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**Mainstreaming the Financial Inclusion Agenda in India -  
Lessons from the genesis and growth of Canara Bank,  
1906-1969.**

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## **Mainstreaming the Financial Inclusion Agenda in India - Lessons from the genesis and growth of Canara Bank, 1906-1969.**

### **Abstract**

Financial Inclusion has always been a much touted policy agenda since India's Independence. The State played a key role through promoting cooperative credit societies, nationalising big private sector banks and facilitating several supply side measures to ease access to credit. Post 90s, the accent was more on demand led private initiatives through self help groups and microfinance institutions. Today, there seems to be a policy turn again towards formal institutions like Banks. In 2015, in a rare move, the Reserve Bank of India granted licenses to differentiated banks like the Small Finance Banks and Payments Banks. Given these policy reversals, the state seems to be grappling with implementing a proven agenda towards mainstreaming financial inclusion through banks. To this end, we turn back to a period of Indian banking history to derive lessons from the trajectories of the indigenous joint stock banking companies, often termed *swadeshi* banks that spontaneously emerged, especially in southern India, at the turn of the 20th century.

We focus on the Dakshin Kanara district in coastal Karnataka where between 1880 and 1935, 22 banking companies were established. We take up this district for two reasons (a) Three nationalised banks of the country today, out of the total of 21, had their origins in this district - Corporation Bank, Canara Bank and Syndicate Bank (b) All the three banks were closely associated with a minority community in that district, namely the Gowd Saraswat Brahmins (GSBs). Many of the founders and initial Board members of the three banks were lawyers, teachers, doctors and philanthropists from this community. Commissioned biographies of all the three banks point to the ethos of this community (*gameinscaft*) in initiating these banking companies. These were in the nature of small finance banks of today, primarily catering to the needs of the community.

Among the three, we take up the study of Canara Bank – the most successful among its peers in terms of growth. Our methodology will rely both on primary, secondary sources and oral histories dealing specifically with the genesis and growth of the bank. We will focus from the early 19th century (the time the bank had its origin as a banking company) to 1969, after nationalisation. India's Independence and the Banking Regulation Act (BRA), 1949 will be another time-marker.

By beginning its journey as a small banking company in the pre-industrialised period and growing to become one of the key players in the banking sector in India, Canara Bank offers a compelling narrative for understanding the future trajectories of the Small Finance Banks of the country.

**Keywords:** Banking History, Canara Bank, Small Finance Bank, Dakshin Kanara.

## 1. Introduction

Over 21 percent of the world's unbanked live in India. The Indian government envisages that by 2021, over 90 per cent of those, empowered by formal finance through banking channels, would become active stakeholders in the economic progress of the country. The Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched in 2014 as a national mission on Financial Inclusion to provide universal banking access with at least one basic banking account per household.<sup>1</sup> In 2015, in a rare move, the Reserve Bank of India (RBI), the country's central bank, granted twenty one new bank licenses to differentiated banks like the Small Finance Banks and Payments Banks. These niche banks have been given licenses with the explicit mandate of furthering financial inclusion.

Financial Inclusion has always been a much 'flaunted' policy agenda in India since the country's Independence in 1947. The report of the first All India Rural Credit Survey Committee (AIRCS) 1954, the first compilation of direct field-data by the RBI, laid the foundation for a vast array of policies under what has come to be known as 'social banking' in India<sup>2</sup>. These policies followed since the 1950's increased the scope of formal banks and banking agencies. Among these, the setting up of the three-tier cooperative credit system, nationalization of banks (i.e. 100 percent government ownership), Priority Sector Lending (PSL)<sup>3</sup> were notable. New institutions, namely banks specializing in lending locally or to rural areas called the local area banks (LABs) and the regional rural banks (RRBs) and the apex National Bank for Agriculture and Rural Development (NABARD) were established. This thrust on 'supply-side' initiatives, where the State played a key role either through creation of new formal institutions or through rules-bound expansion of commercial bank credit in the rural and informal sectors had mixed outcomes. Informal credit did come down from 70 percent to about 17 percent of the total debt of cultivator households in the 90's. But several of the new institutions floundered. Primary agricultural credit societies were hemmed in by political interference and bad debts and the RRB experiment came unstuck with the RRBs demanding parity with commercial banks. With the implementation of the Basel Committee norms for capital adequacy in the 90's, the share of commercial banking sector credit to the rural, cultivator households as a proportion of the latter's total borrowings also came down from 35% in 1991 to 26% in 2002.<sup>4</sup> Despite almost

<sup>1</sup> [https://en.wikipedia.org/wiki/Pradhan\\_Mantri\\_Jan\\_Dhan\\_Yojana](https://en.wikipedia.org/wiki/Pradhan_Mantri_Jan_Dhan_Yojana), last accessed August 21st 2017.

<sup>2</sup> Thorner, D. (1960). The All-India Rural Credit Survey viewed as a scientific enquiry. *Economic Weekly*, 12(23-25), 949-963.

<sup>3</sup> A specified portion of the bank lending to few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low-income groups and weaker sections.

<sup>4</sup> All India Debt and Investment Survey, National Statistical Sample Organisation (NSSO). Several issues.

five decades of social banking, it seemed banks were unwilling or unable to meet the needs of the rural, agricultural, informal and small enterprises and the poor of the country.

Post 1990's, the phrase 'financial inclusion' replaced 'social banking' of the 50s. There was a move away from top-down, supply side initiatives to more demand-led private initiatives through self-help groups (SHGs) and microfinance institutions (MFIs). Taking their cues from informal lenders and the Grameen model popularized by Muhammad Yunus, the *poster-boy* of this sector, a host of for-profit, non-bank finance companies (NBFCs) with their thrust on viable and hassle-free lending (group-lending, small and micro loans, simplified loan application forms, foot-on-field staff, etc.), showed enormous growth in the new millennium. While the growth rate has been staggering, this sector has had its ups and downs, notably the Andhra Pradesh Crisis in 2010.<sup>5</sup> This put a question mark on the ability of for-profit NBFCs to steam-roll the State's financial inclusion agenda.

