

Growth of banking services in Mysore Province before and after India's Independence: A Descriptive Study

Sreenivasa K. M.¹

Assistant Professor Government
First Grade College
Kuderu.

Sandeep K.²

Assistant Professor
Government First Grade College for Women
Byrapura.

Article Link: <https://aksharasurya.com/2024/04/sreenivas-k-m-sandeep-k.php>

DOI: <https://doi.org/10.5281/zenodo.10930929>

ABSTRACT:

The article refers to banking services in the Mysore region helps to decipher not only the trajectory of financial development but also its profound implications for the broader socio-economic fabric of the region, shedding light on the correlation between financial inclusivity and overall economic prosperity.

The Mysore province had a vibrant indigenous banking system that played a crucial role in meeting the financial needs of the local populace. These indigenous practices were significant, especially in rural areas where formal banking services were limited or inaccessible. Some prevalent indigenous banking practices in Mysore province included.

KEYWORDS:

Indigenous Banking, European Influence, financial inclusion, colonial interest, Banking services in Mysore.

.....

Introduction: the historical background of Mysore Province, located in southern India, is marked by a rich cultural heritage and a legacy of princely rule. Before India's Independence in 1947, Mysore was a princely state under British suzerainty. It was renowned

for its flourishing arts, culture, and governance under the Wodeyar dynasty. Before Independence, the banking scenario in Mysore Province was characterized by a blend of indigenous banking practices and limited European banking establishments:

1. **Indigenous Banking:** The region had a robust system of indigenous banking that included local moneylenders, chit funds, and indigenous bankers known as Mahajans. These entities played a significant role in providing financial services, particularly to the agrarian and trading communities.
2. **European Influence:** During the British colonial era, a few European banks and branches were established in urban centers of Mysore Province. However, these banks primarily catered to the needs of the European expatriate community and the elite class, resulting in limited accessibility to the majority of the local populace.
3. **Limited Penetration:** Banking services were concentrated in urban areas, and the benefits of formal banking were largely inaccessible to the rural and less affluent sections of society. The banking system was skewed towards serving a specific demographic, neglecting the broader population's financial needs.

Growth of banking services in the Mysore region:

1. **Indicator of Financial Inclusion:** Banking services' expansion serves as a vital indicator of financial inclusion within a region. Analyzing the growth of banks in Mysore Province before and after Independence helps gauge how financial services became more accessible to various socio-economic strata. It reflects the extent to which marginalized sections gained access to formal financial tools, thus fostering economic inclusivity.
2. **Impact on Economic Growth:** The availability and accessibility of banking services significantly influence economic growth and development. The expansion of banking services facilitates savings, investments, access to credit, and various financial products. By studying this growth, one can understand how increased access to financial services contributed to the region's economic development, particularly in sectors like agriculture, industry, and commerce.
3. **Role in Rural Development:** Mysore Province, being a predominantly agrarian region, saw substantial changes in rural banking post-Independence. Understanding how banking services expanded in rural areas, the establishment of Regional Rural Banks (RRBs), and their

impact on agricultural credit and rural development provide insights into the overall socio-economic transformation.

4. **Technological Advancements and Financial Innovation:** The evolution of banking services involves technological advancements and financial innovations. Studying this growth elucidates how technological interventions in banking, such as computerization, internet banking, and digital payment systems, affected the region's financial landscape, efficiency, and customer accessibility.
5. **Policy Implications:** Changes in banking services are often influenced by government policies and reforms. Analyzing the policy frameworks implemented pre and post-Independence offers insights into the impact of regulatory changes on the banking sector's structure, functioning, and its alignment with broader economic development goals.
6. **Socio-economic Impact:** The growth of banking services influences various aspects of society, including poverty alleviation, wealth distribution, entrepreneurship, and employment generation. A comprehensive study can reveal how increased access to banking services affected the standard of living, employment opportunities, and social mobility in the Mysore region.

