"RECENT TRENDS IN BANKING SYSTEM: PROS AND CONS"

DISSERTATION

Submitted in the Partial Fulfilment for the Degree of

MASTER OF LAW'S (LL.M.)

SESSION: 2019-20

UNDER SUPERVISION OF:

TRISHLA SINGH

(Assistant professor)

School of Legal Studies, BBDU

SUBMITTED BY:

PRABHAT PANKAJ TRIPATHI

ROLL No.:1190990018

School of Legal Studies, BBDU

DECLARATION

Title of Project Report **RECENT TRENDS IN BANKING SYSTEM: PROS AND CONS** I understand what plagiarism is and am aware of the University's policy in this regard. **PRABHAT PANKAJ TRIPATHI.**

I declare that

(a) The work submitted by me in partial fulfilment of the requirement for the award of degree **LLM** Assessment in this **DISSERTATION** is my own, it has not previously been presented for another assessment.

(b) I declare that this **DISSERTATION** is my original work. Wherever work from other source has been used, all debts (for words, data, arguments and ideas) have been appropriately acknowledged.

(c) I have not used this work previously produced by another student or any other person to submit it as my own.

(d) I have not permitted, and will not permit, anybody to copy my work with the purpose of passing it off as his or her own work.

(e) The work conforms to the guidelines for layout, content and style as set out in the Regulations and Guidelines.

Date : ………………

PRABHAT PANKAJ TRIPATHI

University Roll No. 1190990018

LL.M. (2019-20)

CERTIFICATE

This is to certify that the research work entitled **"RECENT TRENDS IN BANKING SYSTEM: PROS AND CONS"** Work done by **PRABHAT PANKAJ TRIPATHI**, student of, Babu Banarasi Das University Lucknow, under my guidance and supervision for the partial fulfillment of the requirement for the Degree of **(LLM) in** Babu Banarasi Das University Lucknow, Uttar Pradesh. According to the best of my knowledge, he/she has fulfilled all the necessary requirements prescribed under the University Guideline with regard to the submission of this dissertation.

I wish him/her success in life.

Date – **TRISHLA SINGH**

(Assistant Professor)

Place- Lucknow, (Uttar Pradesh) BABU BANARASI DAS UNIVERSITY

LUCKNOW

ACKNOWLEDGEMENT

I acknowledge the heartfelt thanks to the Institute of legal Studies, Babu Banarasi Das University Lucknow**,** for providing me the opportunity to complete my dissertation for the Partial Fulfillment of the Degree in (LLM).

I am thankful to my Supervisor **Miss. TRISHLA SINGH (Assistant Professor),** for not only helping me to choose the dissertation topic but also for her valuable suggestions and co-operation till the completion of my dissertation. She provided me every possible opportunity and guidance and being a support in completing my work.

I also thank to all the respondents without whom this study would have never been completed.

I am thankful to everyone from core of my heart.

(**Prabhat Pankaj Tripathi**)

(LLM)

Roll No. 1190990018

Babu Banarasi Das University

Lucknow

LIST OF ABBRIVETION

A.I.R.	:	All India Reporter
SCC	:	Supreme court cases
H.C.C	:	High court cases
HC.	:	High court
SC	:	Supreme court
NABARD /Nabard	:	National Bank for Agriculture and Rural Development
SIDBI/Sidbi	:	Small Industrial Development Bank of India
SEWA/Sewa	:	Self Employed Women's Association
T.F./ TF	:	Tribhuvandas Foundation
AFD	:	French Development Agency
AMT.	:	Amount
AMUL	:	Anand milk Unit Limited
APMAS	:	Andhra Pradesh Mahila Abhivrudhi Society
ARDC	:	The Agricultural Refinance and Development Corporation
BIRD	:	Bankers Institute of Rural Development
CDM	:	Clean Development Mechanism
CEO	:	Chief Executive Officer
CGAP	:	The consultive group of assist the poor
CGS	:	Credit Guarantee Scheme
CGTMSE :	:	Credit Guarantee Fund Trust for Micro and Small Enterprises
CLCSS	:	Credit Linked Capital Subsidy Scheme
CLS	:	Composite Loan Scheme
CMR	:	Centre for Microfinance Research

LIST OF CASES

Gujarat State Co-operative Bank Ltd. v. CIT (2001) 250 ITR 229, 250 (Guj.)

Goa Urban Co-operative Bank Ltd. v. Noor Mohd. Sheikh Musson, (2004) 6 SCC 166, 171 (SCj

TABLE OF CONTENT

CHAPTER-5

5. A CRITICAL STUDY ON INTERNET BANKING: PROS & CONS

CHAPTER -6

6. CONCLUSION

CHAPTER ~ 1

INTRODUCTION

Banking is an important segment of the tertiary sector and acts as a backbone of economic progress. Banks play very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth.[1] The Banking sector is the center of commercial activity and reflects the economic health of a country. If this sector is healthy, the economy of the country is also healthy, while on the other hand, if it is sick, the economy of the country would also be in the depression. The post nationalized period has witnessed a radical change in the structure, approach, aims and objectives of the Indian banking system.

The banking systems which constitute the core of the financial sector, plays a critical role in transmitting monetary policy impulses to the entire economic system. Money and finance are an important and necessary substitute for real resource and it had a crucial role in the economic development of the country.

The importance of commercial banks in the process of economic development has been recognised by all. The commercial banks play an important role in all economies. The role becomes more important in planned or developing economy like India. Banking industry is the blood vascular system of our economy. It has positive role to play in the economic development of the country as repositories of people's savings and purveyors of credit, especially as the success of economic development depends on the mobilization of the resources and their investment in an appropriate manner.

In a country like India, constitutionally committed to socialistic pattern of society-banks have important role to play i.e. in the reduction of regional disparities, which is an important objective of the economic planning. A very significant measure to reduce regional and state wise disparities would be to reduce the imbalances in the credit-deposit ratios in the various states. The banking system is one of the few institutions that impinge on the economy and affect its

[1] http://www.blurtit.com, retrieved on 27.8.2011.

performance for better or worse. They act as a development agency and are the source of hope and aspirations of the masses.[2]

Modern banks have diversified their activities with their entry into new non-traditional areas of business. These new areas include mutual fund, merchant banking activities, portfolio management, corporate counseling, project counseling, hire purchase finance, equipment leasing, venture capital and factoring services. These new activities by banks and their subsidiaries result in the development of industry and trade in the country. Briefly, it can be said that it constitutes the very life blood of economic society.

In the present scenario, banking as an important service of the financial sector, has also gone under a tremendous metamorphosis known as transformation. Through transformation all known parameters like HRM, IT, Capital Markets, Work Culture etc. have been completely changed. The process of transformation due to liberalization, privatisation, globalization and World Trade Organisation has taken everything in its grip, where IT plays a crucial role to manage this transformation efficiently. New delivery channels like Automated Teller Machines (ATMs), Electronic Fund Transfers (EFTs), Credit/Debit Cards, Smart Cards etc. and on the other hand internet banking, mobile banking, tele banking, core banking etc. have made this sector more competitive. The core issues faced by banks today are on the fronts of customer's service expectations, cutting operational costs, and managing competition. Technology can help banks in meeting these objectives.

1.1 MEANING OF BANK

Finance is the life blood of trade, commerce and industry. Now-a-days, bank money acts as the backbone of modern business. Development of any country mainly depends upon the banking system.

The term bank is derived from the French word banco which means a bench or money exchange table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging.

[2] Sooden Meenakshi, (1992): Regional Disparities of Commercial Banking in India, Kanishka Publishing House, Delhi, P.17.

A bank is financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

1.1.2 DEFINITIONS OF BANK

As bank is a very comprehensive word, various definitions have been given of the term bank at various places and in various forms. To understand the basic idea and the meaning of the term bank clearly, few definitions of the term bank are taken in different categories as under:

1.1.3 DEFINITION GIVEN IN DICTONARY

1. The Oxford English Dictionary, A bank is an establishment for custody of money received from one of behalf of its customers. Its essential duty is to pay their drafts on it. Its profit arises from the use of the money left unemployed by them‖.

2. According to Encyclopedia Britannica

Bank is an institution that deals in money and its substitutes and provides other financial services. Banks accept deposits and make loans and drive a profit from the difference in the interest rates paid and charged, respectively. Some banks also have the power to create money.

3. Greek History

Banks means a bench or table for changing money‖

1.1.2 OPERATIONAL DEFINITIONS

Customer Customer refers to a person who is utilizing one or more of the e-banking products and services provided by the bank.

Customer Service

Customer service is a series of activities designed to enhance the level of customer satisfaction i.e. the feeling that a product or service has met the customer expectation.

Banking Products and Services

It refers products and services provided by banks for customers, such as statements, direct debits, standing orders, ATM, Mobile Banking, Internet Banking, Payment Systems, Credit Cards etc.

Awareness

Awareness is the state or ability to perceive, to feel, or to be conscious of events, objects or sensory pattern.It is the state or quality of being aware of ebanking products' features.

E-banking

E-banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels.

RTGS

RTGS, stands for Real Time Gross Settlement, are funds transfer systems where transfer of money or securities takes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction.

NEFT

NEFT, stands for National Electronic Funds Transfer, is a nation-wide system that facilitates individuals, firms and corporates to electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country.

ECS

It is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House.

ECS (Credit)

ECS (Credit) is used for affording credit to a large number of beneficiaries by raising a single debit to an account, such as dividend, interest or salary payment.

ECS (Debit)

ECS (Debit) is used for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.

Payment Systems

It is a financial system supporting transfer of funds from suppliers (savers) to the users (borrowers) and from payers to the payees, usually through exchange of debits and credits among financial institutions. It consists of a paper-based mechanism for handling checks and drafts, and a paperless mechanism (such as electronics funds transfer) for handling electronic commerce transactions.

Internet Banking

A system that allows individuals to perform banking activities through the internet.

Mobile Banking

It refers a financial transaction conducted by logging on to a bank's website using a cell phone, such as viewing account balances, making transfers between accounts or paying bills.

Profitability

Profitability is a relative concept and indicates net profit as percentage of working funds. It shows the efficiency with which a bank deploys its total resources to optimize its profits and thus serve as an index to the degree of asset utilization and managerial effectiveness.

Independent Variables

The term refers to the socio economic characteristics of the customers such as age, gender, native place, type of family, educational level, occupation, marital status, annual income, type of account, number of years of having account with bank, frequency of visit to the bank, income tax assessment in primary data analysis and profitability parameters such as Interest Earned, Interest Expended, Spread, Non-Interest Expenditure, Non-Interest Income, Burden, NPA, Fixed Deposits, Savings Deposits, Current Deposits, Total Credit, Provisions and Contingencies etc. in secondary data analysis.

1.2 OBJECTIVES

The following are the main objectives of the study:

1. To evaluate the performance of commercial banks in India in the electronic era.
2. To highlight the various important e-banking products and services offered by Indian banks.
3. To assess the awareness level of e-banking users regarding the products and services offered by Indian banks.
4. To identify the factors contributing the growth of e-banking in India and the factors influence the customers to choose e-banking services.
5. To analyse the problems faced by the bankers and customers while using e- banking.
6. To offer valuable suggestions for providing better e-banking products and services to the customers and improving the profitability of banks.

1.4 HYPOTHESES

The following hypotheses have been formulated by considering the objectives of the study, the researcher's theoretical knowledge, discussions and deliberations with experts and from other research studies. These hypotheses are subjected to appropriate statistical tests.

1. There is no significant association between the profitability parameters (such as Interest Earned, Interest Expended, Spread, Non-Interest Expenditure, Non-Interest Income, Burden, NPA, Fixed Deposits, Savings Deposits, Current Deposits, Total Credit, Provisions and Contingencies etc.) and the profitability of the banks.
2. There is no significant association between socio-economic variables of sample customers (such as age, gender, native place, type of family, educational level, occupation, marital status, annual income, type of account, number of years of having account with bank, frequency of visit to the bank, income tax assessment) and their awareness level on e-banking.
3. The average awareness score of the different groups of sample customers (on the basis of the variables such as age, gender, native place, type of family, educational level, occupation, marital status, annual income, type of account, number of years of having account with bank, frequency of visit to the bank, income tax assessment) is the same.

1.5 METHODOLOGY

The study is based on both primary and secondary data. The required primary data were collected from the respondents by using well-structured questionnaires. The validity of any research is based on the systematic method of data collection and analysis. The required primary data were collected from 600 sample respondents. The Reserve Bank of India brings out number of issues relating to banking business. The required secondary data were collected from the RBI website, RBI Bulletin and RBI Annual Reports. Besides, leading journals and magazines relating to banking industry were also referred for this study.

1.6 LIMITATIONS OF THE STUDY

The following are the limitations of the present study.

1. The sample respondents might have failed to reveal true information regarding their income due to fear and not having proper records and due to which the results might have been affected.
2. The study is restricted to only 600 sample respondents.
3. The study is confined to Erode district only.
4. Only individual customers are considered in the study. The Institutional customers are excluded from the study.
5. The study focused only from customers' point of view and not from the bankers' point of view.
6. The conclusions are based on the response obtained from the respondents through the questionnaire. Though extreme care is taken to elicit correct information, an element of bias cannot be ruled out.
7. The sampling method & statistical tools used in this study have their own limitations.
8. At the time of data analysis, the various information required for analysing the profitability of bank groups were available only upto the financial year 2008-09.
9. The accuracy of the secondary data used in the study is purely relied upon the reliability of the secondary sources used such as RBI Bulletin, RBI Annual Reports and RBI Website.

1.7 STATEMENT OF THE PROBLEM

Despite all their efforts in developing better and easier e-banking systems, these still remain largely unnoticed by the customers and certainly underused in spite of their availability. No doubt the main draw back in the banking scenario in India has been lack of awareness about e-banking and lack of willingness to accept and adapt the changes by the customers.

- In this background, it becomes essential to know the answers to the following questions:
- Is there any improvement in the performance of the banks due to the introduction of technology in banking transactions?
- Whether the customers are aware about the various products and services offered by the Indian banks or not?
- What are the factors contributing for the growth and development of e-banking in India?
- What are the problems faced by the bankers and customers in utilizing e-banking services?
- This study is proposed to find out the answers to the above questions.

CHAPTER 2

2. REVIEW OF LITERATURE

Review of literature is considered as a significant part of any research. The role of a good literature review is to find and present the pertinent work from the primary literature in a logical, organized manner and to bring the reader as up-to-date as possible. Here, the research of works done by various authors relating to the current study have been presented in a brief and understandable manner.

Das, Abhiman (1997'[3]) examined the efficiency of public sector banks since nationalization using longitudinal data. The findings indicated that banks of SBI group are more efficient than the nationalized banks. The main source of inefficiency was found to be technical in nature than allocative. It has been concluded that inefficiency in public sector banks is mainly due to underutilization or wasting of resources rather than incorrect input combinations.

Rao (1999[4]) explained the role of IT in the financial services industry. Technology is bringing about important evolutionary changes in the investment industry, giving portfolio managers greater control of their activities & even more time to spend on developing insights into the stock they own.

Rao (2000[5]) analysed the impact of new technology on banking sector. The advent of technology both in terms of computers and communications has been changing totally the ways and doing banking business. Technology has opened new vistas and in turn brought new possibilities every day for doing the same work differently and in most cost-effective manner. Tele banking and internet banking are making forays such that branch banking may give to home banking. In order to protect their profitability, the banks need to address urgently the following emerging areas:

Product development and marking skills.

Modern credit management skills.

---

[3] 1 Das, Abhiman (1997), "Technical, Allocative and Scale Efficiency of Public Sector Banks In India", Reserve Bank Of India occasional papers, Vol.18,Nos.2&3, pp. 279-301

[4] 2 Rao, P.K. (1999), " IT in Financial Services Industry: Innovations and Implications," Chartered Secretary, (Sep.)

