From the Chair

United Bank of India Limited

Speech of the Chairman, Dr N N Law

THE following are excerpts from the Speech delivered by Or N N Law, Chairman, United Bank of India Limited, at the Annual General Meeting of the Shareholders of the Bank held on March 30, 1964:

Bank''s Progress

The past year has been a period of significant advance by your Bank. The Profit has increased by Rs. 5.19 lacs or 24.5%. The dividend has been raised to 7½%. This is the third rise in dividend since the amalgamation. Deposits have increased by Rs. 7.9 crores, i.e.. 12.2% (as against 10.1% rise in the deposits of all scheduled banks). Seven 'new branches were opened during 1963 and so far this year 2 new branches have been opened. The emoluments of the employees have also been further improved.

Another important and significant event that has taken place during the year is the acquisition of a site measuring 57 Cottahs — nearly an acre — on Old Court House Street. On this site is proposed to be constructed a new home for the Head Office of your Bank. The detailed plans for the building are being drawn up by the architects, and it is hoped that construction work will commence during the year.

I do not wish to give you the impression that the results achieved so far should lead to complacence. On the contrary, in view of the mounting operating costs, referred to later in this statement, a greater responsibility has devolved on all of us, the Directors as also the workers in various spheres and levels in this Bank. A number of steps have been initiated early ihis year to achieve a wider decentralisation of functions, and as the year progresses, efforts will be made to implement the programme in a phased manner. Our aim should be the attainment of a deposit level of Rs 100 crores within the next two years, if we are to cater to the increasing credit requirements of the develop ing economy. 1 do hope that with the concerted efforts of the workers, shareholders and present and prospective customers, the target may be achieved even earlier than contemplated.

Interest Rate

The biggest task before the Bank today is, therefore, to accelerate the rate of growth, and to meet the growing burden of interest on deposits. We shall try to achieve this by intensifying our efforts, opening more branches and by diversifying cur services.

As I speak to you, banks are considering whether a further rise in the rates of interest on deposits is necessary; their attention to this matter having been recently drawn by the Reserve Bank. It seems like ly that a further rise will be effected, and such a step will add to the already high operating cost and will consequently tend to step up the lending rates. My view on the lending rates is well known to be against such rise.

To my mind, it should be the aim of the larger banks in the country to be able so to rationalise, at an early date, their lending rates as will bear a reasonable relation with the line and pattern of the largest bank in the country, ft should, at the same time, he their aim to remain free from anxiety concerning liquidity. An important method for achieving these ends would be to make concentrated efforts to increase deposit resources through means other than that of raising the interest rates. At the same time, an expedient utilisation of resources has also to be ensured.

In this context. I would like also to refer to the conditions obtaining in the Stock Exchanges. Ultimate safetv and liquidity of bank advan ces in a growing economy, incapable, due to various; reasons. of planning' for extinguishment of debts, depend considerably on the ability of borrowers to shift the credit facilities in due course by obtaining equity and long-term finance through the Stock Exchanges. Apart from the inhibiting taxation, high rate of interest on bank advances stands in the way of the development and expansion of Stock Exchange services. On this ground also it would be against the interest not only of the banks themselves, but also of industrial expansion, to encourage a rising structure of interest rates.

However, the present mood seems to be to ignore these implications and to depend on an upward revision of the rates. In that case, since we cannot swim against the current, we shall also have to fall in line, much as I would have wished that the trend were checked.

If the rates have to go up, it would be better to confine the rise to that portion of bank deposits which could be marginally sensitive to interest rates, viz, term deposits for periods over twelve months, and not to cover the whole range of deposits. The incidence of the cost of term deposits can then be somewhat neutralised by reducing the cost of demand deposits, including Savings accounts which have virtually become Current accounts. One of the ways to do so would be to introduce two types of Savings accounts and to reduce the rate on those with very small balances, limiting the frequency of withdrawals in such uneconomic accounts. Adjustments of other service charges may also have to be undertaken.

Small Industries

I am happy to report that further headway has been made by the Rank in the matter of providing finance to the small-scale industries. As you will recall, a separate Section was started about two years ago. with a view to processing with special care, such proposals from smaller industrial units as could not straightaway be considered, in the normal course, by our Advances Department. After the initial experimenting and probing, some tangible progress has now been made and a number of small scale indus-

trial units have been financed and are being given special service. Steps are now being taken further to expand the activities of this Section in the matter of financing small-scale industrial units.