British colonial rule, the impact on banking in Mysore:

1. **Mahajans (Indigenous Bankers):** Mahajans were prominent indigenous bankers who operated informal banking systems. They were respected members of the community and played a pivotal role in providing credit and financial assistance to individuals, traders, farmers, and artisans. Mahajans operated on trust and personal relationships, lending money based on mutual understanding and without the formalities associated with traditional banking institutions. They often operated from their homes or local establishments and served as a vital source of credit for those excluded from formal banking channels.
2. **Chit Funds:** Chit funds were another common indigenous financial practice prevalent in Mysore province. These were informal savings and credit associations where a group of individuals contributed fixed amounts regularly, pooling their money into a common fund. Through periodic auctions or lotteries, the pooled money was given to one member, enabling them to meet financial needs or make investments. Chit funds provided a means of access to credit and savings for members of the community, especially those with limited access to formal banking services.
3. **Local Moneylenders:** Apart from Mahajans and chit funds, local mon-

eylenders were integral to the indigenous banking system in Mysore province. These moneylenders provided credit to farmers, traders, and individuals who needed immediate financial assistance. While their interest rates were often high, local moneylenders served as a convenient source of credit for those excluded from formal banking due to various reasons, including lack of collateral or credit history.

These indigenous banking practices were deeply rooted in the local culture and social fabric of Mysore province. They provided crucial financial support to various sections of society, especially in rural areas where formal banking institutions had limited reach. However, these systems also had limitations, including lack of regulatory oversight, higher interest rates, and informal nature, which sometimes led to exploitation and financial vulnerabilities for borrowers.

During British colonial rule, the impact on banking in Mysore province was largely influenced by the establishment of European banks and the limited accessibility of these institutions to the local population. The colonial era marked significant changes in the banking landscape of the region:

1. **Establishment of European Banks:** British colonial rule facilitated the establishment of European banks in urban centers of Mysore province. These banks, often branches of larger banks based in major colonial centers, primarily catered to the financial needs of the European expatriate community, British officials, and the elite class. They introduced modern banking practices and offered a range of financial services, aligning more with international standards prevalent in the colonial powers' home countries.
2. **Limited Accessibility to the Local Population:** While European banks brought modern banking practices to the region, their accessibility to the local population was extremely limited. These banks mainly operated in urban areas and served a select clientele, largely excluding the majority of the local populace, who were primarily engaged in agriculture, small-scale businesses, and traditional occupations.
3. **Focus on Colonial Interests:** The primary focus of European banks was to serve colonial interests, facilitating trade, managing colonial finances, and catering to the needs of the ruling British officials and European settlers. This resulted in a banking system that prioritized

the requirements of the colonial administration and the European elite, neglecting the financial needs of the indigenous population.

4. **Influence on Banking Practices:** The establishment of European banks introduced modern banking practices, including the use of credit instruments, bill discounting, and some level of professionalism in banking operations. However, these practices remained confined to the urban areas and did not permeate into the rural or indigenous financial systems prevalent among the local population.
5. **Limited Role in Local Economy:** Despite their existence, European banks had minimal impact on the broader local economy of Mysore province. Their services were limited to a specific demographic, and the majority of the population continued to rely on indigenous banking practices such as Mahajans, chit funds, and local moneylenders for their financial needs.

Overall, the impact of British colonial rule on banking in Mysore province was characterized by the introduction of modern banking practices through European banks. However, these practices remained largely exclusive, serving the interests of the colonial administration and the elite, and did not significantly benefit the indigenous population or contribute substantially to the overall economic development of the region.

Banking services in Mysore province:

The limited penetration of banking services in Mysore province, primarily concentrating in urban areas and catering exclusively to affluent sections, was a defining characteristic of the pre-Independence banking scenario. This limited reach had significant implications for the accessibility of financial services to the broader population:

1. **Urban Concentration of Banks:** Banking services in Mysore province were heavily concentrated in urban centers, especially in cities like Mysore, Bangalore, and other urbanized regions. The majority of established banks, including European banks and a few indigenous ones, had their branches predominantly in these urban locales.
2. **Exclusivity and Elitism:** The banking services' accessibility was primarily limited to the affluent sections of society, including the European expatriates, British officials, aristocracy, and the elite class of in-

digenous society. These privileged groups had easier access to formal banking services due to their socio-economic status, education, and familiarity with modern financial systems.