[5] Rao,N.V. (2000), "Changing Indian Banking Scenario: A Paradigm Shift'', IBA bulletin, Vol.XXV, No.1, pp. 12-20

New risk management practices.

Skills for operating in electronic environment.

New internal skills audit skills in a changing business environment.

New focus on customer and his needs.

Nair (2000 [6]) the technological advancements achieved very recently in the field of computerisation have unfolded many areas of innovations in our living styles. The world of banking is first shedding its ancient image and entering from 'brick-and mortar 'model to 'click' model. The virtual banking is rising in a total revolution in the banking transactions. The author realized that those banking and financial service providers who switch over to the electronic environment in the quickset possible time frame alone will be able to survive. The introduction of cyber law is also expected to boost the e-commerce and e-banking further in the days to come and the writing on the wall rather on the net is clear for the Indian banking Industry: E-Banking has come to stay.

Vageesh (2000) highly appreciated the NPSBs which have adopted IT. The NPSBs, with their state-of-the-art technology and grandiose plans to make in-roads into e-banking, are now darlings of the stock markets. Banks like HDFC & ICICI are foraying in to net banking which offers great convenience to the customers on one hand and results in lower transaction costs for the banks on the hand.

Verma (2000)3 analysed the impact of IT on PSBs & NPSBS in his article 'Banking on change'. The IT is a threat for the PSBs. It has to be a complete face off for the PSBs. With the business per employees, even for the front-run PSBs, a mere fraction of that of NPSBs, the PSBs have to do a lot on improving their productivity and efficiency. NPSBs are fully computerised and providing services on internet. Especially ICICI bank, HDFC bank is very active on this front and is concentrating on internet and e- commerce to offer their clientele a whole range of products under one roof. New banks like GTB, BOP, IDBI and UTI banks are not lagging behind. While some them concentrating on expansion and modernisation, some are focusing on mergers and acquisitions for their growth.

[6] Nair, S.N. (2000), "E- Commerce and the Emergence of E-banking", IBA Bulletin, Vol.XXII, No.10.

Niranjan (2000[7]) studied the changing business dimensions of banks due to the introduction of IT. The internet is taking banks in directions other than loans & deposits. Banking in India will never be the same again. E-banks have started e-commerce & many banks are entering in insurance sector.

Saha, Asish and Ravisankar (2000) rated 25 public sector banks using data envelopment analysis for the period of 1991-92 to 1994-95. It is found that barring few exceptions, public sector banks have in general improved their efficiency over the study period. UBI, UCO bank, syndicate banks and central bank of India were found to be at lower end of the relative efficiency scale. Also, Corporation bank, OBC, SBI, Canara bank, bank of Baroda and Dena bank were found to be consistently efficient banks.

Saxena (2000) analysed the importance of IT in the banking sector. According to him, the future promises to be even more exciting, interesting and challenging. The internet has enables us to talk to each customer as an individual, with different needs and requirements. This IT will affect the productivity and profitability of the banks.

Pathrose (2001)1 in his study found that banking the world over is undergoing a rapid and radical transformation due to the all pervasive influence of IT and breath taking developments in the technology of telecommunications and electronic data processing. The winds of change are blowing in India too. The IT which implies the integration of information system with communication technology has radically altered the traditional ways of doing banking business and allowed banks to wipe out the difference in time as well as distance. It is in this context his article attempts to trace the present status of hi-tech banking in India, visualize its prospects and look at the challenges and problems in the tracks to be traversed. He concluded that in the scenario of severe competition and escalating expectation of customers for newer products and alternative delivery channels, the outline of banking are being redefined. The key to survival of banks therefore is retention of customers loyalty by providing them with value added services tailored to their needs, using state-of-the-art IT. There is no way a bank can remain lukewarm to hi-tech and yet hope to grow. It is a choice between survival and extinction.

[7] Niranjan, (2000), "Internet Banking is Here," Business World, 3rd April

Shastri (2001[8]) analysed the effect and challenges of new technology for banks. Technology has brought a sea-change in the functioning of the banks. The earlier manual system of preparation of vouchers, etc. is slowly being automated thereby saving a lot of time & effort. The use of ATM is more than in the past, especially in the post- VRS scenario.

Das (2001) in his study evaluated the performance of public sector banks with respect to priority sector credit and the expansion of banking services to the un-banked areas during pre and post-reform period. It is observed that the percentage share of the priority sectors in total bank credit has been found increasing but at a decreasing rate in the post-reform period. It is concluded that the impact of financial sector reforms on regional equalities and the priority sector lending has been much adverse.

Adhaivarahan (2001[9]) in his article attempted to have a bird's eye view of the provisions of the IT Act and the pros and cons of the provisions of the act with particular reference to the activities of banks. The study concludes that the number of incidents of e-fraud and on-line breaches is the highest in India. Therefore cyber crimes in banking sector have to be treated with more care. For this purpose, a statutory body similar to "Internet fraud center" should be formed in India.

Avasthi and Sharma (2001) advances in technology are set to change the face of the banking business. Technology has transformed both the delivery channels used by banks in retail banking. It has also greatly impacted the whole markets of banks. Both the authors explored the challenges that the banking industry and its regulators face.

Kannan and Aditya Narain (2001[10]) made an attempt to identify the factors influencing spreads of scheduled commercial banks in India. The study revealed that size does not necessarily imply higher spreads. Secondarily, higher noninterest as a share of total assets (fee) enables banks to tolerate lower spreads. With regard to regulatory requirement variables, it was found that capital plays an important role in affecting spreads of the public sector banks. Non-performing assets were found to be consistency relevant across all the bank groups in influencing spreads.

---

[8] Shastri, R.V. (2001), "Technology for Banks in India – Challenges," IBA Bulletin, VOL.XXIII No.3 (March).

[9] Adhaivarhan.(2001), "Information Technology Act, 2000- The Legal Viewpoint". Indian Banking Association, Bulletin, Vol. XXII, No.12.

[10] Kannan, R. and Aditya Narain, (2001), "Determinants of net interest margin under regulatory requirements, an economic study' , Economic and Political Weekly, Vol. XXXVI, No.4, January 27-2, pp. 337-344.

Black et al. (2001) found that previous experience with the computer or Internet is one of the strongest influencing factors that affect Internet banking adoption.

Ndubisiet et al 2001 found that the various factors include prior experience, data intensity, staff support, computer training, technical support and external influence were used as drivers to investigate whether or not the technology acceptance model is valid for entrepreneurs.

Wahab (2001) has analysed the performance of the commercial banks under reforms. He also highlighted the major issues need to be considered for further improvement. He concluded that reforms have produced favourable effects on performance of commercial banks in general but still there are some distortions like priority sector advances, low profitability etc. that needs to be reformed again.

Kaveri (2001) studied the non-performance assets of the various banks and suggested various strategies to reduce the extent of NPAs. In view of the steep rise in fresh NPA advances, credit should be strengthening .RBI should use some new policies and strategies to prevent NPAs.

Nayak (2001) made an attempt to compare liquidity, productivity and profitability of foreign banks in India during 1985-86 to 1996-97. The results revealed that productivity in terms of labour, branches and profitability was higher in foreign banks than the domestic banks. Foreign banks are least involved in socio-economic policies of the government, on account of they registered higher profits.

Swamy (2001[11]) studied the comparative performance of different bank groups since 1995-96 to 1999 -2000. During this period, IT, new competition, deregulation took place. He studied three important aspects: 1) what has been the impact of financial sector reforms on the structure of the Indian banking system? 2) What are the advantages reaped by some of the new Indian private and foreign banks vis-à-vis PSBs? 3) Whether new competition has enhanced the overall efficiency of the banking system? An attempt is made in this paper, in the context of financial sector reforms, to identify factors which could have led to changes in the position of individual banks in terms of their share in the overall banking industry. He analysed the share of rural bank branches, average branch size, trends in bank's profitability, share of PSAs, share of wages in

[11] Swamy, B.N.A (2001), "New Competition, Deregulation and Emerging Changes in Indian Banking: An Analysis Of Different Banks – Groups", The Journal of the Indian Institute of Bankers, Vol.72, No.3 (July-Sept.) pp.3-22.

expenditure, provisions and contingencies, net non-performance assets in net advances, spread, has been calculated. He concluded that in many respects NPSBs much better than PSBs, even they are better than foreign sector banks.

Ram Mohan (2002[12]) in his paper documented and evaluated the performance of the public, private and foreign banks since deregulation in absolute and in relative terms and attempts to understand the factors behind their improved performance. It was observed that the efficiency of the banking system as a whole measured by declining spreads has improved. The performance of public sector banks has improved both in absolute and relative terms. He alludes the banking industry for its ability to keep its head above water log after deregulation. Further, he takes up the issues of trade-off between efficiency and stability in banking. It is observed that efficiency should not be at the cost of stability. He cautions that Indian experience so far suggests that government ownership might conduce to such trade off.

Shveeta and Satish Verma (2002)1 analysed the inter-temporal profitability behavior of SBI group, other nationalised and foreign banks in India. They empirically estimated the factors influencing the profitability of banks. They concluded that priority sector advances (in case of PSBs) , spread and burden (for all categories of banks) were the major and significant factors that influence the profitability of banks.

D' Souza, (2002) in his study evaluated the performance of public sector banks, private sector banks and foreign banks during the period 1990-1991 to 1999-2000. The efficiency of the banking system was measured in terms of spread/ working fund ratio and turnover/ employees ratio. The analyse reveals that the profitability of the public sector banks in late nineties improved relatively to that of private and foreign banks.

Singh (2003 [13]) analysed the profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has

---

[12] Ram Mohan, T.T (2001) , "Deregulation And Performance Of Public Sector Banks," Economic and political weekly, Vol. XXXVII, No. 5, February 2-8, pp. 393-397.

[13] Singh, Ranbir (2003), 'Profitability Management in Banks under Deregulated Environment', IBA Bulletin, Vol. XXV, No. 7, July, pp.19-26

declined in the deregulated environment. He emphasised to make the banking sector competitive in the deregulated environment. They should prefer non-interest income sources.

Chang (2003[14]) examined behaviors of firms (banks) and consumers (bank's consumers) in the event of a new technology (internet banking) introduction. The determinants of consumer adaptation of internet banking are characterised using survey data from Korea in both static and dynamic frame work. I find evidence that adaptation of internet banking is influenced by sex, age, and marital status, degree of exposure to internet banking and the characterized of the banks. A duration analysis shows no evidence of first mover advantage (order effects) in internet banking whilst the largest bank (rank effects) in commercial banking remains dominant in internet banking. The results imply that social norm effects dominate the internet banking adoption.

Hasanbanu (2004) studied customer services in rural banks. He found that the rural customers are not aware of the purpose for which the loans are available and how they can be availed. Customers do not know the complete rules, regulations and procedures of the banks as the bank personnel do not take interest in educating the customers.

Kumar (2006) studied the bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. Internationally also efforts are being made to study causes of financial inclusion and designing strategies to ensure financial inclusion of the poor disadvantaged. The banks also need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunities as well as a corporate social responsibilities. Financial inclusion can emerge as commercial profitability business.

Uppal (2006'[15]) with a sampling of 500 bank customers explained the impact of computerisation on the satisfaction of customers of all bank groups and concluded that customer services are quite better in fully computerized banks and further in e-banks as compared to that in partial or non-computerized banks. The study is only concerned with the urban sector of Punjab.

---

[14] Chang.y, (2003), " Dynamics of Banking Technology Adoption: An Application to Internet Banking", Department of Economics, University of Warwick, January 2003.
[15] Uppal ,R.K.(2008), "Indian Banking- Transformation through Information Technology," Mahamaya Pulishing House, p.86.

Hroff (2007) gave a summary of how Indian banking are evolved over the year. The paper discusses some issues faced by these systems. The author also gives examples of comparable banking system for other countries and the lesson learnt. Indian banking is the threshold of the paradigm shift. The application of technology and product innovations is bringing about structure change in the Indian banking system.

Subbarao (2007[16]) in his study concluded that the Indian banking system has undergone transformation itself from domestic banking to international banking. However, the system requires a combination of new technologies, well regulated risk and credit appraisal, treasury management, product diversification, internal control, external regulations and professional as well as skilled human resource to achieve the heights of the international excellence to play its role critically in meeting the global challenge. This paper mainly concentrates on the major trends that change the banking industry world over, viz, consolidation of players through mergers and acquisitions, universal banking and human resource in banking, profitability, rural banking and risk management Banks will have to gear up to meet stringent prudential capital adequacy norms under Basel I and II, the free trade agreements. Banks will also have to cope with challenges posed by technological innovations in banking.

Singla (2008)3 examined that how financial management plays a crucial role in growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years and bank which is in better position to deal with and absorb the economic constant over a period of time.

Premkumar and Esthen granapoo (2008)1 studied on the topic “E-Banking the essential and of today”. It was found that the current trends are quite comforting for customer. But it does pose threats and problems to banks. As we find information technology invading the banking sector, only banks, which used the right technology, could come out with success. Banks are required to restructure, re-invert and re-engineer themselves to meet the necessary performance improvement and get the competitive edge due to the introduction of information technology. E-Banking being an important output of information technology, it has ushered in an era which is

[16] Subbarao, P.S. (2007), “Changing Paradigm In Indian Banking,” Gyan Management, Vol., Issue-2 (Jan-June), pp.151-160.

transforming the entire functioning of banks. The tilt in the banks from traditional to modern e-banking service has been welcomed due its advantages, but banks in India are taking time to get rooted. Banks are slow but are going to offer in further more e-banking services to keep pace with the evolving pattern of customers' demand.

Ajanta Borgohain Rajkonwar and Kaberi Bezbarua (2010) analysed the Bank Employees' Perception Towards E-Banking in State Bank of India Branches in Guwahati and found that most of the senior members still prefer the traditional system as technology is fast changing and the employees feel that unless all the customers are fully educated about the new ways of banking, cent per cent success of e-banking is not possible.

Bhawna Narang and Niti Prabhakar (2011) undertook a study to measure the profitability of 27 commercial banks for a period of ten years (2000-2009) with the help of some ratios like index of interest income to total Assets, index of interest expended to total assets, index of spread to total assets, interest of non-interest income to total assets, index of non-interest expenditure to total assets, index of burden to total assts, index to net profit to total assets. The study reveals that some banks like SBM, OBC and PSB achieved excellent performance with regard to index of interest earned to total assets ratio. SBP achieved a excellent performance level in five out of seven indexed namely interest paid to total assets, spread to total assets, non-interest expenditure to total assets, burden to total assets and net profit to total assets and obtained a fair performance in case of interest income to total assets and non- interest income to total assets.

CHAPTER ~ 3

INDIAN BANKING SYSTEM: PAST AND PRESENT SENARIO

A Bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also nonbanking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. The Banking Sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits[17].

Today banks have become a part and parcel of our life. There was a time when the dwellers of city alone could enjoy their services. Now banks offer access to even a common man and their activities extend to areas hitherto untouched. Apart from their traditional business oriented functions, they have now come out to fulfill national responsibilities through catering to the needs of agriculturists, industrialists, traders and to all the other section of the society. Thus they accelerate the economic growth of a country and steer the wheels of the economy towards its goal of self reliance in all fields. It arouses our interest in knowing more about the bank and various men and activities connected with it[18].