It has been our experience that more than the question of bank finance, the small entrepreneurs are faced with other problems, those relating, for example, to risk capital, marketing, raw materials, power, land, technical know-how, etc. The difficulty that we mostly face in financing these units is the deficiency in financial management. There have been cases where after proper assessment and discussion it was discovered that a good portion of the required development finance could be found from resources within and that only a small advance from the Bank could satisfy their requirements. In some other cases it was also possible for the Bank to suggest ways and means by which the concerned units could raise finance from other more appropriate agencies or improve their profitability. Our approach, therefore, has been to provide the best possible financial guidance and advice along with the required finance. This is- much appreciated by the concerned borrowers.

Nationalisation of Banks

The most significant issue that developed in the past year relates to the nationalisation of banks. I do not understand the wisdom of this clamour for nationalisation. Take the case of this Bank. The ownership is widely distributed, the management is conducted by people who have risen from the bottom of the ladder, the employees are drawn from the middle class families and number around 4,000. It serves the common man with sincerity and warm friendliness. Could nationalisation make any difference for the better? The only difference it could make, to my mind, is that the profit would then go to the State Exchequer instead of being paid to you as dividend,

The charges levelled by the protagonists of nationalisation are mainly those of concentration of power, of diversion of resources to big industries and of failure to spread in the rural areas. With the recent amendment of the Banking Companies Act, the already existing wide powers of the Reserve Bank of India have been further expanded. It can now remove any director, chief executive or any other employee of a bank and also appoint persons of its choice in place of-those removed. It has also been provided that no shareholder can have a voting right in excess of 1% of the total voting rights of all the shareholders of the banking company. With these powers vested in the Central Banking Authority the talk of concentration of power is not tenable.

In the matter of making advances also, the Reserve Bank has extensive powers to issue directives to all the banks generally, and to an individual ' bank particularly, in various matters regarding advances, including the maximum amount of advance that may be made to an individual borrower.

If the banks are financing big industrial projects it is only in accordance with the industrial policy of the nation. In the situation of control in this regard, installation and expansion of big units can only be in accordance with the industrial policy and with the permission of the Government. If, therefore, such projects are vital to economic development, it is only proper that the commercial banks should assist these to the best of their ability. What is really to be regretted is that on account of inadequate growth of deposits, the banks are not always able fully to cater to the requirements of these projects.

As for the question of expansion to the rural areas, it must be remembered that this could not be undertaken indiscriminately. It is a well-known fact that branches in rural or semi-rural areas incur losses for a number of years. The rate of expansion in this sphere, therefore, must be determined by the ability to bear losses. For any economical unit, whether in the public sector or the private, a balance must be struck between that part of its operation which is already economic and that which, is, or is for some time likely to remain, uneconomic. Yet, the banks have already been expanding in these areas and during the past few years the coverage that has been extended must, in the circumstances, be considered satisfactory.

While it augurs well that views advocating nationalisation are held by a very small group and that the government has not endorsed these views, it is imperative that a therough reappraisal and self-analysis be made by the industry itself with a view to devising ways and means to alter the image of its services to the community. The bankers are conscious of this need. An important step in this regard would be. besides an enlightened collective public relations programme, to develop, with a positive purpose, a wide range of promotional activities with adequate "social content", particularly in assisting growth of self-employment through small scale industries.

These efforts would no doubt need a lot of pioneering in finance, but that need not deter nor delay any such programme. Further, such activities would attract much more resources to the banking system than what higher rates on deposits 'are likely to fetch. On the other hand, such dissipation of bank earnings through higher rewards to depositors, by charging more to the people who undertake productive economic activity, increases consumption and adds to the factors distorting the efforts to hold the price line. Bank earnings devoted to the promotion of self-employment will accelerate economic development and go a long way in resisting inflationary pressures.

Development Banks

In this connection, the role that is being played by the development banks in the country comes to my mind. These institutions, while performing very useful services, are dependent, to a very high degree, on the Government for their resources. The resources made available to the Industrial Finance Corporation are interest bearing, while- to State Financial Corporations such funds are not at all made available. Their own attempts to raise resources from the community in the form of increased equity or bonds have not been successful to the extent required, ft is true that the conditions prevailing in the country are not yet conducive to the success of attempts by the development banks to raise their own resource:. This is because in their case the prospects of profits are not only low bill long-term as well.