3. **Rural Neglect:** Rural areas, where the majority of the population resided, had minimal or no access to formal banking services. The absence of bank branches in rural regions resulted in the exclusion of farmers, artisans, and small traders from availing themselves of banking facilities.
4. **Inadequate Outreach:** Banks focused on serving customers who could provide substantial collateral and were capable of engaging in larger financial transactions. This approach led to a lack of interest in catering to the financial needs of the less affluent or those without substantial assets, further exacerbating financial exclusion.
5. **Limited Financial Literacy:** Another contributing factor to the exclusive reach of banking services was the limited financial literacy among the general populace. Lack of awareness and understanding of formal banking systems prevented many from utilizing available banking services, even in urban areas.
6. **Impact on Economic Development:** The concentration of banking services in urban areas and their exclusive nature had adverse effects on the overall economic development of Mysore province. It restricted access to credit, investment opportunities, and modern financial tools necessary for stimulating economic growth, particularly in rural and less affluent urban areas.

Overall, the limited penetration of banking services in Mysore province, predominantly concentrated in urban areas and exclusive to the affluent sections, resulted in widespread financial exclusion, hindering the region's economic progress and perpetuating socio-economic disparities.

Nationalization of banks and subsequent policy reforms in Mysore:

The nationalization of banks in 1969 was a landmark step undertaken by the Indian government to bring about significant changes in the banking sector, including its impact on expanding banking services, especially in rural areas. This move had substantial implications for Mysore province, facilitating enhanced financial inclusion and development:

1. **Nationalization of Banks:** In 1969, the Indian government under Prime Minister Indira Gandhi nationalized 14 major banks, including several leading private banks. This decision aimed to assert public control over the banking sector, with the objective of directing credit towards priority sectors and reducing regional disparities in banking access.
2. **Impact on Rural Banking:** Nationalization significantly expanded the reach of banking services in rural areas of Mysore province. The nationalized banks were directed to open branches in rural and semi-urban regions, leading to increased accessibility to formal banking services for farmers, artisans, and small entrepreneurs.
3. **Establishment of Regional Rural Banks (RRBs):** As part of broader policy reforms, the government introduced Regional Rural Banks (RRBs) in 1975. These banks were established to specifically cater to the credit needs of the rural population, particularly in agriculture and allied sectors. RRBs were a collaborative effort between the central government, the state government, and the sponsor banks.
4. **Focus on Priority Sector Lending:** The nationalized banks were mandated to allocate a specific percentage of their lending (known as priority sector lending) to sectors like agriculture, small-scale industries, and weaker sections of society. This policy compelled banks to extend credit to previously neglected sectors and communities, stimulating economic growth and social development in Mysore province.
5. **Financial Inclusion Initiatives:** The nationalization of banks and subsequent policy reforms aimed at fostering financial inclusion. These initiatives included efforts to mobilize savings, promote financial literacy programs, and introduce innovative banking products tailored to the needs of rural customers, thus encouraging them to participate in the formal financial system.
6. **Impact on Economic Development:** The expansion of banking services, particularly in rural areas, had a positive impact on the overall economic development of Mysore province. Increased access to credit facilitated agricultural improvements, supported small businesses, promoted entrepreneurship, and contributed to overall economic growth and stability.

In essence, the nationalization of banks and subsequent policy reforms in Mysore province played a pivotal role in extending banking services to rural areas, promoting financial inclusion, and fostering economic development by channeling credit to neglected

sectors and marginalized sections of society.

The establishment and role of Regional Rural Banks (RRBs) played a significant part in extending banking services to rural areas, particularly in the agricultural sector, within Mysore province. RRBs were created as specialized financial institutions with the specific objective of catering to the credit needs of the rural population. Here's an overview of their establishment and pivotal role:

1. **Establishment of RRBs:** RRBs were established in India in 1975 under the RRB Act, in collaboration between the central government, state government, and sponsor banks (which included nationalized banks and a regional rural bank sponsor). In Mysore province, several RRBs were set up to cater to the credit requirements of rural areas.
2. **Ownership Structure:** RRBs had a unique ownership structure, with the central government holding 50%, the state government with 15%, and the sponsor banks owning the remaining 35% of the share capital. This structure ensured the government's involvement in rural banking while also incorporating the expertise of established banks.
3. **Objectives and Focus:** The primary objective of RRBs was to provide banking and financial services to rural areas, primarily agriculture and its allied sectors. They aimed to enhance credit facilities, mobilize savings, and promote rural development by offering various financial products and services tailored to the needs of the rural populace.
4. **Credit Support to Agriculture:** RRBs played a crucial role in extending credit facilities to the agricultural sector. They provided loans for crop cultivation, purchase of agricultural equipment, irrigation facilities, farm development, and allied activities. This financial support played a pivotal role in improving agricultural productivity and promoting rural livelihoods.
5. **Branch Expansion in Rural Areas:** RRBs focused on establishing branches in rural and semi-urban regions, which were otherwise underserved by formal banking institutions. By setting up branches in remote areas of Mysore province, they enhanced access to banking services for farmers, small businesses, and individuals in rural communities.
6. **Financial Inclusion and Development:** RRBs actively contributed to financial inclusion by promoting savings habits, providing credit to marginalized sections, and conducting financial literacy programs. Their efforts aimed at empowering rural communities economically,