3. 2. PAST AND PRESENT

Indian Banking Regulation act 1949 section 5 (1) (b) of the Banking Regulation Act 1949 Banking is defined as:

---

[17] Singh, Ravishankar Kumar (2006), "Indian Banking and Financial Sector Reforms Realising Global Aspirations", Abhijeet Publications Delhi", pp.1-3.
[18] Gordon E. Natarajan K. (2013), "Banking Theory, Law and Practice", Himalaya Publishing House, pp.1-2.

> ‘Accepting for the purpose of the landing of investment of deposits of money from public repayable on demand or other wise and withdraw able by cheques, draft, order or otherwise.’

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank connects customers that have capital deficits to customers with capital surpluses.

The Indian banking system has undergone significant structural transformation since the 1990s. An administered regime under state ownership until the initiation of financial sector reforms in 1992, the sector was opened to greater competition by the entry of new private banks and more liberal entry of foreign banks in line with the recommendations of the Report of the Committee on the Financial System (chaired by Shri M. Narasimham-1991): freedom of entry into the financial system should be liberalized and the Reserve Bank should now permit the establishment of new banks in the private sector, provided they conform to the minimum startup capital and other requirements and the set of prudential norms with regard to accounting, provisioning and other aspects of operations[19].

framework for banking— the more so as the new private and foreign banks have higher productivity levels based n newer technology and lower levels of manning[20].

During this period, ownership in public sector banks was also diversified. Along with the flexible entry norms for private and foreign banks, this changed the competitive conditions in the banking industry. The importance of competition was also recognized by the Reserve Bank, when it observed that-

Competition is sought to be fostered by permitting new private sector banks, and more liberal entry of branches of foreign banks...Competition is sought to be fostered in rural and semi-urban

[19] 3 Government of India, 1991, Report of the Committee on the Financial System (Chairman: Shri M. Narasimham) (New Delhi).

[20] Government of India, 1998, Report of the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) (New Delhi).

areas also by encouraging Local Area Banks. Some diversification of ownership in select public sector banks has helped the process of autonomy and thus some response to competitive pressures[21].

The competition induced by the new private sector banks has clearly reenergized the Indian banking sector as a whole: new technology is now the norm, new products are being introduced continuously, and new business practices have become commonplace.

Banking sector in India is broadly classified into such categories namely Public Sector Banks which include Nationalized Banks and SBI and associates, Private Sector Banks which includes Old Private Sector Banks and New Private Sector Banks and Foreign Banks, Co-operative Banks. All these banks and bank groups are doing banking operations for different objectives to achieve. These banks always compete with each other on different grounds and parameters. Their competition has two fold advantages to the economy and to these banks themselves. As it is a well known fact that only with competition, productivity and efficiency increases which is also true in case of the banking industry which is considered as the backbone of the economy. We have seen in the era of public sector dominated banking industry, where all the banking operations are done by the public sector banks only with the sole objective of social banking, where people's welfare occupies the major place. But, it was also true that at that time efficiency of the banks in their operations was also not so appreciable than in today.

In modern era of cut throat competition, every bank and banking group is striving to attract more and more customers towards itself, so that it can make its name in the banking industry and gets fame by their operations and working, so that their customer's loyalty can be increased towards them and they are able to utilize this in their future policies. Competition among them has also make them quality oriented. Now a day they are not only concerned about providing their customers with lots of facilities, but the quality of those services are also their major concern issue. The only segment which is mostly benefitted from these activities and operations of the banks are the customers. Today banking industry is not bank oriented but it is customer oriented. All the banks and banking groups are doing what their customers are demanding from them. They are ready to provide them all the facilities only to retain them with their bank. Some of the

[21] Reddy, Y.V., (2000), "Financial Sector Reforms: Review and Prospects," Monetary and Financial Sector Reforms in India: A Central Banker's Perspective (New Delhi: UBSPD)

examples of this are 24 hour ATM facility to their customers, mobile banking, electronic fund transfer etc. These facilities make customers more contended and satisfied. There are different parameters on which these banks and bank groups compete with each other. The major purpose behind this competition is to improve their customer base and profitability by increasing their efficiency. So these parameters hold an important place in the policies of the banks and they should be properly handled and appropriate polices should be made to make the best use of these parameters.

3.2.1 Indian Banking Sector: Emerging Challenges and Way Forward[22]

 Asset Quality

- **Capital Adequacy of Banks**
- **Liquidity Coverage Ratio**
- **Unhedged Forex Exposures**
- **Human Resource Issues**
- **Revision to the Priority Sector Lending Guidelines**
- **Globalization of Regulation- making process**
- Technology and its impact
- Treating Customers Fairly
- KYC/AML Compliance
- Balance Sheet Management
- Risk Management

3. 3. ORIGIN AND EVOLUTION OF THE WORD 'BANK'

There seems no uniformity amongst the economist about the origin of the word Bank "According to some authors the word "Bank", itself is derived from the word "Bancus" or "Banque" that is a bench. The early bankers, the Jews in Lombardy, transacted their business on benches in the market place, when, a banker failed, his 'Banco' was broken up by the people; it was called 'Bankrupt' This etymology is however, ridiculed by mcleod on the ground that "The Italian

[22] Mundra, S.S. Deputy Governor, Reserve Bank of India at Bangalore on April 29, 2015 as part of the Memorial Lecture series launched by State Bank of Mysore in the memory of His Highness Sri Nalwadi

Money changers as such were never called Banchier in the middle ages." It is generally said that the word "BANK" has been originated in Italy. In the middle of 12th century there was a great financial crisis in Italy due to war. To meet the war expenses, the government of that period a forced subscribed loan on citizens of the country at the interest of 5% per annum. Such loans were known as 'Compare', 'minto' etc. The most common name was "Monte'. In Germany the word 'Monte was named as 'Bank' or 'Banke'. According to some writers, the word 'Bank' has been derived from the word bank.

It is also said that the word 'bank' has been derived from the word 'Banco' which means a bench. The Jews money lenders in Italy used to transact their business sitting on benches at different market places. When any of them used to fail to meet his obligations, his 'Banco' or banch or bench would be broken by the angry creditors. The word 'Bankrupt' seems to be originated from broken Banco. Since, the banking system has been originated from money leading business; it is rightly argued that the word 'Bank' has been originated from the word "Banco'. Whatever be the origin of the word 'Bank' as Professor Ram Chandra Rao says, "It would trace the history of banking in Europe from the middle Ages[23].

Today, the word bank is used as a comprehensive term for a number of institutions carrying on certain kinds of financial business. In practice, the word 'Bank' means which borrows money from one class of people and again lends money to another class of people for interest or profit.

Actually meaning of bank is not specified in any regulation or act. In India, different people have different type of meaning for bank. Normal salary earner knows means of bank that it is a saving institution, for current account holder or businessman knows bank as a financial institutions and many other. Bank is not for profit making, it creates saving activity in salary earner. It is interesting to trace the origin of the word 'bank' in the modern sense, to the German word "Banck" which means, heap or mound or joint stock fund. From this, the Italian word 'Banco' meaning heap of money was coined.

Some people have the opinion that the word "bank" is derived from the French words "bancus" or "banque" which means a 'bench'. Initially, the bankers, the Jews in Lombardy, transacted their business on benches in the market place and the bench resembled the banking counter. If a

[23] Kaptan, S.S. (2003) "Indian Banking in the Electronic Era" Published by SAROP & SONS, New Delhi – Page -2.

banker failed, his ‘banque’ (bench) was broken up by the people; hence the word “bankrupt” has come. In simple term, bankrupt means a person who has lost all his money, wealth or financial resources.

Thus, the origin of the word bank can be traced as

- Banck - German (Joint stock fund)
- Banco - Italian (Heap of money)
- Bancus / Banque - French (Bench/ chest a place where valuables are kept)
- Bank - English (common meaning prevalent today, i.e., as an institution
- accepting money as deposit for lending)

Banking as accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise. Any institution other than a banking company to accept deposit money from public withdrawal by cheque. In other words, the combination of the functions of acceptance of public deposits and withdrawal of the money by cheques by an institution cannot be performed without the approval of Reserve Bank.

3. 5. HISTORY OF INDIAN BANKING SYSTEM

(A) Development of Banking in India

Banking in India is indeed as old as Himalayas. But, the banking functions became effective force only after the first decade of 20th century. To understand the history of modern banking in India, one has to refer to the “English Agency Houses” established by the East India Company. These agency Houses, were basically trading firms and carry on banking business as part of their main business. But they failed and vanished from the scene during the third decade of 18th century

The East India Company laid the foundation for modern banking in the firsthalf of the 19th century with the establishment of the three banks-

- Bank of Bengal in 1809
- Bank of Bombay in 1840

- Bank of Madras in 1843

These banks are also known as "Presidency Banks" a and they functioned well as independent units.

In 1920 the all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders. On the basis of the recommendation of the Banking Enquiry Committee, the Reserve Bank of India Act was passed in 1934. Accordingly the Reserve Bank of India was established in 1935. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to act as the principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955. 1960s, the Indian banking industry has become an important tool to facilitate the development of the Indian economy. The nationalization took place in the country in 1969 fourteen major Indian commercial banks were nationalized and also in 1980 six more banks were nationalized.

In the year 1991 under the chairmanship of M Narasimham, a committee was set up by him nave which worked for the liberalization of banking practices. In this year introduced many more products and facilities in the banking sector in its reforms measures

The banking industry has undergone rapid changes, followed by a series of fundamental developments. Most significant among them is the advancement in information technology as well as communication system. This has changed technology as well as communication system. This has changed the very concept of traditional banking activities and has been instrumental behind broadening the dissemination of financial information along with lowering the costs of many financial activities. Information Technology and the Communication Networking Systems have revolutionized the functioning of the banks[24].

3.6 BANKING IN INDIA: BACKGROUND

(A) FIRST PHASE: 1948 – 1969

The country inherited a banking system that was patterned on the British Banking System. There were many joint stock companies doing banking business and they were concentrating mostly in

[24] Natarajan S., Parameswaran R. (2007), " Indian Banking", S.Chand & Company LTD. New Delhi, pp.11-15

major cities. Even the financing activities of these banks were confined to the exports of Jute, Tea etc. and traditional industries like textile and sugar. There was no uniform law governing banking activity. An immediate concern after the partition of the country was about bank branches located in Pakistan and steps were taken to close some of them as desire by that country. In 1949, as many as 55 banks either went into liquidation or went out of banking business. Banking did not receive much attention of the policy makers and disjointed efforts were made towards the regulation of the banking industry.

(B) SECOND PHASE: NATIONALIZATION ERA: 1969 – 1990

B.1 Nationalization

By the 1960s, the Indian banking industry has become an important tool to facilitate the development of the Indian economy. Indira Gandhi, the-then Prime Minister of India expressed the intention of the Government of India (GOI) in the annual conference of the All India Congress Meeting in a paper entitled ‘Stray thoughts on Bank Nationalization’. The paper was received with positive enthusiasm. Thereafter, her move was swift and sudden, and the GOI issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Jayaprakash Narayan, a national leader of India, described the step as a "Masterstroke of political sagacity’ Within two weeks of the issue of the ordinance the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August, 1969.

A second step of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second step of nationalization, the GOI controlled around 91% of the banking business in India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. The nationalized banks were credited by some; including Home minister P. Chidambaram, to have helped the Indian economy withstand the global financial crisis of 2007-2009.

The State Bank group including State Bank of Hyderabad, State Bank of Mysore, State Bank of Travancore, State Bank of Bikaner and Jaipur, State Bank of Indore, State Bank of Patiala and State Bank of Saurashtra. As regards the scheduled banks, there were complaints that Indian Commercial Banks were directing their advances to the large and medium scale industries and big business houses and that the sectors demanding priority such as agriculture, small scale industries and exports were not receiving their due share. This was one of the chief reasons for imposition of social control by amending the banking regulation act, with effect from 1st February 1969. On 19th July 1969[25],

14 Major Banks was nationalized and taken over they were as under:

- The Central Bank of India Ltd.
- The Bank of India Ltd.
- The Punjab National Bank Ltd.
- The Bank of Baroda Ltd.
- The United Commercial Bank Ltd.
- The Canara Bank Ltd.
- The United Bank of India Ltd.
- The Dena Bank Ltd.
- Syndicate Bank Ltd.
- The Union Bank of India Ltd.
- The Allahabad Bank Ltd.
- The Indian Bank Ltd.
- The Bank of Maharashtra Ltd.
- The Indian Overseas Bank Ltd

Each bank was having deposits of more than Rs. 50 crore and having among themselves aggregate deposits of Rs. 2632 crore with 4130 branches. On 15th April 1980, six more banks were nationalized. These banks were:

1. The Andhra Bank Ltd.

[25] Pathak, Bharti: "Indian Financial System" Pearson Education Pvt. Ltd. – 2004 Page – 401.

2. The Corporation Bank Ltd.

3. The New Bank of India Ltd.

4. The Oriental Bank of Commerce Ltd.

5. The Punjab & Sind Bank Ltd.

6. The Vijya Bank Ltd.

There were some effects and achievements of nationalized banks. However, there are some problems relating to NPAs, competition, competency, overstaffing, inefficiency etc. for the nationalized bank[26].

(C) THIRD PHASE: 1991 – 2002: ECONOMIC REFORMS

The Indian economic development takes place in the realistic world from 1991 "Liberalization, Privatization and Globalization" policy. As per "LPG" policy all restriction on the Indian economy was totally dissolved and the soundest phase for the Indian banking system adopt over here. This also changed the scenario of the macroeconomic world. The budget policy and suggestion provided by Dr Man Mohan Singh and the Governor of Reserve Bank of India. As per the guideline the segments for development is having various problem and so the importance of public sector cannot be ignored. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking introduced. The entire system became more convenient and swift. Time is given more importance than money. The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

3.7 REFORMS IN BANKING SECTOR IN INDIA

Banking Sector reforms were initiated to upgrade the operating standard health and financial soundness of the banks. The Government of India setup the Narasimham Committee in 1991, to

[26] Tannan M.L.(2002) "Banking Law and Practice in India", Indian Law house, Delhi, Page No. 158,159,171.

examine all aspects relating to structure, organization and functioning of the Indian banking system the recommendations of the committee aimed at creating at competitive and efficient banking system. Another committee which is Khan Committee was instituted by RBI in December, 1997 to examine the harmonization of the role and operations of development financial institutions and banks. It submitted its report in 1998. The major recommendations were a gradual more towards universal banking, exploring the possibility of gain full merger as between banks, banks and financial institutions.

Then the Verma Committee was established this committee recommended the need for greater use of IT even in the weak public sector banks, restructuring of weak banks but not merging them with strong banks, VRS for at least 25% of the staff. The Banking Sector reforms aimed at improving the policy frame work, financial health and institutional infrastructure, there two phase of the banking reforms. Narasimham Committee provided the blue print for the initial reforms in banking sector following the balance of payment crisis in 1991[27].

PHASE I: NARASIMHAM COMMITTEE (1991)

- Deregulation of the interest rate structure.
- Progressive reduction in pre-emptive reserves.
- Liberalization of the branch expansion policy.
- Introduction of prudential norms.
- Deregulation of the entry norms for private sector banks
- Permitting public and private sector banks to access the capital market.
- Setting up to asset reconstruction fund.
- Constituting the special debt recovery tribunals.
- Freedom to appoint chief executive and officers of the banks.
- Changes in the institutions of the board.
- Bringing NBFC, under the ambit of regulatory framework

[27] Demetriades, Luinted: " Reports on Trends and Progress of Banking in India- RBI" 1997, pp320

PHASE II: NARASIMHAM COMMITTEE II (April 1998) CAPITAL ADEQUACY:

- Minimum capital to risk asset ratio be increased from the existing 8• percent to 10 percent by 2002.
- 100 percent of fixed income portfolio marked to market by 2001.
- percent market risk weight for fixed income securities and open foreign exchange position limits.
- Commercial risk weight (100%) to government guaranteed.

