

Official Papers**Banking in a Problem State****D Shenoy**

Report of the Travancore-Cochin Banking Enquiry Commission. Manager of Publications, Government of India. Delhi, 1956. Pp 244. Price not mentioned.

TPHE Travancore-Cochin Banking Enquiry Commission which has just published its report was an off-shoot of the Bank Award Commission. The Bank Award Commission had recommended to the Government of India that there should be a separate enquiry into the position of banks in the Travancore-Cochin State as these banks had some special features closely linked with the economy of the State. In fact, the Commission wanted an enquiry not only into the financial position of these banks, it wanted the investigating body to suggest measures for their integration, besides making recommendations about the terms and conditions of services of their employees. In pursuance of the above recommendations, the Travancore-Cochin Banking Enquiry Commission was set up with Shri K R Menon ICS as Chairman and Prof M L Dantwala and Dr P J Thomas as members, and its terms of reference were as follows:

I. To enquire into and ascertain, (a) the position of banking in general in the area covered by the Travancore-Cochin State and the role played by the banks incorporated in that State in financing economic activities such as agriculture, industry, commerce and trade; and

(b) the financial position of banks incorporated in the State with a view to judging their capacity to function as useful and economic units, having regard to the special characteristics of the economy of the area.

II. To ascertain whether the terms and conditions of service of workmen of the banks (except the Travancore Bank) incorporated in the Travancore-Cochin State should be modified and if so, in what respects.

III. To recommend, (a) hav-

ing regard to the facts ascertained, what steps should be taken for strengthening the banking business and for the reorganisation or reconstruction of the banking structure in the area, including the amalgamation of units or where appropriate, the elimination of units which cannot usefully survive; and

(b) any other measures which, in the opinion of the Commission, would strengthen and improve banking in the area.

The Government of India has accepted, with one slight modification, the recommendations of the Commission regarding pay scales but it has not yet decided about the other 'recommendations relating to the wider problem of banking development in Travancore-Cochin. The terms of reference of the Commission, it will be seen, were very wide and the Commission has touched almost every aspect of banking in the State.

The Commission, after wading through the welter of claims and counterclaims, unravelled many complications in the situation to reach its considered judgment that Travancore-Cochin banks have no special features apart from the usual ones of bad banking. It is its firm conviction that although the State's economy has reached a high level of monetization as a result of its commercialised agriculture, "the type of banking does not greatly differ from that adopted elsewhere in India which precludes the necessity of framing a separate set of rules for the banks there" and that "the adjustments to be made in the regulatory machinery to be consistent with regional characters can only be marginal." Important as this conclusion is in itself, it raises a serious doubt about the wisdom of the Gajendragadkar Commission in re-

commending this enquiry, apart from the question whether the former Commission, charged primarily with the task of fixing the terms and conditions of service of bank employees, should have trespassed into another field, as it did in recommending the present enquiry. While it exempted all the Award-banks except one from the operation of Award in respect of their office in area IV i.e. places with a population of 30,000 or less in the Travancore-Cochin State on the ground that salary structure of these banks would have adverse repercussions on other non-Award banks in the area and thus affect the general economy of the State, it at the same time forced the Travancore Bank Ltd. to implement the Award in their offices in all areas. If implementation of the Award-scales by other Award-banks would have serious impact on the economy, would not the enforcement of the Award by one important bank in the State have

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the same unfavourable impact? Curiously enough, many of the exempted banks, as pointed out in Chapter VIII of the present report, did not avail themselves of the concession granted by Bank Award Commission and voluntarily gave effect to Award pay scales in exempted areas. This is evidence enough of how perfunctory the Gajendragadkar Commission was in dealing with the problem of banks in the Travancore-Cochin State and how unsuspectingly it had been taken in by the interested pleading that banks in the State had peculiar features!

The present Commission's finding also gave a lie to the contention that the banks in the State have grown up in response to the needs of the people. Despite their large numbers, banks do not meet more than 7 per cent of the credit requirements of the people of Travancore-Cochin. Nor is the rural character of banking business borne out clearly, though many villages in the State can boast of bank offices. For example, the credit to agriculture purveyed by commercial banks is not more than 9 per cent of the total bank credit. The Commission has brought out the communal character of the banks in Travancore-Cochin but unfortunately has not recommended any measure to counteract such a baneful influence.

The manner in which the Commission has assessed the financial position of banks is somewhat mechanistic. In these matters the Commission appears to have been guided entirely by the Reserve Bank experts who assisted it and presumably devised the set of eight standards by reference to which the position of every bank is evaluated. The Commission has also freely drawn upon the inspection reports by the Reserve Bank. These tests are not completely free from prejudice or arbitrariness and it is to be hoped that in forming its final judgment, the Commission has made due allowance for these elements.

The picture emerging from the study is disappointing. The

infirmities of the T-C banks are the consequence of rank bad management and indifference to the principles of sound banking. Moreover, these weaknesses do not always stem from smallness of size alone. In fact, in the Travancore-Cochin State, even the large-sized banks are not free from these weaknesses. In the opinion of the Commission, however, no radical measures are called for; the Reserve Bank can be trusted to weed out uneconomic and unsound banks through its normal process of supervisory control.

But when the Commission comes to deal with the difficulties of these banks, arising from

the application of certain provisions of the Banking Companies Act and the advice tendered to them by the Reserve Bank, it falters. On such important questions as prescribing different liquidity ratios for demand and time liabilities and the limit of advances, the Commission refuses to face the task squarely. All that it has to say is that these questions "being of all-India character, require fuller and further examination by the Government of India." Thus it passes the buck back to the Government! And these were the very questions which the Government of India wanted the Commission to answer!

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