improving living standards, and fostering overall socio-economic development in the region.

7. **Role in Rural Empowerment:** RRBs' role went beyond just providing credit. They acted as catalysts for rural empowerment by fostering entrepreneurship, facilitating small business development, and promoting self-sufficiency among rural households.

In summary, the establishment of RRBs significantly contributed to extending banking services, especially credit facilities, to rural areas, and played a pivotal role in the agricultural sector's development within Mysore province. Their focus on rural development, tailored financial products, and branch expansion empowered rural communities and facilitated economic progress in the region.

Following Independence, technological advancements, particularly computerization and internet banking, had a profound impact on transforming the banking sector in Mysore province, significantly improving accessibility and services. Here's a detailed look at their impact:

1. **Computerization of Banking Operations:** The introduction of computers revolutionized banking operations in Mysore province. Banks started adopting computerized systems for maintaining customer accounts, transaction records, and streamlining various banking processes. This automation enhanced operational efficiency, accuracy, and speed of services.
2. **Improved Customer Service:** Computerization enabled banks to offer better customer service. Tasks such as account inquiries, fund transfers, and statement generation became quicker and more convenient for customers. This led to improved customer satisfaction and increased confidence in the banking system.
3. **Expansion of Branch Networks:** Technological advancements facilitated the expansion of branch networks in Mysore province. Banks leveraged computerization to open branches in previously underserved areas, both in urban and rural regions. This expansion enhanced the accessibility of banking services to a broader customer base.
4. **ATM Network Development:** The advent of computerized systems led to the establishment of Automated Teller Machines (ATMs). These machines provided customers with round-the-clock access to cash withdrawal, fund transfers, and other basic banking services, contrib-

uting significantly to convenience and accessibility.

5. Introduction of Internet Banking: The emergence of internet banking marked a significant milestone in the banking sector. Banks in Mysore province started offering online banking services, allowing customers to conduct various transactions, pay bills, transfer funds, and manage accounts remotely through secure internet platforms.
6. Enhanced Financial Inclusion: Technological advancements played a crucial role in promoting financial inclusion. Internet banking and mobile banking services enabled customers, even in remote areas, to access banking facilities without the need to physically visit bank branches, thus bridging the urban-rural divide in banking accessibility.
7. Efficiency and Cost Reduction: Computerization and internet banking improved operational efficiency for banks, reducing paperwork, manual errors, and processing time. This efficiency resulted in cost reductions for banks, which could then pass on some benefits to customers in the form of lower service charges and improved interest rates.
8. Security Measures: Alongside technological advancements, banks also invested in robust security measures to safeguard online transactions, ensuring customer data protection and reducing the risks associated with cyber threats.

In conclusion, technological advancements such as computerization and internet banking transformed the banking landscape in Mysore province post-Independence. These innovations significantly enhanced accessibility, convenience, operational efficiency, and security, ultimately contributing to the region's economic development and financial inclusion.

Findings:

In summary, the banking scenario in Mysore province (now Karnataka) witnessed a notable transformation after Independence, marked by expanded branch networks, diversified customer bases, broader product offerings, and a more pronounced economic impact. The post-Independence period saw a shift towards greater inclusivity and accessibility of banking services, contributing significantly to the region's overall socio-economic development.

The evolution of banking services in Mysore Province, especially after India's Independence, has been instrumental in shaping

the region's economic growth and development. Here are the key findings emphasizing the evolution of banking services and their significant contribution to the region:

1. Pre-Independence Banking Landscape:

- » Before Independence, banking services were limited, with a focus on urban areas and exclusive access for the affluent.
- » Indigenous banking practices like Mahajans, chit funds, and local moneylenders catered to financial needs but had limited outreach.
- » European banks were established during colonial rule, primarily serving the colonial administration and elite classes.