Today, there appears to be a policy shift again towards formal institutions like Banks. The PMJDY was an explicit push for banks to reach every citizen of India, with heavy reliance on technology such as biometric identification, micro-ATMs, core-banking solutions, etc. Of the ten small finance bank (SFB) licenses issued to-date, eight have been to NBFC-MFIs, a clear signal by the central bank that it prefers "bankification" of its financial inclusion agenda. The onus is back on local and specialized banking institutions with the erstwhile governor of RBI, under whom SFB and payment bank (PB) licenses were issued saying, "...we need local institutions that have lower costs and employ local labour that will not go the RRB's way"<sup>6</sup>. The RBI has also come up with Draft Guidelines for 'on tap' licenses for Universal Banks in the Private Sector.<sup>7</sup>

Given these policy changes, the State seems to be grappling with implementing a sustainable agenda for mainstreaming financial inclusion through formal banking channels. To assess the likely outcomes of that policy agenda, we turn back to a period of Indian banking history to derive lessons from the evolution and growth of indigenous joint stock banking companies (*nidhis*), often termed *swadeshi* banks that spontaneously emerged, especially in southern India, at the turn of the 20th century.<sup>8</sup>

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<sup>5</sup> Taylor, M. (2012). The Microfinance Crisis in Andhra Pradesh, India: A Window on Rural Distress? *Institute for Food and Development Policy: Food First Backgrounder*, 18(3), pp.1–4.

<sup>6</sup> Sriram, M. S. (Ed.). (2017). *Talking Financial Inclusion in Liberalized India: Conversations with Governors of the Reserve Bank of India*. Taylor & Francis. Conversations with Dr. Raghuram G. Rajan.  
<sup>7</sup> <https://rbidocs.rbi.org.in/rdocs/content/pdfs/DGLU050516.pdf>, last accessed February 17th, 2018.

<sup>8</sup> Seshadri, R. K. A. (1982). *A Swadeshi Bank from South India: A History of the Indian Bank, 1907-1982*. Madras: Indian Bank; New Delhi: Orient Longman.

The first half of the 20th century witnessed a splurge in banking initiatives, primarily at the behest of a few businessmen and professionals especially in the smaller towns of southern India. Around 78 banking companies were registered from 1870 to 1948 in the state of Karnataka alone.<sup>9</sup> In this context, we focus specifically on the Dakshin Kanara district in coastal Karnataka (South Kanara of the erstwhile Madras Presidency of British India). Between 1880 and 1935, 22 banking companies were established in South Kanara. We take up this district specifically for our study for two reasons: (a) Three nationalized banks of the country today, out of a total of 21, had their origins in this period in two towns of this district – Mangalore, the administrative headquarters of the district, and Udupi, a temple town 60 kms to its north. The Corporation Bank was set up in May 1906 in Udupi, while the Canara Bank was set up in July of the same year in Mangalore. In November 1925 Syndicate Bank started operations in Udupi; (b) All three banks were closely associated with a minority community in that district, namely the Gowd Saraswat Brahmins (GSBs). Many of the founders and pioneer members of the Board of Directors of the three banks were lawyers, teachers, doctors and philanthropists from this community. The GSB community was predominantly a trading community, with no established history of indigenous bankers (shroffs/sowcars)<sup>10</sup> in the community. As their founding principles state, all the three banks were started with the explicit aim of facilitating community banking and ‘financial inclusion’ as we know it today. Agrawal (2018)<sup>11</sup> also mentions the noteworthy financial inclusive practices of these South Canara banks, making a specific mention of Syndicate Bank and its innovative pigmy deposit scheme, which was introduced as far back as the 1920’s (long before Richard Thaler’s behavioural financial nudges were in vogue, as he puts it (page 10)).

In this paper, of the three banks, we study Canara Bank, the earliest and perhaps the most successful among its ‘peers’ in making the transition from a small, community bank to one of the premier nationalized banks in the country. More importantly, studying the history and growth trajectory of Canara Bank from its inception in 1906 to the point of its nationalization in 1969, will give us significant clues to answer the following questions that are very relevant and pertinent to our current study: (i) The role of communities and local social networks in the

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<sup>9</sup> Thingalaya, N. K. (1999). *The Banking Saga: History of South Kanara Banks. Corporation Bank, Mangalore.*

<sup>10</sup> Ray, Rajat Kanta (2002): *Indigenous Banking and Commission Agency in India’s Colonial Economy in Money and Credit in Indian History - From Early Medieval Times.* (ed) Bagchi, Amiya Kumar. Indian History Congress. Tulika. New Delhi.

<sup>11</sup> Agrawal, Amol (2018): *History of Banking in South Canara District (1906-69).* Dissertation submitted in Partial Fulfilment of the Requirements for the Fellow Programme in Management of the Indian Institute of Management Bangalore.

conduct of banking activities (ii) As small, local and community banks evolve and grow into profit-centric mainstream banks, what are the chances that they will drift away from their mission of community banking and financial inclusion (i.e. “*to assist the needy*”, one of the founding principles of Canara Bank)? How can banks avoid this ‘Mission Drift’ as they evolve and grow? (iii) Ultimately, in the light of the four-decade old experiment with ‘social banking’, what policies if any, need to be put in place by the Central Bank if the nation’s financial inclusion agenda is to be propelled through banks?

Our methodology will rely both on primary and secondary sources dealing specifically with (a) the commissioned biographies of Canara Bank, (b) the socio-demographic, economic conditions of South Kanara district for the relevant period, especially with regard to the expansion of banking companies and (c) narratives and recollections by the retired officials of Canara Bank and members of the GSB community. We will focus from early 1900 when the Bank had its origin as a banking company till the nationalization of the Bank in 1969.

