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Banks and the Banking Habit

IN his speech at the Annual General Meeting of the shareholders, the retiring Chairman of the State Bank expressed keen concern, not about the growing demand for bank credit in the country, but about the tardy response of the banking system to this challenge. The growing demand for bank credit was not a matter of concern. This was a reassuring statement from one who was to take over as the Governor of the Reserve Bank on the very next day. In fact, this is entirely as it should be with planning in its second decade. And the pressure is bound to rise if the Third Plan proceeds as expected. The Plan expects "institutional agencies" (which include banks) to provide Rs 130 crores was against Rs 80 crores provided in the Second Plan) towards the fixed investment requirements of industry and mining in the private sector. The State Bank Chairman has noted with dissatisfaction that despite the Plan expectation of substantial contribution by the banking system to public borrowing, bank credit is still being mainly utilised for the financing of industry and trade. This failure, he pointed out, was potentially dangerous in two ways: it could affect the liquidity of the banking system and it could affect the pace of economic development in the country because of the reduced support to the securities market.

The real reason for this state of affairs is the slow rate of growth of deposits. If the banking system has to fulfil the role laid down for it it has to have sufficient funds to supply the needs of industry and trade and also support new investments — a feat which it is unable to perform at the moment. Something has to be done about it and soon. The banking system should "continue the drive for promoting banking habit in new areas and for generally increasing bank deposits, with all the force at its command". It has been further suggested that a concerted co-operative effort in this direction by all the banks might be needed, and the support of the State Bank in such a venture has been offered.

However, the promotion of banking habit has more facets to it than a mere extension of banking facilities. What, after all, is the 'banking habit'? It is a reflection of the inclination of the people to place their excess cash in an institution which will ensure its safety and also permit its withdrawal whenever necessary. Certain obvious factors influence this inclination — the existence, in the first place, of excess cash holdings, a degree of sophistication in ordinary commercial transactions and confidence in individual banks and the banking system. There are comparatively few in this country who have the means to open a bank account and the educational equipment to operate it. With economic development, rising incomes, higher levels of literacy and growing urbanisation, this would no doubt change. But only over time. Developments in Indian banking in the 'not-so-distant past have not been entirely conducive to building up the necessary confidence in banks. But the Deposits Insurance Corporation would certainly go some way in allaying fears and suspicions and preventing future panics.

Apart from the extension of banking facilities, the effort now being made to attract customers consists in stepping up the interest