2. Post-Independence Banking Transformation:

- » Nationalization of banks in 1969 expanded banking accessibility, especially in rural areas, through branch expansion and policy reforms.
- » The establishment of Regional Rural Banks (RRBs) played a crucial role in extending credit facilities to rural and agricultural sectors.
- » Technological advancements, such as computerization and internet banking, enhanced accessibility, efficiency, and product diversification.

3. Contribution to Economic Growth:

- » Banking services' evolution significantly contributed to Mysore Province's economic growth by fostering financial inclusion.
- » Increased access to credit facilitated agricultural development, improved productivity, and supported small businesses and entrepreneurship.
- » Financial services extended to previously underserved areas helped bridge the urban-rural divide, promoting overall socio-economic development.

4. Shift Towards Financial Inclusivity:

- » The evolution of banking services post-Independence marked a shift towards greater inclusivity, reaching diverse socio-economic segments.
- » The banking sector's efforts in offering tailored financial products and expanding branch networks promoted financial literacy and inclusion.

Conclusion:

- » The cumulative impact of banking evolution post-Independence led to improved living standards, enhanced employment opportunities, and empowerment of rural communities.
- » Access to formal banking services stimulated economic activities, paving the way for balanced regional development and reduced socio-economic disparities.

In conclusion, the evolution of banking services in Mysore Province post-Independence brought about a transformative change, extending financial services to previously neglected areas, fostering economic growth, and contributing significantly to the region's overall development and prosperity. This evolution marked a transition towards a more inclusive and accessible banking system, vital for sustaining the region's ongoing economic progress.

Reference:

1. Arun, T.G. and J.D. Turner. (2002), "Financial sector reforms in developing countries: the Indian experience". *World Economy*, Vol. 25, pp. 429--445.
2. Reserve bank of India, (2006-08), "Report on currency and Finance", Mumbai.
3. Ketkar, K.H. and S.L. Ketkar, (1992), "Financial liberalization, financial savings and economic development-a case study". *Journal of Developing Areas*, Vol. 27, pp. 69-84.
4. Ketkar, K.W., (1993), "Public sector banking, efficiency and economic growth in India", *World Development*, Vol. 21, pp. 1685-1697.
5. Hanson, J.A. and S. Kathuria. (1999), "India's financial sector for the twenty-first century", Oxford University Press, New Delhi.
6. Agarwal, R.N., (2003), "Capital Market Development, Corporate Financing Pattern and Economic Growth in India". *Asian Economic Review*, April 2003, Vol. 45, No.1, pp. 23-34.
7. Sen, K. and R.R. Vaidya, (1997), "The process of financial liberalization in India", Oxford University Press, New Delhi.
8. Bhattacharya, S. and U.R. Patel, (2003), "Reforms strategies in the Indian financial sector". Paper presented at conference on "India's and China's experience with reform and growth", held at National Council of Applied Economic Research, November 15-16, New Delhi.
9. Reddy, Y.V., (1998), "RBI and banking sector reforms", *Reserve Bank India Bulletin*, pp. 99-1008.
10. Sarkar, J., (2004), The banking industry. In: Gorkan S, Sen A, Vaidya RR (eds.): "The structure of Indian industry". Oxford University Press, New Delhi.
11. Chakravarty, S., (1985), "Report of the Committee to Review the Working of the Monetary System", Reserve Bank of India, Mumbai.
12. Narasimhan Committee, (1991), "Report of the Committee on the Financial System", Reserve Bank of India Bulletin, Vol. XLVI, No.2, pp. 369-380.
13. Narasimhan Committee, (1997), "Committee on Banking Sector Reform", Gazette of India-Extraordinary Notification, Part II, Sec 3 (ii), Ministry of Finance, Government of India. 1997.
14. Reddy, Y.V., (2002), "Public Sector Banks and the Governance Challenge: Indian Experience". Paper presented at the World Bank, International Monetary Fund, and Brookings Institution Conference on Financial Sector Governance: The Role of Public and Private Sectors on April 8, 2002 at New York.