Section 2 discusses the historical backdrop of the emergence of banking companies India in general, and more specifically in South Kanara district where this bank was founded; section 3 deals with the community responsible for spearheading banking in this district - the Gowd Saraswats; section 4 analyses Canara Bank’s trajectory of growth and evolution and section 5 details the conclusions.

## **2. Trade and indigenous banking in the early 20th century India**

British India, from the late 1800’s to World War I, called the period of high colonialism, saw a tremendous boost in value and volume of domestic trade, especially trade in produce (agricultural commodities and cloth). Several factors other than foreign demand were responsible for this - rising population of the country, urbanization, growth of a nascent educated middle-class and extension of transport and communication, chiefly railways. Trade had to be lubricated by finance and this necessitated a rapid growth in domestic financial intermediaries. The formal banking sector consisted of the British-led Exchange Banks and Presidency Banks that catered mainly to European enterprises. In the India of that time, three groups of people were accumulating savings on a big scale: (a) the urban professionals, especially those in government service and the legal profession, (b) the elite in the countryside and (c) specific castes/communities involved historically in banking and trading activities,

called the *shroffs* / *sowcars* or indigenous bankers.<sup>12</sup> These indigenous bankers were different from money lenders in the sense that while money lending could be done by all castes, indigenous banking was considered family run and hereditary, belonging to certain castes known as 'banking castes' (*jains*, *marwaris*, *khattris*, *multanese* and *chettians*).<sup>13</sup> These communities devised special procedures for transferring funds between markets, fixing interest rates and adjusting to the fluctuations in the markets. As trading in produce became lucrative, promissory notes (*hundis*) replaced mortgages as collateral, term loans were open-ended and since lending was on personal security, lending rates were high (15% to 36%); so were the associated risks. *Sowcars* and *Shroffs* became adept at providing flexibility and facility such that almost anyone could participate in produce brokering, with a lion's share of the surplus going to these indigenous bankers.

Given that context, there was a dire need for (a) some form of affordable (cheaper) credit and (b) safe avenues for investing surplus savings. Cooperative saving funds or Rotating Saving & Credit Organizations (ROSCAs), called *chits* or *nidhis* filled this void. The *chits* were subscribed by members and run by a variety of systems - rota, lottery or auction. *Nidhis* were based on monthly subscriptions, stretching to a four or seven-year period. Their assets were lent only to members and, at the end of the period, the *nidhis* were wound up and profits re-distributed. With the founding of the Mylapore Hindu Permanent Fund in Tamil Nadu in 1872, the character of the *nidhi* changed. From the 1880s, there was a proliferation of such permanent funds that began as association of merchants or professionals, helping each other out through this form of cooperative finance. *Nidhi* subscriptions soon came to be replaced wholly or partly by issue of shares, which was when they got the character of joint stock banking companies (JSBCs). The shares were not refundable but were negotiable. *Nidhis* also started accepting deposits. Lending was still only to members, on security of land or jewels. As *nidhis* became joint stock banking companies, they began to lend to non-members and for produce-trading. The genesis of joint stock banking companies meant that they were still plagued with low reserves, although (as a JSBCs) they to comply with the Companies Act and build up reserve funds.

The role of the colonial state cannot be underplayed. Anne Hardgrove<sup>14</sup>, writing about the *marwaris* of Calcutta, has said that the growth of the capitalist trader class in the late 19th century India was facilitated by the changing nature India's colonial economy. British economic

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<sup>12</sup> Baker, C. J. (1984). *An Indian rural economy, 1880-1955: the Tamilnad countryside*. Oxford University Press, USA.

<sup>13</sup> Panandikar, S. G. (1934). *Banking in India*. Orient Longmans Ltd., Calcutta.

<sup>14</sup> Hardgrove, A. (2004). *Community and public culture: the Marwaris in Calcutta, c. 1897-1997*.

expansion penetrated existing trading networks and changing land settlement policies necessitated payment of taxes in cash rather than in kind, resulting in greater commercialization of agriculture. Since there were no formal banks to provide credit at that time, there was an extensive system of *hundi* (or bill of exchange as we know today) to facilitate timely payment by 'discounting' the 'hundis'.

This context played out extensively in the district of South Kanara of the erstwhile Madras Presidency of British India - a district on the western coast of Karnataka, far away from the great centers of trade and commerce of India of that time. This district from north to south is a narrow strip of territory, about 110 miles in length and about 25 miles broad at its narrowest and 50 miles at its widest, with the Western Ghats in the east and Arabian sea in the west. Rice was the chief agricultural produce and the surplus was exported by the British to other parts of the country and to the Arabian countries by sea. Western Ghats to the east meant it had many rivers flowing from east to the west, carrying plantation and forest produce (coffee, cashew and spices) for trade. There was little or no industrialization, the only industries being manufacturing of tiles and processing of cashew. Agriculture and trading in produce (including fishing) constituted the main occupations. The district did not have the advantages of the fertile northern districts of the Indo-gangetic belt, which also explained why South Kanara saw migration of its educated youth to urban centers like Bombay (*Mumbai*) from the early days, in search of employment.

This district has come to be christened as the "nursery for banks" in India,<sup>15</sup> home to a large number of banks. The British Presidency Bank of Madras started in 1843 was the first to enter the city of Mangalore in South Kanara, catering largely to British firms dealing with the export of plantation produce like coffee and cardamom. G. Arbuthnot and Co., a British export house, also into banking business, opened a branch in Mangalore in the latter part of the 19th century but had to close down in 1906 under the insolvency act. Thousands of depositors lost their savings, creating significant loss of faith among people in the banking system.