ASSET QUALITY

- Banks should aim to reduce gross NPAs to 3% and net NPA to zero percent by 2002.
- Directed credit obligations to be declined from 40 percent to 10 percent.
- Government guaranteed irregular accounts to be classified as NPAs and provide for.
- 90 day overdue norms to be applied for cash based income recognition.

SYSTEMS AND METHODS

- Banks to start recruitment from market.
- Overstaffing to be dealt with by redeployment and right sizing via VRS.
- Public sector banks to be given flexibility in remuneration structure.
- Introduce a new technology.

INDUSTRY STRUCTURE

- Only two categories of financial sector players to emerge. Banks and nonBank finance companies.
- Mergers to be driven by market and business considerations.
- Feeble banks should be converted into narrow banks.
- Entry of new private sector banks and foreign banks to continue.
- Banks to be given greater functional autonomy & minimum government
- Shareholding 33 percent for State Bank of India, 51 percent for other

- Public Sector Banks.

REGULATION AND SUPERVISION

- Board for financial regulation and supervision to be constituted with statutory powers.
- Greater emphasis on public disclosure as opposed to disclosure to regulators.

LEGAL AMENDMENTS

- Broad range of legal reforms to facilitate recovery of problem loans.
- Introduction of laws governing electronic fund transfer.
- Many of the important recommendations of Narasimham Committee II have been accepted and are under implementation the second generation banking reforms concentrate on strengthening the foundation of the banking system by structure technological up graduation and human resource development[28].

RBI: It is India's central bank. The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. RBI acts as a banker to the government and banks. The Central Bank maintains record of government revenue and expenditure under various heads. It maintains deposit accounts of all other banks and advances money to other banks, when needed. Another important function of the Central Bank is the issuance of currency notes, regulating their circulation in the country by different methods. Banks in the country are broadly classified as scheduled banks and non- scheduled banks.

Scheduled Banks: All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks. These banks are eligible for certain facilities such as financial accommodation from RBI and are required to fulfill certain statutory obligation. The RBI is empowered to exclude any bank from the schedule whose:

1) Aggregate value of paid up capital and reserves fall below Rs 5 lakhs.
2) Affairs are conducted in a manner detrimental to the interests of depositors
3) Goes into liquidation and ceases to transact banking business

[28] Pathak, Bharti (2004). "Indian Financial System", Pearson Education Pvt. Ltd., Page no – 409- 418.

Commercial Banks:

The banks may be defined as, any banking organization that deals with the deposits and loans of business organizations. Commercial banks issue bank checks and drafts, as well as accept money on term deposits. Commercial banks also act as moneylenders, by way of installment of loans and overdrafts. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals.

Table-1.2 Shows key indicator of financial performance of commercial banks in India.

All Scheduled Commercial Banks				*(Amount in millions)*	
Items	**Bank Group-wise Aggregates**				
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
No. of banks	80	81	81	87	89
No. of offices	67562	72906	78215	85262	92114
No. of employees	954684	955990	1001096	1048520	1096984
Business per employee	73.98	86.23	99.03	109.95	121.33
Profit per employee	0.55	0.60	0.70	0.78	0.83
Capital and Reserve & Surplus	3679473	4301613	5099192	6085618	7089300
Deposits	40632011	47469196	56158743	64535485	74295324
Investments	14495506	17290059	19236333	22339033	26132752
Advances	29999239	34967200	42974875	50735592	58797025
Interest Income	3884816	4151786	4913407	6552839	7636115
Other income	752204	792676	798501	863437	977866
Interest expended	2632232	2720836	2989248	4303557	5138027
Operating expenses	895814	1000279	1231403	1375720	1565855
Net Interest Margin	2.62	2.54	2.91	2.90	2.79
Cost of Funds (CoF)	5.99	5.10	4.75	5.90	6.12
Return on advances adjusted to COF	4.56	4.19	4.47	4.51	4.21
Wages as % to total expenses	13.60	14.85	17.22	13.73	13.02
Return on Equity	15.44	14.31	14.96	14.60	13.84
Return on Assets	1.13	1.05	1.10	1.08	1.03
CRAR	13.97	14.54	14.19	14.24	13.88
Net NPA ratio	1.05	1.12	0.97	1.28	1.68

Public Sector Banks: These are banks where majority stake is held by the Government of India. Examples of public sector banks are: SBI, Bank of India, etc. Public sector Banks have a dominant position in terms of Business.

Table-1.3 Shows key indicator of financial performance of commercial (Public sector) banks in India.

Public Sector Banks	*(Amount in million)*				
Items	**Bank Group-wise Aggregates**				
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
No. of banks	27	27	26	26	26
No. of offices	57979	62080	65800	70969	75779
No. of employees	731524	739646	755102	774329	801659
Business per employee	73.44	86.43	101.67	114.68	127.47
Profit per employee	0.47	0.53	0.59	0.64	0.63
Capital and Reserve & Surplus	2083419	2410014	2903020	3555749	4086022
Deposits	31127471	36920194	43724487	50020134	57456972
Investments	10126658	12155981	13360764	15072700	17591058
Advances	22592117	27010187	33044329	38773075	44727740
Interest Income	2730882	3059826	3661345	4847318	5548765
Other income	424662	488932	479649	503997	567812
Interest expended	1934467	2119401	2311530	3285889	3879290
Operating expenses	555037	660749	829652	902052	1018122
Net Interest Margin	2.35	2.29	2.77	2.76	2.57
Cost of Funds (CoF)	6.06	5.35	4.91	6.06	6.27
Return on advances adjusted to COF	4.05	3.75	4.23	4.25	3.81
Wages as % to total expenses	13.88	14.79	17.50	13.72	13.09
Return on Equity	17.94	17.47	16.90	15.33	13.24
Return on Assets	1.03	0.97	0.96	0.88	0.78
CRAR	13.49	13.27	13.08	13.23	12.38
Net NPA ratio	0.94	1.10	1.09	1.53	2.02

Regional Rural Banks: These banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area as notified by Govt. of India covering one or more districts in the

State. RRBs are jointly owned by Govt. of India, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. Prathama bank is the first Regional Rural Bank in India located in the city Moradabad in Uttar Pradesh.

Private Sector Banks: These are banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. Examples of private sector banks are: ICICI Bank, Axis bank, HDFC, etc.

Table-1.4

Shows key indicator of financial performance of commercial (Private sector) banks in India.

Private Sector Banks	(Amount in million)				
Items	**Bank Group-wise Aggregates**				
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
No. of banks	22	22	21	20	20
No. of offices	9288	10516	12097	13970	16001
No. of employees	193578	188332	217953	248284	269941
Business per employee	67.76	77.27	82.60	86.23	94.06
Profit per employee	0.56	0.70	0.81	0.92	1.07
Capital and Reserve & Surplus	996686	1199839	1385664	1592952	1929461
Deposits	7363776	8228007	10027588	11745874	13958355
Investments	3065312	3541169	4220576	5259822	6261063
Advances	5753276	6324409	7975440	9664030	11432486
Interest Income	850714	828064	967131	1345555	1664864
Other income	178602	204231	208734	250480	297927
Interest expended	569574	512056	571491	867843	1071332
Operating expenses	217794	228510	276064	340301	404851
Net Interest Margin	2.86	2.90	3.10	3.09	3.22
Cost of Funds (CoF)	6.27	4.83	4.60	5.84	6.12
Return on advances adjusted to COF	5.31	5.06	5.11	5.22	5.41
Wages as % to total expenses	10.83	12.73	14.53	12.22	11.61
Return on Equity	11.38	11.94	13.70	15.25	16.47
Return on Assets	1.13	1.28	1.43	1.53	1.63
CRAR	15.23	17.43	16.46	16.21	16.84
Net NPA ratio	1.29	1.04	0.56	0.46	0.52

Foreign Banks: These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Examples of foreign banks in India are: HSBC, Citibank, Standard Chartered Bank, etc. In India, foreign banks practices have been held in suspicion. The unfair competition with Indian banks, their practice of drawing funds from London Money Market for financing India's foreign trade and their gross irregularities in securities scam have been a cause of concern. With growing strength of Indian banks have improved their practices and have stopped discriminatory policies.

Co-operative Banks-

It is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts, etc). They provide limited banking products and are specialists in agriculture-related products.

3.8.1 Contemporary issues in India banking structure : Revised banking structure with a view to addressing various issues such as enhancing competition, financing higher growth, providing specialized services and furthering financial inclusion. It also emphasizes the need to address the concerns arising out of such changes with a view to managing the trade off for ensuring financial stability. The issues considered are as under:

Small banks vs. large banks-

There is an ongoing debate on whether we need small number of large banks or large number of small banks to promote financial inclusion. Small local banks with geographical limitations play an important role in the supply of credit to small enterprises and agriculture. While small banks have the potential for financial inclusion, performance of these banks in India (LABs and UCBs) has not been satisfactory. If small banks are to be preferred, the issues relating to their size, numbers, capital requirements, exposure norms, regulatory prescriptions and corporate governance need to be suitably addressed.

Universal Banking-

With the failure of many investment banks during the crisis, the universal banking model remains the dominant and preferred model in most of the post crisis world. The structural reforms in Europe (Vickers and Liikanen) and US (Volcker) have implications for the existing banking structures which need to be factored in any discussion on banking structure in India. In India, the universal banking model is followed with banks themselves as holding companies.

However, under the universal banking model, the Financial Holding Company (FHC) structure has distinct advantages and may be a preferred model. Additionally, in a changing economic environment, there is a need for niche banking and differentiated licensing could be a desirable step in this direction, particularly for infrastructure financing, whole sale banking and retail banking. There is also a need to promote investment banks/ investment banking activities.

Continuous authorization-

There is a case for reviewing the present ‘stop and go’ or ‘block’ bank licensing policy which promotes rent seeking and considering ‘continuous authorization’ of new banks. Such entry would increase the level of competition; bring new ideas and variety in the system.

Conversion of UCBs into commercial banks-

In the context of extending banking services, there is a case for exploring the possibilities of converting some urban co-operative banks into commercial banks/local area banks or small banks. These banks, freed from dual control and with more avenues to raise capital, could extend banking services in the regions characterized by poor banking outreach.

Consolidation-

The issue of consolidation in the banking sector has assumed significance, considering the need for a few Indian banks to cater to global needs of the economy by becoming global players. Consolidation in the banking sector may pave the way for stronger financial institutions with the capacity to meet corporate and infrastructure funding needs. Taking into account the pros and cons of consolidation, it has to be borne in mind that while consolidation of commercial banks with established synergies and on the basis of voluntary initiatives is welcome, it cannot be imposed on banks. Nevertheless, a measured approach is to be made both on consolidation and global presence even if attaining global size is not imminent.

Presence of Foreign Banks in India-

In view of the inherent potential for sustained growth in the domestic economy and also growing integration into the global economy there needs to be commensurate expansion in the presence of foreign banks in India. However, post crisis, the support for domestic incorporation of foreign banks through the subsidiarisation route has acquired importance. Comprehensive policy in this regard is being proposed.

Indian banks' presence overseas-

Indian banks are allowed to expand overseas under a policy framework of Reserve Bank of India and Government of India. Indian banks abroad are facing challenges due to a highly competitive environment, enhanced regulation, more intensive supervision and growing emphasis on ring fencing of operations in host jurisdictions in the wake of the crisis. The way forward could be, apart from Representative Office and branch form of presence overseas, local incorporation by large banks either individually or in joint venture mode with other banks or with overseas banks. This will enable the large Indian banks to engage in a much wider range of activities and have greater potential for growth. Eventually this may facilitate banks increasing their global reach.

Government Ownership-

: On the ownership issues, proponents of private sector banks advocate that Government should reduce its ownership stake in the public sector banks as private sector banks score over public sector banks in profitability and efficiency. However, broadly over the years, the performance of public sector banks has converged with that of new private sector banks and foreign banks. On one hand, the predominance of government owned banks in India has contributed to financial stability, on the other, meeting their growing capital needs casts a very heavy burden on the Government. What is, therefore, needed is an optimal ownership mix to promote a balance between efficiency, equity and financial stability. Going forward, there is a better pay-off in enabling PSBs to improve their performance while promoting private sector banks. As regards the reduction in fiscal burden on account of recapitalization of the Public Sector Banks (PSBs), it can be achieved by considering issue of non-voting equity shares or differential voting equity shares. Government could also consider diluting its stake below 51 per cent in conjunction with certain protective rights to the Government by amending the statutes governing the PSBs. Another alternative would be to move to a Financial Holding Company (FHC) structure.

Deposit Insurance and resolution-

The crisis has brought into sharp focus the need for effective deposit insurance and resolution regimes to deal with the failing/failed banks with least cost. In India, failures of commercial banks have been rare, and the beneficiaries of the deposit insurance system have mainly been the urban co-operative banks. The FSB key attributes could be the guiding principles for setting up a resolution framework in India. The existence of an effective resolution regime is essential for any type of banking structure India may pursue.

Once the relevant policies are appropriately liberalized, possibly, a reoriented banking system with distinct tiers of banking institutions may emerge. The first tier may consist of three or four large Indian banks with domestic and international presence along with branches of foreign banks in India. The second tier is likely to comprise several mid-sized banking institutions including niche banks with economywide presence. These are capable of offering a broad range of banking products and services to the domestic economy such as investment banking, wholesale banking and funding large infrastructure projects. The third tier may encompass old private sector banks, Regional Rural Banks, and multi state Urban Cooperative Banks. The fourth tier may embrace many small privately owned local banks and cooperative banks, which may specifically cater to the credit requirements of small borrowers in the unorganized sector in unbanked and under banked areas[29].

3.9 RESERVE BANK OF INDIA

Establishment

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

[29] Banking Structure in India - The Way Forward, Discussion Paper, (2013)Prepared by Department of Banking Operations and Development (DBOD) and Department of Economic Policy and Research (DEPR), Reserve Bank of India, Reserve Bank of India

Though originally privately owned, since Nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

Preamble

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.

Central Board

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

- Official Directors
- Full-time : Governor and not more than four Deputy Governors
- Non-Official Directors
- Nominated by Government: ten Directors from various fields and two government Officials
- Others: four Directors - one each from four local boards

Local Boards

- One each for the four regions of the country in Mumbai, Calcutta, Chennai and New Delhi
- consist of five members each
- appointed by the Central Government
- for a term of four years

Financial Supervision

The Reserve Bank of India performs this function under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India.

Primary objective of BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

Constitution

The Board is constituted by co-opting four Directors from the Central Board as members for a term of two years and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, usually, the Deputy Governor in charge of banking regulation and supervision, is nominated as the Vice-Chairman of the Board.

Functions

Some of the initiatives taken by BFS include:

- restructuring of the system of bank inspections
- introduction of off-site surveillance,
- strengthening of the role of statutory auditors and
- Strengthening of the internal defenses of supervised institutions.
- The Audit Sub-committee of BFS has reviewed the current system of concurrent audit, norms of empanelment and appointment of statutory auditors, the quality and coverage of statutory audit reports, and the important issue of greater transparency and disclosure in the published accounts of supervised institutions.

