

HISTORY OF BANKING IN SOUTH CANARA DISTRICT (1906-69)

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Abstracts

This thesis explores the origins and growth of banking in India's South Canara District. The thesis predominantly covers the period 1906-1969, from the founding of two major banks in 1906 (Corporation Bank and Canara Bank) to the nationalisation of major banks in 1969. The district played a significant role in the history of Indian banking, but its contribution remains highly under-researched. It was home to twenty-two small banks, four of which grew to become large nationalised banks. The other sixteen nationalised banks were predominantly from the four metropolitan cities (then Bombay, Delhi, Calcutta and Madras). While the concentration of banks in these four political and commercial centres was natural, the prevalence of four big banks, in economically much smaller and distant South Canara, warrants special attention. These South Canara banks were even more noteworthy because of their financially inclusive practices. This is documented by providing data that indicates the region was way ahead of other regions across India, with regard to the number of branches, number of deposit and credit accounts. They initiated financially inclusive practices well before it was made mandatory starting in 1969, and with renewed emphasis in recent years with the Jan Dhan Yojana scheme. Specifically, the founder of Syndicate Bank, Dr. T.M.A. Pai introduced innovative deposit schemes in the 1920s, akin to what are now labelled as behavioural finance strategies. The thesis is organised in the form of three essays. The first essay discusses the socio-economic profile of the district from a historical perspective. It provides an array of relevant, background data and then discusses the linkages between heavy rainfall, agriculture and development of banking in South Canara. The second essay documents the profile of the 22 banks (survived, merged and liquidated) that were established in the region. Within survived banks, we focus heavily on Syndicate Bank, the role model for other banks. Contemporary analysis of banking in India presumes that a huge governmental role or a big push is required to ensure financial inclusion. However, we unearth vital evidence that as a private bank, Syndicate pioneered such inclusion not just spontaneously, but despite regulatory resistance from the Reserve Bank of India. This was done by introducing simple innovative practices which lowered the transactions costs of deposits. One such innovation was 'Pigmy Deposits' which was highly successful in inducing those with limited resources to save. This is a vital finding of this thesis. Thereby, the bank initiated the practice of 'nudges'. This was nearly eight decades before the behavioural economist Thaler, the latest economics Nobel laureate, highlighted and recommended such practices to promote personal savings in his book (2008) on 'nudges'. The third essay compares the evolution of banking in South Canara with that in other regions in Southern India - Coimbatore, Malabar, Cochin and Travancore. Apart from Thingalaya (1999) who pointed to the uniqueness of South Canara banks in comparison to its regional counterparts, there is no other literature on this issue. This essay broadly examines why banks in these four regions did not grow to become large banks, as in South Canara. It first aggregates available bank branch data to construct region-wise financial measures. Based on these measures, it draws the conclusion that the traditional financial intermediaries (*nidhis* and chit funds) of the other four regions did not develop into full-scale joint stock banks, since they neither adopted innovative deposits nor prudent lending and branch management practices.