In South Kanara, indigenous chits called *kuri funds* were in vogue, where a number of people would subscribe to a fund and the amount so collected would be given to the highest bidder. Interest rates were exorbitant, sometimes as much as 50 percent. Indigenous banking in South Kanara was largely in the hands of a handful of commission agents from Bombay, who used to finance small traders. The mercantile community of this district, largely consisting of Gowd

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<sup>15</sup> Thingalaya, N. K. (1999). The Banking Saga: History of South Kanara Banks. *Corporation Bank, Mangalore*.



Saraswat Brahmins (GSBs) had to meet their credit needs from these indigenous bankers, most of whom were *multanese* from Bombay. As can be expected, money lending was common and, in fact, took care of trade and commerce in South Kanara. Money lenders were the largest group of tax players in that district at a time when, under the Indian Income Tax Act of 1886, the minimum taxable income in 1892-93 was Rs. 500 per annum.<sup>16</sup> As an alternative to indigenous bankers and money lenders, the birth of joint stock banking companies in South Kanara district took place in 1906 with the establishment of Corporation Bank and Canara Bank in the same year. We will study the genesis of Canara Bank in section 4, after introducing the Gowd Saraswat Brahmins, given the moniker of *Business Brahmins*<sup>17</sup>, the community responsible for the genesis of banking in South Kanara. Appendix 1 gives the chronology of banking growth in South Kanara district. Agrawal's (2018)<sup>18</sup> research question also tries to answer as to how an otherwise unimportant region of South Kanara was home to the largest banks in the country. In analysing the reasons, he does a detail analysis of the economic conditions of South Kanara during that time, citing stable agricultural conditions (due to predictable rains and rain-fed rivers) as one of the reasons. According to him, banking in South Kanara was therefore profitable.

### 3. Community ethos (*gemeinschaft*) and birth of banking in South Kanara

World over, banking has had its historical roots in close-knit community networks, given that it is a fiduciary business conducted largely on trust. The history of indigenous banking in India was also community based and formed the basis for the establishment of several prominent banks in the country (Punjab National Bank by the *khatri*s of Punjab; Indian Bank by the *chettiar*s of Tamil Nadu and so on). A 'constellation of forces' including religion, caste, psychological traits, colonization, state support post colonization and infrastructural facilities contributed to the emergence of business communities in India.<sup>19</sup> Commissioned biographies of all the three banks born in South Kanara point to the ethos of the Gowd Saraswat Brahmin community (*gemeinschaft*) in initiating these banking companies.<sup>20</sup> The founders of Canara Bank (as well as Syndicate Bank and partly, Corporation Bank) belonged to this community.

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<sup>16</sup> Madras District Manual, South Canara, Vol. II quoted in Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private. Page 37

<sup>17</sup> Tambs-Lyche, H. (2011). *Business Brahmins: The Gauda Saraswat Brahmins of South Kanara*. Manohar Publishers & Distributors.

<sup>18</sup> Agrawal, Amol (2018): History of Banking in South Canara District (1906-69). Dissertation submitted in Partial Fulfilment of the Requirements for the Fellow Programme in Management of the Indian Institute of Management Bangalore.

<sup>19</sup> Sheth, N. R. (1984). Theoretical framework for the study of Indian business communities. *Business communities of India: a historical perspective*, 9-25.

<sup>20</sup> Commissioned Biographies for all the three banks by the journalist late Mr. M.V. Kamath.

The only difference was, unlike say the *marwaris* or *multanese* or the *chettians*, the GSBs were not an indigenous banking community.

The GSB community in South Kanara was an immigrant community, and their exodus from Goa during the early 18th century to avoid the Portuguese inquisition is a big part of its collective and kinship identity.<sup>21</sup> Religious persecution by the Portuguese in Goa had many families leave Goa, for Ratnagiri and Thane districts to the north, and Kanara to the south. Finding patronage under the local kings, they were revenue officers (*Shanbhogues*), responsible for keeping land records and collecting land revenue. Captain Thomas Munro, the first British Revenue Collector in 1820, is said to have based his ryotwari system of land revenue collection on his experience with the documentation of these land records in South Kanara.<sup>22</sup> In South Kanara, the GSBs moved into trading and became a primary trading community. Some had established themselves as rice traders even before the majority exodus from Goa.

How did their transition to banking come about? Several explanations were put forth in conversations with GSB historians (both amateur and professional) and GSB bankers.

M.V. Kamath, in his biography of Canara Bank, quoting a Canara Bank official, states that the link goes back to an age-old custom in the community of depositing money with highly respectable and wealthy patrons (called *Pattan Shetties*) on occasions like birth of a child in the family, on the understanding (written or unwritten) that the same would be paid back to the beneficiary when the child attained the age of 18. The deposit carried no interest and it was kept in safe custody in the faith that it would be duly returned in 18 years. The problem was that 18 years was a very long period, and many had to seek redress in courts for getting their money back. The founder of Canara Bank, Ammembal Subbarao Pai was a lawyer in Mangalore and he was moved by the plight of several widows who came to him seeking help in this regard. His biographer notes that the need of the petty traders in their community was also on his mind. "*The smaller traders who required only a few hundreds or, at the most, a thousand or two thousand rupees could resort only to money lenders who charged exorbitant rates of interest*".

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<sup>21</sup> Tambs-Lyche, H. (2011). *Business Brahmins: The Gauda Saraswat Brahmins of South Kanara*. Manohar Publishers & Distributors.

<sup>22</sup> Beaglehole, T. H. (2010). *Thomas Munro and the development of administrative policy in Madras 1792-1818*. Cambridge University Press.