It would, therefore, lie advisable that adequate funds he made available to these institutions in the form of junior capital. At the same time the commercial banks., which are not in a position to play an unrestricted direct role in providing development finance to industry on a substantial scale, though they arc doing their best to provide medium term loans and working capital might orientate their operations and provide more resources to these specialised institutions. This would be a worthwhile contribution for the commercial banks to make and would help them as to liquidity. Similar contribution could be thought of in the field of agriculture also. It will still be necessary for the development banks, however, to create their own cells for initiating efforts to place their commitments in capital subscriptions and issue of bonds, direct with the public. This again makes the need for activising Stock Ex changes more urgent.

For assisting the small and medium-scale industrial sector, a number of institutions are now functioning : the State Financal Corporations, the National Small Industries Corporation, the Small Industries Service Institute, the agencies functioning under State Aid to Industries Act. and the Guarantee Scheme operated by the Reserve Bank through the scheduled banks. Perhaps it may serve the purpose better if instead of multiplication of agencies dealing with small and medium scale industries, a separate single agency is set up for each region with a combination of all the varieties of functions now performed by these multifarious agencies. Such an institution at the state level would be better equipped to render not only financial assistance, but also services in the form of marketing information, technical and managerial assistance, etc, which these industries so badly need. Through its provision, even if partially, of risk capital to the small entrepreneurs, such an institution would act as a catalvtic agent in the capital market, on the lines of the functions performed by the Industrial Credit and Investment Corporation of India at the national level.

General Economy

Coming to the overall economic development in the country, it is being increasingly realised that in recent years the rate of growth has not been up *to* the desired level and that vigorous steps should be taken to accelerate the tempo of developmerit. A number of steps in this regard have been taken recently in the form of relaxation of capital control, price control, streamlining of licensing procedures, increased resources of the development banks, establishment of the Unit Trust and the Industrial Development Bank. The Finance Minister has also repeatedly emphasised the need for achieving faster growth and for this purpose he is contemplating further measures, over and above the fiscal incentives which in a limited way have been provided for certain industries in the budget.

At the same time it is equally necessary to establish a measure of continuity of these policies. An illustration of the lack of continuity in policies, which we have so often experienced, is provided by the recent budget proposals concerning the Annuity deposit, the expenditure tax and the increases in the rates of wealth tax and estate duty. The essence of a sound fiscal policy in the context of the situation prevailing in the country, is its ability to stimulate investments. An essential ingredient of investment decisions is constituted by reasonable expectations regarding the future course of eve'nts. Lack of continuity of policies does weaken such expectations, and set at nought all forecasts and planning so very vital in any industrial operation.

There is another facet of this aspect of expectation or forward projection, and that is psychological. Rut it plays a very significant part in any human activity. To my mind, what seems to be happening is that, while it is a declared objective to encourage investments and thereby to achieve a higher growth rate, there is not yet the full realisation of the significance of the psychological factor of expectations regarding the future. In the absence of reasonable optimism on this score, no amount of institutional props and persuasion will be adequate to generate the desired degree of economic growth.

What the country needs is an all-pervading atmosphere of development and a climate of self-employment through small and ancillary industries spread all over the country. While fiscal policy, in so far as it had been inhibitive, has undergone certain adjustments, this by itself will hardly be enough. Every region in the country should make a determined and positive bid to generate a real movement for stimulating industrial growth at all levels. An essential step in this respect would be to provide against a degree of risk which is inherent in any pioneering effort. When it is ensured that the community will back up the venture, much will be achieved in orientating the common man to the idea of self-employment through industries. No movement can achieve results without the readiness to pay the price for it.

At the State levels adequate funds should be found to take care of the financial risks which may develop through such a movement. Bearing the risks at the State level, in this manner, would actually be an investment in the future and will prepare the basic background for self-employment through industrialisation. If. from this point of view, it becomes desirable — which possibly it is — to pool the resources of the development banks operating in a particular region, that also should be done. The budgets of the States should be carefully examined and the impact of each item of expenditure should be analysed to see what proportion of the budget is directly aimed at encouraging self-employment. Provision of adequate funds, as mentioned earlier, would constitute a very small percentage of the total State resources but would go a long way towards fulfilling the goals of economic development.

Note: . This does not purport to be a record of the proceedings of the Annual General Meeting.