Current Focus

- supervision of financial institutions
- consolidated accounting
- legal issues in bank frauds
- divergence in assessments of non-performing assets and
- Supervisory rating model for banks

Legal Framework

I. Acts administered by Reserve Bank of India

- **Reserve Bank of India Act, 1934**
- **Public Debt Act, 1944/Government Securities Act, 2006**
- **Government Securities Regulations, 2007**
- **Banking Regulation Act, 1949**
- **Foreign Exchange Management Act, 1999**
- **Securitization and Reconstruction of Financial Assets and Enforcement of**
- **Security Interest Act, 2002 (Chapter II)**
- **Credit Information Companies (Regulation) Act, 2005**
- **Payment and Settlement Systems Act, 2007**
- **Payment and Settlement Systems Regulations, 2008 and Amended up to 2011**
- **and BPSS Regulations, 2008**
- **The Payment and Settlement Systems (Amendment) Act, 2015 - No. 18 of 2015**
- **Factoring Regulation Act, 2011**
- **Negotiable Instruments Act, 1881**
- **Bankers' Books Evidence Act, 1891**
- **State Bank of India Act, 1955**
- **Companies Act, 1956/ Companies Act, 2013**
- **Securities Contract (Regulation) Act, 1956**
- **State Bank of India (Subsidiary Banks) Act, 1959**
- **Deposit Insurance and Credit Guarantee Corporation Act, 1961**
- **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970**
- **Regional Rural Banks Act, 1976**
- **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980**
- **National Bank for Agriculture and Rural Development Act, 1981**
- **National Housing Bank Act, 1987**
- **Recovery of Debts Due to Banks and Financial Institutions Act, 1993**
- **Competition Act, 2002**

3.9.1 Main Functions of Reserve Bank of India

Monetary Authority

Formulates implements and monitors the monetary policy. Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

Regulator and supervisor of the financial system-

Prescribes broad parameters of banking operations within which the country's banking and financial system functions.

Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

Manages the Foreign Exchange Management Act, 1999.

Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency:

Issues and exchanges or destroys currency and coins not fit for circulation. Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality

Developmental role

Performs a wide range of promotional functions to support national objectives.

Related Functions

Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.

Banker to banks: maintains banking accounts of all scheduled banks.

Offices:

RBI has 19 regional offices, most of them in state capitals and 9 Sub-offices. Training Establishment and five training establishments. Two, namely, College of Agricultural Banking and Reserve Bank of India Staff College are part of the Reserve Bank[30].

1.10 BANKING PRODUCT PORTFOLIO

The commercial banks serve as the king pin of the financial system of the country. They render many valuable services. The important functions of the Commercial banks can be explained with the help of the following chart.

Primary Functions

The primary functions of the commercial banks include the following:

A. Acceptance of Deposits

1. Time Deposits:

These are deposits repayable after a certain fixed period. These deposits are not withdrawn able by cheque, draft or by other means. It includes the following.

(a) Fixed Deposits:

The deposits can be withdrawn only after expiry of certain period say 3 years, 5 years or 10 years. The banker allows a higher rate of interest depending upon the amount and period of time. Previously the rates of interest payable on fixed deposits were determined by Reserve Bank.

Presently banks are permitted to offer interest as determined by each bank. However, banks are not permitted to offer different interest rates to different customers for deposits of same maturity period, except in the case of deposits of Rs. 15 lakhs and above

These days the banks accept deposits even for 15 days or one month etc. In times of urgent need for money, the bank allows premature closure of fixed deposits by paying interest at reduced rate. Depositors can also avail of loans against Fixed Deposits. The Fixed Deposit Receipt cannot be transferred to other persons.

[30] https://www.rbi.org.in/commonman/english/scripts/Organisation.aspx

(b) Recurring Deposits-

In recurring deposit, the customer opens an account and deposit a certain sum of money every month. After a certain period, say 1 year or 3 years or 5 years, the accumulated amount along with interest is paid to the customer. It is very helpful to the middle and poor sections of the people. The interest paid on such deposits is generally on cumulative basis. This deposit system is a useful mechanism for regular savers of money.

(c) Cash Certificates-

Cash certificates are issued to the public for a longer period of time. It attracts the people because its maturity value is in multiples of the sum invested. It is an attractive and high yielding investment for those who can keep the funds for a long time.

It is a very useful account for meeting future financial requirements at the occasion of marriage, education of children etc. Cash certificates are generally issued at discount to face value. It means a cash certificate of Rs. 1, 00,000 payable after 10 years can be purchased now, say for Rs. 20,000.

2. Demand Deposits

These are the deposits which may be withdrawn by the depositor at any time without previous notice. It is withdrawable by cheque/draft. It includes the following

(a) Savings Deposits

The savings deposit promotes thrift among people. The savings deposits can only be held by individuals and non-profit institutions. The rate of interest paid on savings deposits is lower than that of time deposits. The savings account holder gets the advantage of liquidity (as in current a/c) and small income in the form of interests.

But, there are some restrictions on withdrawals. Corporate bodies and business firms are not allowed to open SB Accounts. Presently interest on SB Accounts is determined by RBI. It is 4.5 per cent per annum. Co-operative banks are allowed to pay an extra 0.5 per cent on its savings bank deposits.

(b) Current Account Deposits

These accounts are maintained by the people who need to have a liquid balance. Current account offers high liquidity. No interest is paid on current deposits and there are no restrictions on withdrawals from the current account.

These accounts are generally in the case of business firms, institutions and cooperative bodies. Nowadays, banks are designing and offering various investment schemes for deposit of money. These schemes vary from bank to bank.

It may be stated that the banks are currently working out with different innovative schemes for deposits. Such deposit accounts offer better interest rate and at the same time withdrawable facility also. These schemes are mostly offered by foreign banks. In USA, Current Accounts are known as 'Checking Accounts' as a cheque is equivalent to check in America.

B. Advancing of Loans

The commercial banks provide loans and advances in various forms. They are given below:

1. Overdraft:

This facility is given to holders of current accounts only. This is an arrangement with the bankers thereby the customer is allowed to draw money over and above the balance in his/her account. This facility of overdrawing his account is generally pre-arranged with the bank up to a certain limit.

It is a short-term temporary fund facility from bank and the bank will charge interest over the amount overdrawn. This facility is generally available to business firms and companies.

2. Cash Credit

Cash credit is a form of working capital credit given to the business firms. Under this arrangement, the customer opens an account and the sanctioned amount is credited with that account. The customer can operate that account within the sanctioned limit as and when required.

It is made against security of goods, personal security etc. On the basis of operation, the period of credit facility may be extended further. One advantage under this method is that bank charges interest only on the amount utilized and not on total amount sanctioned or credited to the account.

Reserve Bank discourages this type of facility to business firms as it imposes an uncertainty on money supply. Hence this method of lending is slowly phased out from banks and replaced by loan accounts. Cash credit system is not in use in developed countries.

3. Discounting of Bills:

Discounting of Bills may be another form of bank credit. The bank may purchase inland and foreign bills before these are due for payment by the drawer debtors, at discounted values, i.e., values a little lower than the face values.

The Banker's discount is generally the interest on the full amount for the unexpired period of the bill. The banks reserve the right of debiting the accounts of the customers in case the bills are ultimately not paid, i.e., dishonored.

The bill passes to the Banker after endorsement. Discounting of bills by banks provide immediate finance to sellers of goods. This helps them to carry on their business. Banks can discount only genuine commercial bills i.e., those drawn against sale of goods on Credit. Banks will not discount Accommodation Bills.

4. Loans and Advances

It includes both demand and term loans, direct loans and advances given to all type of customers mainly to businessmen and investors against personal security or goods of movable or immovable in nature. The loan amount is paid in cash or by credit to customer account which the customer can draw at any time.

The interest is charged for the full amount whether he withdraws the money from his account or not. Short-term loans are granted to meet the working capital requirements where as long-term loans are granted to meet capital expenditure.

Previously, interest on loan was also regulated by RBI. Currently, banks can determine the rate themselves. Each bank is, however required to fix a minimum rate known as Prime Lending Rate (PLR).

Classification of Loans and Advances

Loans and advances given by bankers can be classified broadly into the following categories:

(i) Advances which are given on the personal security of the debtor: and for which no tangible or collateral security is taken; this type of advance is given either when the amount of the advance is very small, or when the borrower is known to the Banker and the Banker has complete confidence in him (Clean Advance).

(ii) Advances which are covered by tangible or collateral security: In this section of the study we are concerned with this type of advance and with different types of securities which a Banker may accept for such advances (Secured Advance).

(iii) Advances which are given against the personal security: In this section the Banker also holds in addition the guarantee of one or more sureties. This type of advance is often given by Banker to persons who are not known to them but whose surety is known to the Banker. Bankers also often take the personal guarantee of the Directors of a company to whom they agree to advance a clean or unsecured loan.

(iv) Loans are also given against the security of Fixed Deposit receipts:

5. Housing Finance:

Nowadays the commercial banks are competing among themselves in providing housing finance facilities to their customers. It is mainly to increase the housing facilities in the country. State Bank of India, Indian Bank, Canara Bank and Punjab National Bank have formed housing subsidiaries to provide housing finance.

The other banks are also providing housing finances to the public. Government of India also encourages banks to provide adequate housing finance Borrowers of housing finance get tax exemption benefits on interest paid. Further housing finance up to Rs. 5 lakhs is treated as priority sector advances for banks. The limit has been raised to Rs. 10 lakhs per borrower in cities.

6. Educational Loan Scheme:

The Reserve Bank of India, from August, 1999 introduced a new Educational Loan Scheme for students of full time graduate/post-graduate professional courses in private professional colleges. Under the scheme all public sector banks have been directed to provide educational loan up to Rs. 15,000 for free seat and Rs. 50,000 for payment seat student at interest not more than 12 per cent per annum. This loan is on clean basis i.e., without calling for security. This loan is available only for students whose annual family income does not exceed Rs. 1, 00,000. The loan has to be repaid together with interest within five years from the date of completion of the course. Studies in respect of the following subjects/areas are covered under the scheme.

(a) Medical and dental course.
(b) Engineering course.
(c) Chemical Technology.
(d) Management courses like MBA.
(e) Law studies.
(f) Computer Science and Applications

This apart, some of the banks have other educational loan schemes against security etc., one can check up the details with the banks.

7. Loans against Shares/Securities:

Commercial banks provide loans against the security of shares/debentures of reputed companies. Loans are usually given only up to 50% value (Market Value) of the shares subject to a maximum amount permissible as per RBI directives. Presently one can obtain a loan up to Rs.10 lakhs against the physical shares and up to Rs. 20 lakhs against dematerialized shares.

8. Loans against Savings Certificates

Banks are also providing loans up to certain value of savings certificates like National Savings Certificate, Fixed Deposit Receipt, Indira Vikas Patra, etc. The loan may be obtained for personal or business purposes.

9. Consumer Loans and Advances

One of the important areas for bank financing in recent years is towards purchase of consumer durables like TV sets, Washing Machines, Micro Oven, etc. Banks also provide liberal Car finance

These days banks are competing with one another to lend money for these purposes as default of payment is not high in these areas as the borrowers are usually salaried persons having regular income. Further, bank's interest rate is also higher. Hence, banks improve their profit through such profitable loans.

10. Securitization of Loans:

Banks are recently trying to securities a part of their part of loan portfolio and sell it to another investor. Under this method, banks will convert their business loans into a security or a document and sell it to some Investment or Fund Manager for cash to enhance their liquidity position

It is a process of transferring credit risk from the banker to the buyer of securitized loans. It involves a cost to the banker but it helps the bank to ensure proper recovery of loan. Accordingly, securitization is the process of changing an illiquid asset into a liquid asset.

11. Others:

Commercial banks provide other types of advances such as venture capital advances, jewel loans, etc.

A. Agency Functions

Agency functions include the following:

(i) Collection of cheques, dividends, and interests:

As an agent the bank collects cheques, drafts, promissory notes, interest, dividends etc., on behalf of its customers and credit the amounts to their accounts.

Customers may furnish their bank details to corporate where investment is made in shares, debentures, etc. As and when dividend, interest, is due, the companies directly send the warrants/cheques to the bank for credit to customer account.

(ii) Payment of rent, insurance premiums:

The bank makes the payments such as rent, insurance premiums, subscriptions, on standing instructions until further notice. Till the order is revoked, the bank will continue to make such payments regularly by debiting the customer's account.

(iii) Dealing in foreign exchange:

As an agent the commercial banks purchase and sell foreign exchange as well for customers as per RBI Exchange Control Regulations.

(iv) Purchase and sale of securities:

Commercial banks undertake the purchase and sale of different securities such as shares, debentures, bonds etc., on behalf of their customers. They run a separate 'Portfolio Management Scheme' for their big customers.

(v) Act as trustee, executor, attorney, etc:

The banks act as executors of Will, trustees and attorneys. It is safe to appoint a bank as a trustee than to appoint an individual. Acting as attorneys of their customers, they receive payments and sign transfer deeds of the properties of their customers.

(vi) Act as correspondent:

The commercial banks act as a correspondent of their customers. Small banks even get travel tickets, book vehicles; receive letters etc. on behalf of the customers.

(vii) Preparations of Income-Tax returns:

They prepare income-tax returns and provide advices on tax matters for their customers. For this purpose, they employ tax experts and make their services, available to their customers.

B. General Utility Services

The General utility services include the following:

(i) Safety Locker facility:

Safekeeping of important documents, valuables like jewels are one of the oldest services provided by commercial banks. 'Lockers' are small receptacles which are fitted in steel racks and kept inside strong rooms known as vaults. These lockers are available on half-yearly or annual rental basis.

The bank merely provides lockers and the key but the valuables are always under the control of its users. Any customer cannot have access to vault.

Only customers of safety lockers after entering into a register his name account number and time can enter into the vault. Because the vault is holding important valuables of customers in lockers, it is also known as 'Strong Room.

(ii) Payment Mechanism or Money Transfer:

Transfer of funds is one of the important functions performed by commercial banks. Cheques and credit cards are two important payment mechanisms through banks. Despite an increase in financial transactions, banks are managing the transfer of funds process very efficiently.

Cheques are also cleared through the banking system. Correspondent banking is another method of transferring funds over long distance, usually from one country to another. Banks, these days employ computers to speed up money transfer and to reduce cost of transferring funds.

Electronic Transfer of funds is also known as 'Chequeless banking' where funds are transferred through computers and sophisticated electronic system by using code words. They offer Mail Transfer, Telegraphic Transfer (TT) facility also.

(iii) Travelers' cheques:

Travelers Cheques are used by domestic travelers as well as by international travelers. However the use of traveler's cheques is more common by international travelers because of their safety and convenience. These can be also termed as a modified form of traveler's letter of credit.

A bank issuing travelers cheques usually have banking arrangement with many of the foreign banks abroad, known as correspondent banks. The purchaser of traveler's cheques can encase the cheques from all the overseas banks with whom the issuing bank has such an arrangement.

Thus traveler's cheques are not drawn on specific bank abroad. The cheques are issued in foreign currency and in convenient denominations of ten, twenty, fifty, one hundred dollar, etc. The signature of the buyer/traveler is written on the face of the cheques at the time of their purchase.

The cheques also provide blank space for the signature of the traveler to be signed at the time of encashment of each cheque. A traveler has to sign in the blank space at the time of drawing money and in the presence of the paying banker.

The paying banker will pay the money only when the signature of the traveler tallies with the signature already available on the cheque.

A traveler should never sign the cheque except in the presence of paying banker and only when the traveler desires to encash the cheque. Otherwise, it may be misused. The cheques are also accepted by hotels, restaurants, shops, airlines companies for respectable persons.

Encashment of a traveler cheque abroad is tantamount to a foreign exchange transaction as it involves conversion of domestic currency into a foreign currency.

When a traveler cheque is lost or stolen, the buyer of the cheques has to give a notice to the issuing bank so that stop order can be issued against such lost/stolen cheques to the banks where they are permitted to be encashed.

It is also difficult to the finder of the cheque to draw cash against it since the encasher has to sign the cheque in the presence of the paying banker. Unused travellers cheques can be surrendered to the issuing bank and balance of cash obtained.