Jyotsna Kamat, a historian, and a chronicler of GSB history and archives, stated that being an immigrant and hence a minority community in Karnataka, the community ethos had always been steeped in structures rooted in co-operation. India's first co-operative housing society, established in 1915, the Saraswat Cooperative Housing Society on Grant Road, Mumbai, was an initiative taken by SS Talmaki, a prominent member of the GSB community and catered to the migrants from the community to Mumbai. Jyotsna Kamat says "*It is not difficult to imagine the GSBs of South Kanara saying 'here's your money and my money, and let us make it our money'*"<sup>23</sup>

The community also had a high rate of literacy. In early 20th century, South Kanara district stood next only to Madras city in the percentage of people who knew English and could converse in that language. The minutes of the Board Meetings of Canara Bank, in its initial years were recorded in English, and in long hand. They are still preserved in the museum created in its founding branch office at 75A, Dongerkery Street, Mangalore.

Mr. Dinker Rao, a retired faculty of the National Institute of Bank Management, Pune reiterated that the major focus of these South Kanara banking companies was always to attract community savings as deposits.<sup>24</sup> It was not easy. The early years of the South Kanara banks saw their advances exceeding their deposits, chiefly because frequent bank failures acted as a deterrent for rapid accumulation of deposits.

Denis Vidal writing about the Jain traders and moneylenders in the Sirohi district of Rajasthan, says that merchants' position in an economy depended on dual expertise: a monopoly over financial and accounting techniques relative to the local population and a monopoly over social information about this population relative to the merchants from outside the locality.<sup>25</sup> The same could be surmised about the GSB community, as well. Having roots in revenue offices, they were well versed both with accounting techniques and had a knowledge about agriculture, trading and social information of the local population. Mr. P.P. Bhatt, a retired official of Canara Bank stated that these banks were willing to lend on *hundis* to "country crafts" (local boats and ships transporting produce by sea), plied by GSB traders and ship-men, otherwise seen as a high-risk venture.<sup>26</sup> The exchange, honoring and discounting of such *hundis* relied on networks

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<sup>23</sup> Research Interview with Jyotsna Kamat at Malleshwaram, Bangalore on 4th September 2017.

<sup>24</sup> Research Interview with Mr. Dinker Rao at Panaji, Goa on 30th October 2017.

<sup>25</sup> Vidal, D., & Cadene, P. (1997). *Webs of trade: dynamics of business communities in western India* CHS; Manohar.

<sup>26</sup> Research Interview with Mr. P.P. Bhatt at Hulimavu, Bangalore on 17th November 2017.

of trust, which created important transregional linkages as well as opportunities for the spread of banking.

The community ethos played out sharply in the following years as the banks grew and spread to parts outside of South Kanara. Canara Bank continued to be dominated by the GSB community. One of the main reasons as attested by Mr. P.P. Bhatt was that in the 1950's and 1960's, educated, poor GSB youth of South Kanara having limited employment avenues in the district, were willing to risk relocating to Mumbai (the Bank had opened its first branch in Mumbai in 1928) and other places outside of South Kanara where Canara Bank had opened its branches, often taking moderate salaries. They provided the backbone of foot-soldiers for a bank that was growing and expanding rapidly outside of South Kanara, post 1960s. Mr. A.K.S Rao, a retired General Manager of Canara Bank states '*Young, konkani boys were groomed to shift to Mumbai and work there. Simple numeracy, handwriting and typing tests were conducted for admission and they were asked if they were willing to go to Mumbai. They were then encouraged to join night colleges to earn an undergraduate degree in Mumbai.*'<sup>27</sup> Typical applicants after they passed the admissions test were given six months' unpaid apprenticeship, 6 months paid apprenticeship, 6 months' probation and were confirmed as employees of the Bank at the end of eighteen months. These young men made up not only the rank and file employees of the Bank, but also its executives.

This aspect of the bank attracted a lot of research in the later years.<sup>28</sup> This 'community homogeneity' of the Bank created a culture of informality. Konkani, the language of the GSBs was the *lingua franca* in the branches. Officials called each other '*mam*' (uncle in konkani). It helped break the distance and hierarchy between individuals. Even a clerk in Canara Bank could freely meet a senior executive without prior appointment and this was seen to be the Bank's strength. Kinship ties helped maintaining cohesion among its executives and gave the bank the confidence to pursue aggressive growth policies even in the 1990s.

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<sup>27</sup> Research Interview with Mr. A.K.S Rao, at Panduranga Nagar, Bangalore on 18th November 2017.

<sup>28</sup> Research study on Canara Bank by Sampat Singh of National Institute of Bank Management, Pune quoted in Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Pages 137-8.

## 4. Canara Bank: A Banking Odyssey

### 4.1. Banking for a social cause

Canara Bank had its beginnings as Canara Hindu Permanent Fund, registered on 1 July 1906 and began its operations from a small rented building on Dongerkery Street, Mangalore with a capital of 2000 shares of Rs. 50 each. The Fund was one of the first joint stock banking companies in South Kanara. The moving spirit behind its foundation was a public-spirited lawyer, a High Court *Vakil* by the name of Ammembal Subbarao Pai. His name is associated with several institutions in Mangalore, prominent among them being Canara Girls' School, Canara Hostel, Mangalore Union, Depressed Classes Mission, etc. An erstwhile Chairman and Managing Director of Canara Bank Mr. N.D. Prabhu reminisces about the founder, "*The objective was not solely profit but more egalitarian. He felt that there was a need to make the people save by being thrifty and resources thus mobilized to be made available for economic activities at a reasonable rate of interest, in the days when usurious rates were common. He also firmly believed that for social and economic upliftment, education was the key. And education was not confined to men only. At a time when advocating education for women was outlandish, he founded a school for girls*".<sup>29</sup> Very few banking institutions would have been set up with these ideals:<sup>30</sup>

1. To remove superstition and ignorance.
2. To spread education among all, to sub-serve the first principle.
3. To inculcate the habit of thrift and savings.
4. To transform the financial institution not only as the financial heart of the community but the social heart as well.
5. To assist the needy.
6. To work with a sense of service and dedication.
7. To develop a concern for fellow human beings and sensitivity to the surroundings with a view to make changes/remove hardships and sufferings.

