# PREFACE

The commercial banking was developed in India in the 19th century after the prototype banking model which was characterised with the mobilization of deposit and sanction of working capital loan. The familiarities of pioneer Indian banks who hailed from the British community with that system might explain to some extent why India assumed that particular type of banking. But a more important explanation was that never being worried about India's economic development, Britain was interested only in her import-export trade which was required to be financed by the banking system through short-term loans.

There were, however, some nationalist countries in the contemporary world like Germany, Japan etc. where the banking system the so-called universal banks used to provide term finances also in conjunction with working capital.

In the absence of any term financing institution, however, India gave birth to the managing agency system which nurtured her industrial development over the countries. These managing agents had so monopolised the industrial sector that they, on the one hand, prevented the diffusion of entrepreneurship among a wider spectrum, and earned, on the other, high rates of return from investment in a very limited number of industries. The resultant narrow bases of both entrepreneurship and industrial structure were not, however, considered conducive to further industrial development and were sought to be rectified by the independent India by reducing the importance of the managing agency system in the country. The herculean task thereby, bestowed upon the Indian planners particularly, during post-independence era to tackle the economic stagnation for attaining the objectives like accelerated rate of industrial growth which needed introduction of term financing institutions in India.

In such circumstances, the Government of India established a series of development finance institutions (DFIs) in the post-independence era. Simultaneously with the establishment of development finance institutions, however, India also sought to introduce term-financing in the existing commercial banking network so as to herald an era of universal banking in the country. Commercial bank's move to this new dimension was also endorsed by a number of committee.

We thus find two term financing institutions namely commercial banks and development finance institutions in term lending sinario in India after independence. Such a development may be appreciated only if these institutions are found complementary to each other or they are almost equally competent in term financing. On the other hand, if we find only of them more competent than the other, there remains no reason for the continuation of the system. In this connection mention may be made that development finance institutions have shown their inefficiency in a number of third world countries as an industrial financier which is revealed in a number of studies conducted by the World Bank. So, it is opined in these studies either closure of development finance institutions or merger with the commercial banks.

In this study we will examine the reasons which were responsible for the genesis of universal banking in India, their growth and role as an industrial financier and their viability in industrial financing. To encounter the objectives, appropriate hypothesis have been tested by both financial and statistical tools.

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