The issuing bank levies certain commission depending upon the number and value of travellers cheques issued.

(iv) Circular Notes or Circular Letters of Credit:

Under Circular Letters of Credit, the customer/traveller negotiates the drafts with any of the various branches to which they are addressed. Thus, the traveller can obtain funds from many of the branches of banks instead only from a particular branch. Circular Letters of Credit are therefore a more useful method for obtaining funds while travelling to many countries.

It may be noted that traveller's letter of credit are usually paid for in advance.

In other words, the traveller first makes payments to the issuing bank before obtaining the Circular Notes.

(v) Issue "Travellers Cheques":

Banks issue travellers cheques to help carry money safely while travelling within India or abroad. Thus, the customers can travel without fear, theft or loss of money.

(vi) Letters of Credit:

Letter of Credit is a payment document provided by the buyer's banker in favour of seller. This document guarantees payment to the seller upon production of document mentioned in the Letter of Credit evidencing dispatch of goods to the buyer.

The Letter of Credit is an assurance of payment upon fulfilling conditions mentioned in the Letter of Credit. The letter of credit is an important method of payment in international trade. There are primarily four parties to a letter of credit. The buyer or importer, the bank which issues the letter of credit, known as opening bank, the person in whose favour the letter of credit is issued or opened (The seller or exporter, known as 'Beneficiary of Letter of Credit'), and the credit receiving/advising bank.

The Letter of Credit is generally advised/sent through the seller's bank, known as Negotiating or Advising bank. This is done because the conditions mentioned in the Letter of Credit are, in the first instance have to be verified by the Negotiating

Bank. It is mostly used in international trade.

(vii) Acting as Referees:

The banks act as referees and supply information about the business transactions and financial standing of their customers on enquiries made by third parties. This is done on the acceptance of the customers and help to increase the business activity in general.

(viii) Provides Trade Information:

The commercial banks collect information on business and financial conditions etc., and make it available to their customers to help plan their strategy.

Trade information service is very useful for those customers going for cross-border business. It will help traders to know the exact business conditions, payment rules and buyers' financial status in other countries.

(ix) ATM facilities:

The banks today have ATM facilities. Under this system the customers can withdraw their money easily and quickly and 24 hours a day. This is also known as 'Any Time Money'. Customers under this system can withdraw funds i.e., currency notes with a help of certain magnetic card issued by the bank and similarly deposit cash/cheque for credit to account.

(x) Credit cards

Banks have introduced credit card system. Credit cards enable a customer to purchase goods and services from certain specified retail and service establishments up to a limit without making immediate payment. In other words, purchases can be made on credit basis on the strength of the credit card.

The establishments like Hotels, Shops, Airline Companies, Railways etc., which sell the goods or services on credit forward a monthly or fortnightly statements to the bank.

The amount is paid to these establishments by the bank. The bank subsequently collects the dues from the customers by debit to their accounts. Usually, the bank receives certain service charges for every credit card issued. Visa Card, BOB card are some examples of credit cards.

(xi) Gift Cheques:

The commercial banks offer Gift cheque facilities to the general public. These cheques received a wider acceptance in India. Under this system by paying equivalent amount one can buy gift cheque for presentation on occasions like Wedding, Birthday.

(xii) Accepting Bills:

On behalf of their customers, the banks accept bills drawn by third parties on its customers. This resembles the letter of credit. While banks accept bills, they provide a better security for payment to seller of goods or drawer of bills.

(xiii) Merchant Banking:

The commercial banks provide valuable services through their merchant banking divisions or through their subsidiaries to the traders. This is the function of underwriting of securities. They underwrite a portion of the Public issue of shares, Debentures and Bonds of Joint Stock Companies. Such underwriting ensures the expected minimum subscription and also convey to the investing public about the quality of the company issuing the securities. Currently, this type of services can be provided only by separate subsidiaries, known as Merchant Bankers as per SEBI regulations

(xiv) Advice on Financial Matters:

The commercial banks also give advice to their customers on financial matters particularly on investment decisions such as expansion, diversification, new ventures, rising of funds etc.

(xv) Factoring Service:

Today, the commercial banks provide factoring service to their customers. It is very much helpful in the development of trade and industry as immediate cash flow and administration of debtors' accounts are taken care of by factors. This service is again provided only by a separate subsidiary as per RBI regulations.

Balance sheet is a statement of assets and liabilities on a given date. In India, banks have to publish their balance sheets according to the preformed i.e., 'Form A' given in the III schedule of the Banking Regulation Act, 1949. The study of the balance sheet along with its profit and loss account reveals its financial soundness[31].

1.11. CHALLENGES IN BANKING SECTOR

The banks are the lifelines of the economy and play a catalytic role in activating and sustaining economic growth, especially, in developing countries and India is no exception. Our banking system, at the present juncture is, however, facing significant challenges from several quarters. These challenges, if not addressed quickly and adequately, may result in loss of opportunities as and when the economic growth starts picking up momentum. In a sense, it has implications for both- the banks as well as for the economy as a whole, because as a strong banking system is one of the essential pre-requisites in the quest for growth.

Macroeconomic landscape

Since the onset of the Financial Crisis in 2008, the global economy has continued to face rough weather and the Indian economy and our banking systemhave not remained immune. Recovery has been moderate and sometimes uneven. Different jurisdictions continue to be tormented by financial fragilities and macroeconomic imbalances. Geopolitical risks surrounding oil prices and the uneven effects of currency and commodity price movements also pose significant threat to economic stability. Sustenance of highly accommodative monetary policy in the Advanced Economies has also created monetary policy challenges in emerging markets like India.

Challenges for the banking system

It is against this challenging backdrop that the banking system in India has been operating for a relatively long period of time which has resulted in an adverse impact on the asset quality, capital adequacy and profitability of our banks. But the tough situation in which the banking system finds itself is also attributable in a large measure to the bankers' inexperience and aggression.

[31] 1 http://www.preservearticles.com/2012033129405/15-main-functions-of-commercial-banks.html

i) Asset quality

Though on the whole, the banking system has remained resilient, asset quality has seen sustained pressure due to continued economic slowdown. The levels of gross non-performing advances (GNPAs) and net NPAs (NNPAs) for the system have been elevated. As per preliminary data received at RBI for March 15, while the GNPAs have increased to 4.45% for the system as a whole, the NNPAs have also climbed up to 2.36%. When seen in isolation, the NPA ratios do not appear very distressing; however, if add the portfolio of restructured assets to the GNPA numbers, this rises alarmingly. Stressed Assets Ratio (Gross NPA+ Restructured Standard Advances to Gross Advances) for the system as a whole stood at 10.9% as at the end of March 2015. The level of distress is not uniform across the bank groups and is more pronounced in respect of public sector banks. The Gross NPAs for PSBs as on March 2015 stood at 5.17% while the stressed assets ratio stood at 13.2%, which is nearly 230 bps more than that for the system.

It is pertinent here to also note the observations made in the Global Financial Stability Report released by IMF recently. Referring to the high levels of corporate leverage, the report highlights that 36.9 per cent of India's total debt is at risk, which is among the highest in the emerging economies while India's banks have only 7.9 per cent loss absorbing buffer, which is among the lowest. While these numbers might need an independent validation, regardless of that, it underscores the relative riskiness of the asset portfolio of the Indian banks.

RBI has taken various steps to improve the system's ability to deal with corporate and financial institution distress. This includes issuance of guidelines on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy, detailed guidelines on formation of Joint Lenders' Forum (JLF), Corrective Action Plan (CAP), 'Refinancing of Project Loans', 'Sale of NPAs by Banks' and other regulatory measures, which emphasized the need for early recognition of financial distress and for taking prompt steps for rectification, restructuring or recovery, thereby ensuring that interests of lenders and investors are protected.

ii) Capital adequacy of banks

Concerns have been raised about the ability of our banks to raise additional capital to support their business and these concerns are not entirely misplaced, especially for the public sector banks. Higher level of capital adequacy is needed due to higher provisioning requirements resulting from deterioration in asset quality, kicking in of the Basel III Capital norms, capital required to cover additional risk areas under the risk based supervision framework as also to sustain and meet the impending growth in credit demand, going forward.

Though at present, the banking system is adequately capitalized, challenges are on the horizon for some of the banks. For the system as a whole, the CRAR has been steadily declining and as at the end of March 2015, it stood at 12.70% as against 13.01% as at the end of March 2014. Our concerns are larger in respect of the PSBs where the CRAR has declined further to 11.24% from 11.40% over the last year.

The poor valuations of bank stocks, especially the PSBs, are not helping matters either, as raising equity has become difficult. When even the best performing PSBs have been hesitant to tap the markets for augmenting their capital levels, it would be difficult for the weaker PSBs to raise resources from the market. There is a constraint on the owners insofar as meeting the capital needs of the PSBs and hence, the underperforming banks are faced with the challenge of looking at newer ways of meeting their capital needs. A singular emphasis on profitability ratios (based on RoA and RoE) perhaps fails to capture other aspects of performance of banks and could perhaps encourage a short term profitability-oriented view by bank management. However, without getting into the merits of this approach, from a regulatory stand point, we feel that some of these poorly managed banks could slide below the minimum regulatory threshold of capital if they don't get their acts together soon enough. Of course, the pressure may lessen somewhat if, going forward, the asset quality improves on account of higher growth, resulting in higher retained earnings for banks. The need of the hour for all banks, and more specifically, in respect of the PSBs, is that capital must be conserved and utilized as efficiently as possible.

iii) Liquidity Coverage Ratio framework (LCR)

The Liquidity Coverage Ratio (LCR) regime has kicked in for the banks from January 1, 2015 with a minimum requirement of 60% to be gradually increased to 100% by January 1, 2019 in a phased manner. The LCR is a ratio of High Quality Liquid Assets (HQLA) to the Total Net Cash Outflows prescribed to address the short term liquidity risk of banks and the banks would be required to maintain a stock of HQLAs on an ongoing basis equal to the Total Net Cash Outflows.

Banks have been asking for reduction in SLR citing the implementation of the LCR framework. To a certain extent their request has merit. SLR essentially serves the same purpose as the LCR. However, SLR does not assume certain outflow rates for liabilities while outflow and inflow rates under the LCR framework are based on certain assumptions of stress. Presently, apart from maintaining LCR at 60%, the banks have to maintain SLR of 21.5% of the NDTL. Going forward, as the LCR requirements gradually increase, it may be desirable to reduce the SLR progressively. Presently, there is a special dispensation wherein RBI has permitted banks to reckon up to 7% of the SLR towards LCR (2% of MSF and 5% under FALLCR1). Our regulatory department is seized of the issue and would take appropriate measures to address this issue going forward.

iv) Unhedged forex exposures

The wild gyrations in the forex market have the potential to inflict significant stress in the books of Indian companies who have heavily borrowed abroad. This stress, besides impacting repayment of forex liabilities, eventually hampers their debt repayment capability to the domestic lenders as well. It is precisely with this consideration that RBI has been advocating a curb on the increasing tendency of the corporate to dollarize their debts without adequate risk mitigation.

Our supervision of banks' books has highlighted the need for the banks to have more robust policies for risk mitigation on account of unhedged foreign currency exposure of their corporate borrowers. Inadequacies of data further complicate the impact assessment of such exposures across the banking system. The banks have been advised to factor in this risk into their policies/ pricing decision and also devise means for sharing of information on such exposures amongst themselves. Regulatory guidelines have also since been issued outlining the capital and provisioning requirements for exposure to entities with significant unhedged forex exposures.

v) Human resource issues

The banks need to continuously enhance the skill levels of their employees so as to remain viable and competitive and to take advantage of new opportunities. The banking personnel, across the cadres need to be suitably trained to acquire necessary skill sets to perform their jobs more efficiently. The biggest challenge is to build capacity at a rate which matches the loss of existing talent and skills to retirement, poaching and resignations. The training initiatives must ensure that the available talent pool in the banks is able to always keep pace with the fast changing ways in which banking is conducted. Of course, in these challenges also lie an inherent opportunity for banks to redraw their organizational profile and to create HR systems and processes best suited to the needs of the future.

vi) Revision to the priority sector lending guidelines

The revised priority sector lending guidelines have been released last week. Lending to a few new sub-sectors like renewable energy, social infrastructure and to the medium enterprises would now be treated as priority sector lending. Concept of a tradable Priority Sector Lending Certificate (PSLC) has also been introduced, which would enable the 'deficit' banks to buy these certificates from 'surplus' banks to meet their targets.

There is also readjustment in some sub-targets, whereby the banks are now required to progressively achieve 8% of lending to Small and Marginal Farmers and 7.5% to the micro enterprises among the MSEs in a phased manner. This has been brought about with an underlying objective of making available finance to the neediest and the most alienated of the borrowers. This may probably pose a bit of a challenge initially but with the proper planning, these targets could be achieved sooner rather than later.

vii) PMJDY and beyond

It is compliment some to the banking sector for wholeheartedly working for the success of the PMJDY scheme. The numbers speak for themselves. More than 14.5 crore accounts opened. That leads to the question- what next? Flow of individual savings, albeit howsoever small combined with flows from direct benefit transfer would be crucial to give an initial push to keep these accounts active while extending productive/need-based credit would be the second crucial step. The onus is upon all of us to ensure that the window of opportunity that has been presented by the opening of such a large number of accounts is not put to waste by allowing the accounts to turn inactive.

The credit absorption capacity of the farmers can be enhanced through consolidation of fragmented landholdings by ushering in land reforms or through pooling of land holdings in a SHG format. Similarly, customers may also be trained to undertake non-farm activities. Efforts to enhance the credit absorption capacity must also be supplemented through financial literacy and vocational training initiatives. Improved financial literacy would aid the inculcation of a savings culture and investment habit amongst the customers, which can be leveraged by the banks by offering suitable small savings, investment and pension products.

A major challenge for the banks would be to manage their banking correspondent model effectively. The problems relating to their viability, governance, cash management, linkage and oversight from a base branch need to be quickly addressed. The entire financial inclusion ecosystem must progressively develop, if the momentum gathered under the PMJDY exercise has to be sustained for all-round benefit of all stakeholders.

viii) Globalization of regulation-making process

Banking regulations are getting increasingly globalized, subject of course to certain national discretions. As members of the standard setting bodies like BCBS and FSB, we are committed to implement these regulations in our jurisdictions. There is a process for peer review of regulatory guidelines issued by various jurisdictions to ascertain compliance with the global standards, failure to adhere to which would render the jurisdiction non-compliant to the standards. While we do participate in the regulation making process and suggest modifications to protect the rightful interests of the domestic economy, very often, we have to abide by the larger framework.

ix) Technology and its impact

An issue which is relatively much more pertinent for the PSBs, i.e. use of technology in banking. All PSBs are now on CBS platform and have developed capabilities to offer anywhere banking. Few have also started offering basic banking transactions on mobile for their customers. But this is just scrapping the surface as the technology can be leveraged for a far greater effect. PSBs must be able to leverage technology for building data warehouses and then be able to do data mining and analytics. The goal should be to use data for effective decision making at various levels, including product customization, developing business models and delivery channels, etc.

PSBs must be able to pitch suitable products for their customers through internet and mobile banking channels. Traditional businesses are slowly moving to on-line and e-commerce is the preferred choice of the gen-next customer. The challenge before the PSBs is to upscale their capabilities, train their employees on the new technologies to benefit from the possibilities that adoption of technology can open up.