Social banking or financial inclusion was thus the bedrock on which the Fund was founded. The inspiration was the Madurai Hindu Permanent Fund, which was set up by some lawyers and merchants in Madurai, at the turn of the century. The Fund's main aim, as made out in its Memorandum and Articles of Association, was to make loans available at moderate rates of

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<sup>29</sup> Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private. Foreword.

<sup>30</sup> <http://www.canarabank.com/english/about-us/>, last accessed 18th February, 2018.

interest to deserving people like small traders and artisans and to serve as a repository of the people's savings.<sup>31</sup> The biography of the bank has a recreated painting of a real life account of the enthusiastic founder personally going to many places in a hackney coach and bullock cart, explaining the benefits of the Fund to ordinary people.

Within the second year of its operations, deposits exceeded Rs. 100,000 and advances a little less than Rs. 200,000. With resources expanding, it was found prudent to reconstitute the Fund as Canara Bank Ltd. in 1910. The bank started building reserves from its second year and investments in government promissory notes started in 1912. As of 1915, the position of the bank's finances is given in table 1.

**Table 1: A decades growth (as of Dec 31st, 1915 in Rs.)**

Paid up capital	Reserves	Deposits	Advances	Investment	Net Profit
1.94	57,000	433,000	617,000	28,000	31,000

#### **4.2. Organizational ethos (gesellschaft) in the early years - 1906 to 1930**

The Fund was driven by members of the GSB community. The first Board of Directors, headed by A.Subbarao Pai as the President, consisted of 18 members, among them prominent merchants, lawyers, and educationists and retired government officials of South Kanara, predominantly belonging to the GSB community. However, a perusal of the Minutes of the Board Meeting of the second and third decades of the Bank's existence reflect the meticulous and rational manner in which the organization was achieving its goals. The minutes record decisions relating to staff matters, customer service, business development and management policies. The minutes reiterate the minute interest taken by the Board in all matters, ranging from appointment of night-watchman to cost-cutting (*typing allowance to the typist, only so long as he does typewriting work in the bank*)<sup>32</sup>, to benefits for its employees. For example, in March 1919, Provident Fund for employees was mooted and by 1923 it was instituted.

The Bank was fastidious about auditing and inspection. P.G. Nayak, who was the first secretary of the Bank was appointed in 1928 to inspect the branches of the bank along with

<sup>31</sup> The Memorandum and Articles of Association of the Canara Bank Ltd. Mangalore, as amended up to 4.3.1923.

<sup>32</sup> Minutes of the Board, January 1928, quoted in Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Page 56.

an inspection clerk. The Board laid down the duties and responsibilities of the Inspector. The 1930 August minutes state '*The Inspector should examine every Branch Office at least once a half year. The examination should, as far as possible, be made unexpectedly and not at stated periods and should be thorough and searching.*' The bank had opened its first branch as late as April 1926, in Karkala. Two more branches at Kasargod and Cochin were opened that year. 1928 was a crucial year for the bank. It was in that year the bank decided to set up a branch in Bombay (Mumbai). Bombay had trade links with Mangalore since mid 1800s. A number of GSB traders had their agency offices in Bombay. Canara Bank was the first bank from South Kanara to establish a branch in Bombay, the financial nerve center of the country. This move was propitious in the growth of the bank.

The Bank was cautious about its investment. A 1922 minutes records the Board deciding to invest surplus funds in one or more of three selected banks distributing, if convenient, the surplus among the three. Deposit rates for 'season-deposits' were allowed to vary for the busy and slack seasons (the equivalent of 'variable rates' in modern banking parlance). In September of that year, loans on security of landed property was allowed. In August 1925, the idea of lending to merchants was taking shape. The Managing Committee was authorized to transact business in *hundi*, cheques, drafts with ports such as Mumbai, Karachi, Cochin through the Imperial Bank of India, Mangalore.

C. G. Baker<sup>33</sup> notes that in the 'overheated' atmosphere of the early 1920s, most funds began to lend to non-members. It was not very straightforward, and funds were run more for the wellbeing of the promoters, directors and their relatives and friends. He quotes a banking enquiry commission report '*One observer suggested that in Madras Presidency there may be said to be a new caste named 'Fund-Office caste' or 'Directors Caste', for the very simple reason that the very same gentlemen, or their relatives and later their descendants, would be found on the boards of several directorates*'. Canara Bank had to walk this path cautiously. On one hand, it was rooted in the GSB community ethos. Most of its early Directors had familial connections. And yet, in the initial years, one finds the Board being vigilant in these matters. This vigilance that put the Institution before the individual, plays out strongly in its years of consolidation and growth and the turmoil of the 1930s.

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<sup>33</sup> Baker, C. J. (1984). *An Indian rural economy, 1880-1955: The Tamilnad countryside*. Oxford University Press, USA.

### 4.3. The years of turmoil - 1930s – 1947

The first two decades of the bank had the bank following the policy of 'safety first' in every sense of the term, and this gave the bank the wherewithal to tide over the tumultuous 30s. Between 1926 and 1930 the produce market was in jeopardy. And it took with it most of the underlying security on which credit had been provided. Though a large number of JSBCs had been formed in the 1930s, quite a number of them failed. In South Kanara, of the 22 banks formed, apart from Canara Bank, six went into liquidation and one ceased to operate, and the rest were merged. For Canara Bank, fully secured advances constituted 80 percent of the total advances. The Directors note: *'The policy of the Directors has rather been one of consolidating the position of the bank by increasing the ratio of the secured advances to the unsecured'*.<sup>34</sup>

But the Bank did not go unscathed with the flurry of bank failures in South Kanara. It experienced 'runs', fortunately restricted to just one or two branches in Mumbai. P.S. Nayak the then General Manager (who went on to becoming the longest serving General Manager of the bank) was ready to face the situation. *'Employ half a dozen cashiers if necessary but pay everyone who comes without questioning'* were his clear instructions.<sup>35</sup> Such courageous and instantaneous decisions bested crises.

