaipur and the Bank of Rajasthan have reacted favourably to the proposal, the Bank of Bikaner, it is learnt, is not favourably disposed towards it. Objections stated to have been raised by it include, *inter alia,* the appointment of the General Manager, exercise of the power of veto on the part of the Government, and the nomination of three Government Directors on the Board. These objections as also other practical difficulties such as the valuation of stocks and share's, etc., that may arise at the time of actual integration are, however, not difficult of solution. The relevant provisions of the Banking Companies Act, as they stand, are enabling and not mandatory in nature. As such, to put a scheme of amalgamation through. the initiative must come from the batiks themselves. In the present case. the. trend of events seems to lead to the conclusion that it is very much problematical if the proposed merger of banks would come about shortly. Since die Rajasthan Government have some percuniary as well as counting merest in these banks, the merger can be speedily brought about only if the State Government bring to bear pressure on the hanks in question.

Apart from the advantages which necessarily How from every amalgamation, some positive benefits are specifically claimed for the merger in question. In the sphere of foreign exchange business, Rajasthan affords vast scope for a bank

(Continued on page 1004)