A good thing going for the banks is the current recruitment of youngsters in the work force. This new generation staff is tech-savvy and can quickly connect with technology. The enterprising among them must be accorded freedom to experiment and suggest ways in which the bank could reengineer its processes for its own benefit and that of its customers. This would require a change in mind-set of the senior / Top Management and this must happen if the PSBs have to compete efficiently and effectively with the private sector counterparts in future.

x) Treating customers fairly

Protection of bank customers has been one of the thrust areas for RBI in recent times. RBI has issued a Charter of Customer Rights based on the global best practices. The Charter comprises of following five rights:

- **Right to Fair Treatment**
- **Right to Transparency, Fair and Honest Dealing**
- **Right to Suitability**
- **Right to Privacy**
- **Right to Grievances Redress and Compensation**

A model customer rights policy jointly prepared by IBA and BCSBI incorporating these rights has been circulated to all banks by IBA. The banks have been advised to prepare a Board Approved Policy based on the model policy before July 31, 2015. RBI may review the policies framed by the banks and their implementation as part of our supervisory assessment over the next 12-18 months

xi) KYC/AML compliance

Turn to another very important issue which is equally challenging for the private sector banks as well and that is, compliance with the KYC/ AML norms. A majority of the enforcement action by the banking sector regulator in the recent past has been on account of these violations.

The instances of fake e-mails soliciting unsuspecting customers to make payments to certain bank accounts as a precursor to receiving prize or lottery winnings from abroad have become quite rampant. It is surprising that even welleducated individuals are falling prey to such incredulous offers. While spreading financial literacy remains a huge challenge, the banks cannot be absolved of their responsibilities in the sequence of events. Most of this money is being transferred through banking channels and obviously, there is a deficiency in KYC compliance. Money mauling is another common occurrence which highlights deficiencies in risk categorization of customers and monitoring of transactions.

xii) Balance sheet management

Over the past few years our have witnessed an increasing propensity to defer or delay provisions in an apparent attempt to post higher net profits. Probably, this short term vision is also in part attributable to short term tenure which the CEOs/ CMDs get. It must be appreciated that CEOs/ CMDs would come and go but the institutions are perpetual entities. The only thing which can perpetuate their existence is a stronger and healthier balance sheet. It must be realized that the first step towards resolving a problem is to acknowledge its existence. The problems which are swept under the carpet for a quarter or two would need to be encountered thereafter, with the issue getting further complicated in the interim

Making higher provisions would not only add strength to the balance sheet, but also lead to better control over tax out-go and the dividend pay-out, besides adding credibility to the bank's financial statements. While a lower net profit would make headlines for a day or two, believe me the savvy long-term investors / analysts do not read too much into the short term blips. If they understand that the Management is sincere about repairing the balance sheet, they would drive up the valuation of your stocks, which would help you in the long-term. With most banks in dire need of capital, the retained earnings need to increase progressively.

As a part of balance sheet management exercise, the Board/Top Management would have to proactively take a call on the likely components of their balance sheets and what shape they would like the balance sheet to take in future. The objective of optimal utilization of capital would have to be necessarily kept in mind while evolving balance sheet management strategies.

xiii) Risk management

Risk is inevitable in the banking business and hence, a sound risk management framework is the touchstone of an efficient bank. The risk management effectively aims at balancing the Risk-Return Trade-off which is "maximizing return for a given risk" and "minimizing risk for a given return". The responsibility of setting a risk appetite for the bank as a whole is that of the Board and the Top Management. In practice, however, we seldom see the articulation of an objective risk appetite statement by the PSBs[32].

xiv) Rural Market

Banking in India is generally fairly mature in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. Consequently, we have seen some examples of inorganic growth strategy adopted by some nationalized and private sector banks to face upcoming challenges in banking industry of India. State Bank of India (SBI), the largest public sector bank in India has also adopted the same strategy to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.

---

[32] 2 Mundra, S.S, Indian banking sector - emerging challenges and way forward Lecture, (Deputy Governor of the Reserve Bank of India), as part of the Memorial Lecture series launched by State Bank of Mysore in the memory of His Highness Sri Nalwadi Krishnaraja Wadiyar, Bangalore, 29 April 2015. https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=977

xv) Global Banking

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

xvi) Financial Inclusion

Financial inclusion has become a necessity in today's business environment. Whatever is produced by business houses, that has to be under the check from various perspectives like environmental concerns, corporate governance, social and ethical issues. Apart from it to bridge the gap between rich and poor, the poor people of the country should be given proper attention to improve their economic condition. Dev (2006) stated that financial inclusion is significant from the point of view of living conditions of poor people, farmers, rural non-farm enterprises and other vulnerable groups. Financial inclusion, in terms of access to credit from formal institutions to various social groups. Apart from formal banking institutions, which should look at inclusion both as a business opportunity and social responsibility, the author conclude that role of the self-help group movement and microfinance institutions is important to improve financial inclusion. The study suggested that this requires new regulatory procedures and de-politicization of the financial system.

xvii) Employees' Retention

The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority. Long-time banking employees are becoming disenchanted with the industry and are often resistant to perform up to new expectations. The diminishing employee morale results in decreased revenue. Due to the intrinsically close ties between staff and clients, losing those employees completely can mean the loss of valuable customer relationships. There tail banking industry is concerned about employee retention from all levels: from tellers to executives to customer service representatives because competition is always moving in to hire them away. The competition to retain key employees is intense. Top-level executives and HR departments spend large amounts of time, effort, and money trying to figure out how to keep their people from leaving[33].

[33] Deoda, Shraddha (2015), "Indian Banking Industry: Challenges and Opportunities", SCITECH Volume 1, Issue 1 Research Organisation, January, 2015. Journal of Research in Business, Economics and Management (JBREM) ISSN: 2395-2210.

CHAPTER 4

EVOLUTION AND RECENT TRENDS IN BANKING TECHNOLOGY

4.1. EVOLUTION OF BANKING TECHNOLOGY IN INDIA

The usage of information technology (IT), broadly referring to computers and peripheral equipment, has seen tremendous growth in service industries in the recent past. The most obvious example is perhaps the banking industry, where through the introduction of IT related products in internet banking, electronic payments, security investments, information exchanges (Berger, 2003), banks now can provide more diverse services to customers with less manpower.

4.1.1. Phases of Banking Technology in India

Technological innovation in general and information technology (IT) applications in particular, have had a major effect in banking and finance. Outstanding IT-based innovations are considered and grouped into four distinct periods: early adoption, specific application, emergence and diffusion and their periods based on Indian scenarios are

- **Early adoption (1960-1980)**
- **Specific application (1980-1990)**
- **Emergence (1990-2000) and**
- **Diffusion (2000-till date)**

4.1.3. Various Committees on Banking Technology in India

The foundation for large-scale induction of IT in the banking sector was provided by the recommendations of the committees headed by Dr. C. Rangarajan, in 1984 and 1989. Subsequently, in 1994, the Reserve Bank constituted a committee on 'Technology Upgradation in the Banking Sector'. The committee made a number of recommendations covering payment systems including setting up of an autonomous centre for development and research in banking technology. The IDRBT was created as a sequel. The Institute has established and operates the Indian Financial Network (INFINET), performs research in banking technology and provides consultancy services apart from providing educational and training facilities for the banking sector.

Impact on the Provision of Retail Finance	Use of Technology in the Organization			
	Early Adoption (1960-1980)	Specific Application (1980-1990)	Emergence (1990-2000)	Diffusion (2000-2009)
Innovation in Service Offering	Reduce inter-market price differentials	* Conversion from branch to bank relationships. * Automated bank statements. *Cheque guaranty cards.	*Growth of cross border payment. * ATM introduced	Supply of non-payment products like insurance, mortgages and pensions
Operational Function Innovation	Increased coordination between head office and branches	Reduce cost of labour intensive activities (i.e. clearing system).	*Automation of branch accounting. * Real time control begins	Growth of alternative distribution channels, such as phone banking and EFTPOS.

Sources: Morris (1986) and Quintás (1991); Note: Designed by the researchers.

4.1.4. Various Committees on Banking Technology in India

The foundation for large-scale induction of IT in the banking sector was provided by the recommendations of the committees headed by Dr. C. Rangarajan, in 1984 and 1989. Subsequently, in 1994, the Reserve Bank constituted a committee on 'Technology Upgradation in the Banking Sector'. The committee made a number of recommendations covering payment systems including setting up of an autonomous centre for development and research in banking technology. The IDRBT was created as a sequel. The Institute has established and operates the Indian Financial Network (INFINET), performs research in banking technology and provides consultancy services apart from providing educational and training facilities for the banking sector.

TABLE 3.3
Committees on Computerisation

Name of the Committee With year	Head of the Committee	Recommendations :
Working Group to consider feasibility of introducing MICR/OCR Technology for Cheque Processing (1982)	**Dr.Y.B.Damle,** Adviser, Management Services Department, Reserve Bank of India.	• Introduction of 'item processing' (sorting and listing of cheques with the help of computers) in three phases. • In the first phase at the four metropolitan cities viz. Mumbai, New Delhi, Chennai and Calcutta, with the help of MICR technology. • In the second phase all state capitals and important commercial centres. • In the final phase national clearing to be introduced by dividing the country into four Regional Grids with headquarters at Mumbai, New Delhi, Chennai and Calcutta. Each Regional Centre was to perform two functions: (i) to act as a clearing house for intra-grid instruments, and (ii) participate in national clearing on behalf of the grid for extra-grid outstation cheques.
Committee on Mechanisation in the Banking Industry (1984)	**Dr.C.Rangarajan,** Deputy Governor, Reserve Bank of India	Banks should set up service branches at centres where they have more than 10 branches. The service branch so set up would exclusively be devoted to clearing operations of the bank at that particular centre. • Banks to be in readiness for the introduction of MICR Clearing at the four metropolitan cities by assessing their requirements for encoders, adopting standardised cheque forms and reorganising work procedures where necessary, and training staff down to the branch level.
Committees on Communication Network for Banks and SWIFT implementation (1987)	**Shri T.N.A.Iyer,** Executive Director, Reserve Bank of India.	• Setting up of X.25 based packet switching network called 'BANKNET' to be jointly owned by the Reserve Bank and the public sector banks. • Inter-bank fund transfers on banks' own account and on customers' account; • Inter-branch funds transfers on banks' own account and on customers' account; • Currency chest transactions; • Government transactions; • Improvements in payment systems by facilitating automated clearing services • India should join the SWIFT (Society for Worldwide Interbank Financial Telecommunication) Network for the transmission and reception of international financial messages.

4.1.5. Major Landmarks Banking Technology and Transformation in India

- The introduction of MICR based cheque processing – a first for the region, during the years 1986-88;

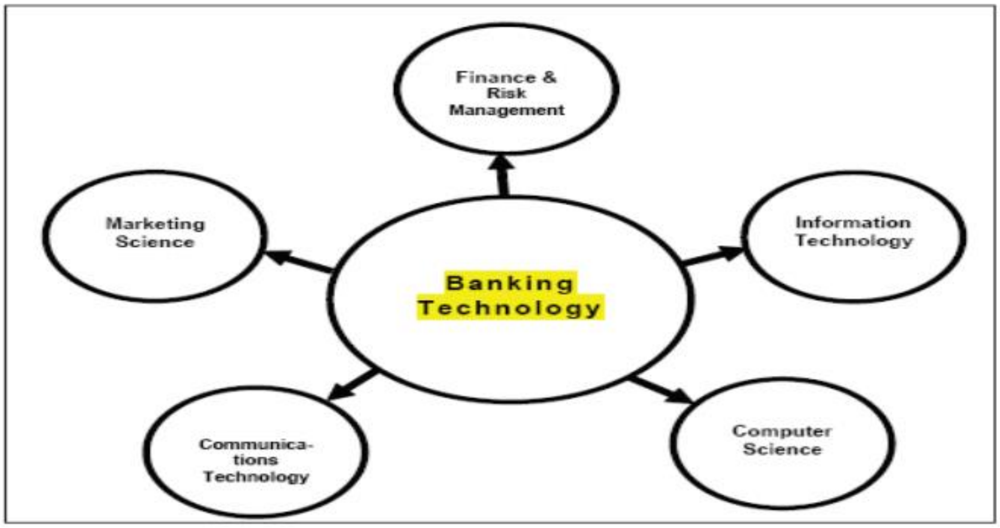
- Computerisation of branches of banks – an activity which commenced from the late eighties with the introduction of ledger posting machines (LPMs), advanced ledger posting machines (ALPMs), followed by stand alone computer systems which metamorphosised into network based systems and the latest development pertaining to the installation of Core Banking solutions;
- Facilitating computerisation of Government business – from the late nineties which has now resulted in all branches handling Government business perform their functions using technology;
- The setting up of the Institute for Development and Research in Banking
- Technology (IDRBT), Hyderabad in the mid nineties, as a research and technology centre for the Banking sector;
    - The commissioning in 1999, of the Indian Financial Network as a Closed User Group based network for the exclusive use of the Banking sector with state-of-the-art safety and security. The network supports applications having features such as Public Key Infrastructure (PKI) which international networks such as S.W.I.F.T. are now planning to implement
    - Commencement of Certification Authority (CA) functions of the IDRBT for ensuring that electronic banking transactions get the requisite legal protection under the Information Technology Act, 2000
    - Ensuring Information Systems Audit (IS Audit) in the banks for which detailed guidelines relating to IS Audit were formulated and circulated
    - Enabling IT based delivery channels which enhance customer service at banks, in areas such as cash delivery through shared Automated Teller Machines (ATMs), card based transaction settlements etc.;
    - Providing Guidelines for Internet Banking, which facilitated the banks to ensure that common minimum requirements relating to Internet Banking offerings were provided for;
- Providing detailed specifications to banks on the configuration of systems relating to critical inter-bank payment system applications such as Real Time Gross Settlement (RTGS) System, Negotiated Dealing System (NDS),
    - Centralised Funds Management System (CFMS) etc.;

- Implementation of the National Financial Switch (NFS) to ensure interconnectivity of shared ATMs and to provide for funds settlement across various banks.
- Establishment of e-payment gateways for the benefit of customers (such as the gateways for funds transfers and other account related transactions) and for facilitating e-commerce.
- Sharing of information through the secured internet website for the Centralised Data Based Management System-Internet (CDBMSI) project.
- Providing a platform for transmission of electronic messages across banks using common standards, for facilitating 'Straight Through Processing' (STP) in the form of the Structured Financial Messaging System (SFMS), which will be similar to the SWIFT messaging pattern;
- Setting up connectivity of all clearing houses of the country so as to enable the introduction of the National Settlement System (NSS)

4.2. RECENT TRENDS IN BANKING TECHNOLOGY

Banking technology as a confluence of several disparate disciplines such as finance (including risk management), information technology, computer science, communication technology, and marketing science. The tremendous influence of information and communication technologies on banking and its products, the quintessential role played by computer science helped in fulfilling banks' marketing objective of servicing customers better at less cost and thereby reaping more profits. Advanced statistics and computer science are used to measure, mitigate, and manage various risks associated with banks' business with its customers and other banks. The growing influence of customer relationship management and data mining in tackling various marketing-related problems and fraud detection problems in the banking industry is well documented. Fig 3.1 explains the components of banking technology.

Figure 3.1: Components of Banking technology



Technology is no longer being used simply as a means for automating processes. Instead it is being used as a revolutionary means of delivering services to customers. The adoption of technology has led to the following benefits: greater productivity, profitability, and efficiency; faster service and customer satisfaction; convenience and flexibility; 24x7 operations; and space and cost savings (Sivakumaran, 2005)[34].

4.2.1. Technology Application in Banks

Indian banking industry adopted various technology applications in banking. They are classified in to:

1) Data Warehousing
2) Data Mining
3) Electronic Data Interchange
4) Corporate Web Sites
5) Management Information System

[34] Sivakumaran, M.V. (2005). Banking technology course material for MTech (IT) with specialization in banking technology and information security, IDRBT.