The ravages of World War II also decreased the income of the bank. The bank appointed a sub-committee to look into the matter and among its recommendations was a pay-revision for its employees, since cooperation of the staff was deemed essential. 1938 also saw the Bank voluntarily inviting the Reserve Bank of India (by then the Central Bank of the country) to inspect its working.

In 1942, the General Manager's office was shifted from Mangalore to Mumbai and later evolved as the zonal office. The idea was to give P.S. Nayak opportunity to study the modern methods of banking. By 1943, it had 35 branches (four in Mumbai). 1942 and 1943 also saw the Bank raise capital in the market. In 1943, 18,000 ordinary shares at a premium of 80 % were distributed to its customers. India's Independence came amidst celebrations. The Bank paid a bonus to its staff to commemorate the event.

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<sup>34</sup> Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Page 82.

<sup>35</sup> Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Page 83.



1930 to 1947 could be termed as the transitional years that saw a change in the nature of branch expansion, deposit growth, credit disbursement and investment, broader capital base and organization of the bank staff.<sup>36</sup>

#### **4.4. A Tryst with Destiny - 1950s to 1969**

This was the start of the most momentous era in the history of the bank. 1950 began with it being ranked 16th among Indian scheduled banks. M/S IBCON, a firm of industrial consultants was invited to make an in-depth study of the Bank's working methods and many of their suggestions were implemented, including sending six senior officers for training in reputed banks in the UK. Not long after, they began to write letters back home which were published in *Canara Bank News*, a bank newsletter that had been started by then. An extract of a letter by C.G. Kini (dated London, March 16, 1952): *'The Kilburn branch of the Lloyds Bank is one of their smallest offices but could be compared to one of our medium-size offices so far as volume of work is concerned. It is run with one Manager, one Chief Clerk and five other clerks. There are no messengers (peons) in the office...'*<sup>37</sup>

In 1953 the bank opened its first foreign exchange department. It was also the year in which the bank's employees' Union was formally recognized. A Staff Training Centre was established and in its Golden Jubilee year in 1956, several new schemes targeting housing loans for its employees and education loans were initiated. In 1958, it was the first bank to invite participation of the employees in the Bank's ownership by setting apart 7,200 shares that were readily taken up.

The 1960s was an era of spectacular growth for the bank. It was a decade of mergers and acquisitions for the bank. Between 1961 and 1968, as many as ten banks based in southern India merged with Canara Bank. It also saw the total number of branches cross 100. 1966, its diamond jubilee year, saw the Bank adopt a new motto "Serving to Grow, Growing to Serve". Table 2 gives an indication of the growth of the bank in this decade.

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<sup>36</sup> Thingalaya, N. K. (2009). Banks in the South: Past, present and their future. *Nitte, India: Justice KS Hegde Institute of Management*.

<sup>37</sup> Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Page 108.

**Table 2: Select financial ratios for the period 1955-65.**

(All figures in %)

	1955	1957	1959	1961	1962	1963	1964	1965
Cash to Deposits	23.7	25.8	10.4	11.9	14.9	12.7	10.7	16.2
Liquid assets to deposits	56.2	56.4	51.3	51.9	51.9	45.7	40	47.9
Investments to deposits	32.5	30.6	40.9	38.3	35	28.4	25.3	26.1
Advance to deposits	50.9	49.3	54.9	54.2	52.8	58.4	66.5	60.3
F.D. to deposits	43.1	43.4	55.3	47.6	47.2	45.1	49.3	45.2
S.B. to deposits	18.3	15.9	14.9	20.5	20	20.7	21.4	23.5
C.D. to deposits	38.6	40.7	29.8	31.9	32.8	34.2	29.3	31.3
Reserve fund to paid up capital	100	138	113	126	101.3	100	108.5	103.2

On 19th July 1969, like a thunderbolt from the skies came the announcement of a step seen as *'essential and unavoidable in the larger interests of the community'*<sup>38</sup> - the nationalization of all large banks in India. In July 1969, on the eve of nationalization, Canara Bank had 324 branches, a clientele of 1,400,000, 65,000 priority sector borrowers, total deposits of Rs. 1.52 billion and total credit of 1.10 billion.

As a sober institution, the news was summed up in an objective manner by one of its officials, U.G. Rao, General Manager of the Bank who recollects: *'There was a great amount of jubilation. The whole idea was that the banking structure (facilities) should be made available to the common man. But, in Canara Bank we were already following it. Only the ownership changed. We used to say, "Though banks are nationalized, we are not nationalized", because we are accustomed to that type of functioning since the beginning. 'Helping the small man' was the motto right through our functioning from the beginning...'*<sup>39</sup> Its Chairman and Managing Director at that time K.P.J.Prabhu was far more sanguine. For him, nationalization

<sup>38</sup> Editorial, Yojana. 24th August 1969.

<sup>39</sup> Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Page 216.

was an opportunity placed before the country and banking according to him would henceforth be the prime mover of economic growth of the country. He called it 'banking unchained'.

## 5. Conclusion

The India of today is seeing a second wind blowing in its banking sector, propelling banks to further the agenda of financial inclusion. The direction however is somewhat opposite to that of 1969. To this end, it is important to draw lessons from history. Though the context facing many of the new small finance banks today is different, yet the history of South Kanara and South Kanara banks that began as small, community banks holds several lessons. As this journey of Canara Bank shows, it requires vigilant efforts by its leaders, executives and staff to hold on to the core values of the bank. The community ethos definitely helped, but evidence shows that the glue binding the bank went beyond the community. The leadership of the bank was inspiring - men of high integrity, nobility and foresight. In today's business parlance, Canara Bank, until nationalization, demonstrated high standards of Corporate Governance, Business Ethics and Corporate Social Responsibility. The hierarchy in the Bank was minimal and the Leadership was very accessible. Relationships were informal and familial, yet business was transacted in a professional and disciplined manner. As the bank grew, did it lose its 'community' character? Were there instances of "mission drift"? Was 'nationalization' of the bank the inflection point for that mission drift? The person who perhaps best answered those questions was Mr. P.S. Nayak, General Manager of the Bank for 33 years, who retired in 1966 and to this day is considered to be a veritable legend by Can-bankers. In a lengthy interview to the National Institute of Bank Management (NIBM) who conducted an in-depth study of the Bank in the 70's, Mr. P.S. Nayak reiterated the small and regional character of the bank. His role as General manager was to put in place systems and procedures to reinforce and build a tradition and a unique culture: everyone working in the bank identifying himself/herself with the bank! He admitted that he was unhappy with some of the later developments and that he wanted the bank to mainly do business in the state of Karnataka and the adjoining areas!<sup>40</sup>

In hindsight, it seems paradoxical that while the stated aim of the Government to 'nationalize' all large banks was to bring 'financial inclusion' into sharp focus (aka Canara bank) and address issues of rural 'upliftment' and poverty alleviation, the agenda got 'hijacked' by political game upmanship. The jury is still out on how would Canara Bank have evolved had they not

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<sup>40</sup> Kamath, M. V. (1991). *A Banking odyssey: The Canara Bank story*. Vikas Publishing House Private Ltd. Page 184.

been nationalized in 1969? Would they have continued on their original mission or would they have anyway morphed into what they are today, in pursuit of growth and profits! In other words, with scale and success, was the 'mission drift' inevitable?

There are many lessons for the small finance banks (SFBs) that have been set up in India over the last few years as a result of government's policy to usher in differentiated banks. Like Canara Bank, SFBs too have evolved from community based 'microfinance' lending institutions to full-service banks but with a continuing focus on low income individuals, rural population and small and micro enterprises. Unlike Canara Bank that flourished under private ownership but drifted away once nationalized, SFBs are unlikely to ever be subject to government ownership thanks to an across-the-board policy shift in the country to minimize/eliminate government ownership, particularly of entities in the financial system. It would be interesting to study whether the SFBs have learnt from Canara Bank and remain glued to their mission or would they too move in the same direction in pursuit of growth and profits. That would be the theme for our next paper.

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**Appendix 1: Banking Growth in South Kanara**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Head Office</b>	<b>Registration</b>	<b>Remarks</b>
1.	Canara Banking Corporation (Udupi) Ltd.	Udupi	28.05.1906	Name changed to Canara Banking Corporation Ltd. in 1939. Administrative office shifted to Mangalore in 1958. Name again changed to Corporation Bank Ltd. In 1972; Nationalized in 1980.
2.	Canara Hindu Permanent Fund Ltd.	Mangalore	01.07.1906	Name changed to Canara Bank Ltd. in 1910. Administrative office shifted to Bangalore in 1954. Nationalized in 1969.
3.	Kanara Enterprise Ltd.	Puttur	Mar 1920	Bank changed to Kanara Commercial Bank Ltd. in 1945. Went into liquidation in 1950.
4.	Pangal Nayak Bank Ltd.	Udupi	15.04.1920	Merged with Canara Bank Ltd. in 1968.
5.	Jaya Laxmi Bank Ltd.	Mangalore	11.10.1923	Merged with Vijaya Bank Ltd. in 1967.

6.	Karnataka Bank Ltd.	Mangalore	28.02.1934	Continues as the only private sector bank in the district
7.	Udupi Bank Ltd.	Udupi	05.05.1925	Went into liquidation in 1956
8.	Catholic Bank Ltd.	Udupi	05.06.1925	Merged with Syndicate Bank in 1961
9.	Canara Industrial & Banking Syndicate Ltd.	Udupi	20.10.1925	Name changed to Syndicate Bank Ltd. And HO shifted to Manipal in 1964. Nationalized in 1969.
10.	Moolky Bank Ltd.	Mulky	15.07.1929	Merged with Syndicate Bank in 1961
11.	Vijaya Bank Ltd.	Mangalore	02.05.1931	Administrative Office shifted to Bangalore in 1969. Nationalized in 1980.
12.	Bank of Mangalore Ltd.	Mangalore	04.05.1931	Merged with Syndicate Bank Ltd. in 1959
13.	Coondapoor Bank Ltd.	Kundapur	13.08.1932	Went into liquidation in 1940
14.	Supply and Agency Ltd.	Udupi	02.10.1933	Name changed to Thulunad Bank of Supply Agency Ltd. In 1939. Went into liquidation in 1940.
15.	Jaya Karnataka Banking & Trading Co. Ltd.	Kallianpur	26.11.1933	Ceased to operate from 1949. Struck

				off from registration in 1959
16.	Nagarkar's Bank Ltd.	Mangalore	25.09.1934	Merged with Syndicate Bank Ltd. in 1961.
17.	Agriculture & Industrial Bank Ltd.	Kundapur	07.11.1934	Went to liquidation in 1953
18.	Pie- Money Bank Pvt. Ltd.	Mangalore	21.12.1934	Merged with Syndicate Bank Ltd in 1961.
19.	Attur & Jawahar Bank Ltd.	Mangalore	29.06.1939	Went into liquidation in 1951
20.	Southern India Apex Bank Ltd.	Udupi	25.06.1942	Merged with Syndicate Bank Ltd. in 1953
21.	Maharashtra Apex Bank Ltd.	Udupi	26.04.1943	Merged with Syndicate Bank Ltd. in 1953
22.	Prabhakar Bank Ltd.	Moodabidri	28.03.1945	Went into liquidation in 1953
23.	Netravati Grameena Bank	Mangalore	10.10.1984	Registered under the Regional Rural Banks Act 1976