4.2.1.1. Data warehouse

Data warehouse is a repository of an organization's electronically stored data. Data warehouses are designed to facilitate reporting and analysis.A data warehouse houses a standardized, consistent, clean and integrated form of data sourced from various operational systems in use in the organization, structured in a way to specifically address the reporting and analytic requirements.

This definition of the data warehouse focuses on data storage. However, the means to retrieve and analyze data, to extract, transform and load data, and to manage the data dictionary are also considered essential components of a data warehousing system. Many references to data warehousing use this broader context. Thus, an expanded definition for data warehousing includes business intelligence tools, tools to extract, transform, and load data into the repository, and tools to manage and retrieve metadata[35].

Data warehouse architecture

Architecture, in the context of an organization's data warehousing efforts, is a conceptualization of how the data warehouse is built. There is no right or wrong architecture, rather multiple architectures exist to support various environments and situations. The worthiness of the architecture can be judged in how the conceptualization aids in the building, maintenance, and usage of the data warehouse. Fig 3.2 and Fig 3.3 explains data warehouse architecture and its process respectively. One possible simple conceptualization of data warehouse architecture consists of the following interconnected layers:

Operational database layer

The source data for the data warehouse - An organization's Enterprise Resource Planning systems fall into this layer.

Data access layer

The interface between the operational and informational access layer

Tools to extract, transform, load data into the warehouse fall into this layer.

[35] Inmon, W.H. Tech Topic: What is a Data Warehouse? Prism Solutions. Volume 1. 1995.

Metadata layer

The data directory - This is usually more detailed than an operational system data directory. There are dictionaries for the entire warehouse and sometimes dictionaries for the data that can be accessed by a particular reporting and analysis tool.

Informational access layer

The data accessed for reporting and analyzing and the tools for reporting and analyzing data - Business intelligence tools fall into this layer. And the InmonKimball differences about design methodology, discussed later in this article, have to do with this layer.

4.2.1.2. Data mining

Data mining is the process of extracting patterns from data. As more data are gathered, with the amount of data doubling every three years. data mining is becoming an increasingly important tool to transform these data into information. It is commonly used in a wide range of profiling practices, such as marketing, surveillance, fraud detection and scientific discovery.

While data mining can be used to uncover patterns in data samples, it is important to be aware that the use of non-representative samples of data may produce results that are not indicative of the domain. Similarly, data mining will not find patterns that may be present in the domain, if those patterns are not present in the sample being "mined". There is a tendency for insufficiently knowledgeable "consumers" of the results to attribute "magical abilities" to data mining, treating the technique as a sort of all-seeing crystal ball. Like any other tool, it only functions in conjunction with the appropriate raw material: in this case, indicative and representative data that the user must first collect. Further, the discovery of a particular pattern in a particular set of data does not necessarily mean that pattern is representative of the whole population from which that data was drawn. Hence, an important part of the process is the verification and validation of patterns on other samples of data.

The term data mining has also been used in a related but negative sense, to mean the deliberate searching for apparent but not necessarily representative patterns in large numbers of data. To avoid confusion with the other sense, the terms data dredging and data snooping are often used.

Note, however, that dredging and snooping can be (and sometimes are) used as exploratory tools when developing and clarifying hypotheses[36].

An Architecture for Data Mining

To best apply these advanced techniques, they must be fully integrated with a data warehouse as well as flexible interactive business analysis tools. Many data mining tools currently operate outside of the warehouse, requiring extra steps for extracting, importing, and analyzing the data. Furthermore, when new insights require operational implementation, integration with the warehouse simplifies the application of results from data mining. The resulting analytic data warehouse can be applied to improve business processes throughout the organization, in areas such as promotional campaign management, fraud detection, new product rollout, and so on.

The ideal starting point is a data warehouse containing a combination of internal data tracking all customer contact coupled with external market data about competitor activity. Background information on potential customers also provides an excellent basis for prospecting. This warehouse can be implemented in a variety of relational database systems: Sybase, Oracle, Redbrick, and so on, and should be optimized for flexible and fast data access.

An OLAP (On-Line Analytical Processing) server enables a more sophisticated end-user business model to be applied when navigating the data warehouse. The multidimensional structures allow the user to analyze the data as they want to view their business – summarizing by product line, region, and other key perspectives of their business. The Data Mining Server must be integrated with the data warehouse and the OLAP server to embed ROI-focused business analysis directly into this infrastructure. An advanced, process-centric metadata template defines the data mining objectives for specific business issues like campaign management, prospecting, and promotion optimization. Integration with the data warehouse enables operational decisions to be directly implemented and tracked.

[36] Kantardzic, Mehmed (2003). Data Mining: Concepts, Models, Methods, and Algorithms. John iley & Sons. ISBN 0471228524.

4.2.1.3 Electronic Data Interchange (EDI)

Electronic Data Interchange (EDI) refers to the structured transmission of data between organizations by electronic means. It is used to transfer electronic documents from one computer system to another, i.e. from one trading partner to another trading partner. It is more than mere E-mail; for instance, organizations might replace bills of lading and even Cheque with appropriate EDI messages. It also refers specifically to a family of standards, including the X12 series. However, EDI also exhibits its pre-Internet roots, and the standards tend to focus on ASCII (American Standard Code for Information Interchange)-formatted single messages rather than the whole sequence of conditions and exchanges that make up an interorganization business process[37].

4.2.1.4 Corporate Website

A corporate website or corporate site is an informational website operated by a business or other private enterprise such as a charity or non-profit foundation. Corporate sites differ from electronic commerce, portal, or sites in that they provide information to the public about the company rather than transacting business or providing other services. The phrase is a term of art referring to the purpose of the site rather than its design or specific features, or the nature, market sector, or business structure of the site operator. Nearly every company that interacts with the public has a corporate site or else integrates the same features into its other websites. Large companies typically maintain a single umbrella corporate site for all of their various brands and subsidiaries.

5.2.1.5. Management Information System (MIS)

A management information system (MIS) is a subset of the overall internal controls of a business covering the application of people, documents, technologies, and procedures by management accountants to solve business problems such as costing a product, service or a business-wide strategy. Management information systems are distinct from regular information systems in that they are used to analyze other information systems applied in operational activities in the organization.[1] Academically, the term is commonly used to refer to the group of information

[37] James H. Burrows (1996). "Electronic Data Interchange (EDI)". National Institute of Standards and Technology. http://www.itl.nist.gov/fipspubs/fip161-2.htm. Retrieved 13.05.2008

management methods tied to the automation or support of human decision making, e.g. Decision Support Systems, Expert systems, and Executive information systems. It has been described as, "MIS 'lives' in the space that intersects technology and business. MIS combines tech with business to get people the information they need to do their jobs better/faster/smarter. Information is the lifeblood of all organizations - now more than ever. MIS professionals work as systems analysts, project managers, systems administrators, etc., communicating directly with staff and management across the organization[38].

4.2.2.1. Electronic Clearing And Settlement System

Some of the electronic electronic and settlement system are OCR clearing, MICR clearing, Debit Clearing, RTGS, SFMS, and SWIFT.

Optical Character Recognition (OCR)

Optical Character Recognition is the machine recognition of printed characters. OCR systems can recognize many different OCR fonts, as well as typewriter and computer-printed characters. Advanced OCR systems can recognize hand printing. When a text document is scanned into the computer, it is turned into a bitmap, which is a picture of the text. OCR software analyzes the light and dark areas of the bitmap in order to identify each alphabetic letter and numeric digit. When it recognizes a character, it converts it into ASCII text (see ASCII file). Hand printing is much more difficult to analyze than machine-printed characters. Old, worn and smudged documents are also difficult. Scanning documents and processing them with OCR is sometimes as much an art as it is a science. Fig 3.9 explains the operation of OCR clearing system.

When text documents are scanned, they are "photographed" and stored as pictures in the computer. OCR software analyzes the symbols in the image and converts each letter and digit into an ASCII character.

Magnetic Ink Character Recognition

Magnetic Ink Character Recognition is the machine recognition of numeric data printed with magnetically charged ink. It is used on bank checks and deposit slips. MICR readers detect the

[38] O'Brien, J (1999). Management Information Systems – Managing Information Technology in the Internetworked Enterprise. Boston: Irwin McGraw-Hill. ISBN 0071123733.

characters and convert them into digital data. Although optical methods (OCR) became as sophisticated as the early MICR technology, magnetic ink is still used. It serves as a deterrent to fraud, because a photocopied check will not be printed with magnetic ink.

MICR Technology

MICR characters are printed using an ink laden with iron oxide particles. Iron oxide has magnetic properties and can retain magnetic fields when it is applied on it. The working of a MICR reader is essentially based on the concept of moving characters printed with this magnetic ink over two magnetic heads, one that charges the characters and the second one that immediately follows the first and reads the magnetic charge. The pattern of the electrical field is what determines the character being read. The characteristic shape of the MICR font is designed to give a unique electrical signature pattern to each character which can be easily recognized by the machine with minimum ambiguity and maximum tolerance. Another related topic of interest is the very common bar code we so often see on items on the shelves of a supermarket. Bar coding utilizes a technique is similar to Morse code – a series of narrow and wide bars make up for one character. The reader contains a photo diode and a light/laser source. The photo diode measures the intensity of light as the light source is moved across the bar code. The waveform of reflected light thus produced is decoded to read the contents.

4.2.2.3. Electronic Banking

Electronic banking includes ATM, Internet banking, Phone banking, SMS banking, EFT, and IVRS.

SMS banking

Short Message Service (SMS) is a communication service standardized in the GSM mobile communication system, using standardized communications protocols allowing the interchange of short text messages between mobile telephone devices. SMS text messaging is the most widely used data application on the planet, with 2.4 billion active users, or 74% of all mobile phone subscribers sending and receiving text messages on their phones. SMS banking is a technologyenabled service offering from banks to its customers, permitting them to operate selected banking services over their mobile phones using SMS messaging. SMS banking services are operated using both push and pull messages. Fig 3.10 explains the architecture of SMS Banking.

Depending on the selected extent of SMS banking transactions offered by the bank, a customer can be authorized to carry out either non-financial transactions, or both and financial and non-financial transactions. SMS banking solutions offer customers a range of functionality, classified by push and pull services as outlined below.

Typical push services would include

Periodic account balance reporting (say at the end of month);

- Reporting of salary and other credits to the bank account;
- Successful or un-successful execution of a standing order;
- Successful payment of a cheque issued on the account;
- Insufficient funds;
- Large value withdrawals on an account;
- Large value withdrawals on the ATM or EFTPOS on a debit card;
- Large value payment on a credit card or out of country activity on a credit card.
- One-time password and authentication

Typical pull services would include:

Account balance enquiry;

- Mini statement request;
- Electronic bill payment;
- Transfers between customer's own accounts, like moving money from a savings account to a current account to fund a cheque;
- Stop payment instruction on a cheque;
- Requesting for an ATM card or credit card to be suspended;
  - De-activating a credit or debit card when it is lost or the PIN is known to be compromised;
  - Foreign currency exchange rates enquiry;
  - Fixed deposit interest rates enquiry.

Mobile banking

Mobile banking (also known as M-Banking, mbanking, SMS Banking etc.) is a term used for performing balance checks, account transactions, payments etc. via a mobile device such as a mobile phone. Mobile banking today (2007) is most often performed via SMS or the Mobile Internet but can also use special programs called clients downloaded to the mobile devices. Fig 3.11 explains the architecture of mobile banking.

Mobile banking can offer services such as the following:

Account Information

- Mini-statements and checking of account history
- Alerts on account activity or passing of set thresholds
- Monitoring of term deposits
- Access to loan statements
- Access to card statements
- Mutual funds / equity statements
- Insurance policy management
- Pension plan management
- Status on cheque, stop payment on cheque

Payments, Deposits, Withdrawals, and Transfers

Domestic and international fund transfers

- Micro-payment handling
- Mobile recharging
- Commercial payment processing
- Bill payment processing
- Peer to Peer payments
- Withdrawal at banking agent
- Deposit at banking agent

Investments

- Portfolio management services
- Real-time stock quotes
- Personalized alerts and notifications on security prices

Telephone banking and /or IVRS

Telephone banking is a service provided by a financial institution which allows its customers to perform transactions over the telephone.

Most telephone banking use an automated phone answering system with phone keypad response or voice recognition capability. To guarantee security, the customer must first authenticate through a numeric or verbal password or through security questions asked by a live representative With the obvious exception of cash withdrawals and deposits, it offers virtually all the features of an automated teller machine: account balance information and list of latest transactions, electronic bill payments, funds transfers between a customer's accounts, etc. Usually, customers can also speak to a live representative located in a call centre or a branch, although this feature is not guaranteed to be offered 24/7. In addition to the self-service transactions listed earlier, telephone banking representatives are usually trained to do what was traditionally available only at the branch: loan applications, investment purchases and redemptions, chequebook orders, debit card replacements, change of address, etc. Banks which operate mostly or exclusively by telephone are known as phone banks

Electronic funds transfer (EFT)

Electronic funds transfer or EFT refers to the computer-based systems used to perform financial transactions electronically. The term is used for a number of different concepts:

- Cardholder-initiated transactions, where a cardholder makes use of a payment card
- Direct deposit payroll payments for a business to its employees, possibly via a payroll services company
- Direct debit payments from customer to business, where the transaction is initiated by the business with customer permission

- Electronic bill payment in online banking, which may be delivered by EFT or paper check
- Transactions involving stored value of electronic money, possibly in a private currency
- Wire transfer via an international banking network (generally carries a higher fee)
- Electronic Benefit Transfer

Electronic Funds Transfer at Point of Sale (EFTPOS)

- EFTPOS (short for Electronic Funds Transfer at Point of Sale) is an Australian and New Zealand electronic processing system for credit cards, debit cards and charge cards. European banks and card companies also sometimes reference "EFTPOS" as the system used for processing card transactions through terminals on points of sale, though the system is not the trademarked Australian/New Zealand variant.
- Credit cards EFT may be initiated by a cardholder when a payment card such as a credit card or debit card is used. This may take place at an automated teller machine (ATM) or point of sale (POS), or when the card is not present, which covers cards used for mail order, telephone order and internet purchases.
- A number of transaction types may be performed, including the following Sale: where the cardholder pays for goods or service
- Refund: where a merchant refunds an earlier payment made by a cardholder
- Withdrawal: the cardholder withdraws funds from their account, e.g. from an ATM. The term Cash Advance may also be used, typically when the funds are advanced by a merchant rather than at an ATM
- Deposit: where a cardholder deposits funds to their own account (typically at an ATM)
- Cashback: where a cardholder withdraws funds from their own account at the same time as making a purchase
- Inter-account transfer: transferring funds between linked accounts belonging to the same cardholder
- Payment: transferring funds to a third party account
- Enquiry: a transaction without financial impact, for instance balance enquiry, available funds enquiry, linked accounts enquiry, or request for a statement of recent transactions

on the account E top-up: where a cardholder can use a device (typically POS or ATM) to add funds (top-up) their pre-pay mobile phone

- Mini-statement: where a cardholder uses a device (typically an ATM) to obtain details of recent transactions on their account
- Administrative: this covers a variety of non-financial transactions including PIN change
    - The transaction types offered depend on the terminal. An ATM would offer different transactions from a POS terminal, for instance.

CHAPTER-5

A CRITICAL STUDY ON INTERNET BANKING: PROS & CONS

Internet expanded worldwide, now a days internet brings everything to doorstep. Internet connects the world irrespective to geographical boundaries and differences. Every sector and business are updating to the modern technology and also banking sector. Competition between banks is based on the costumers. The customers satisfaction is based on the easy access and time saving. E banking gives easy access to customer and also provides time management. The customers can even transact anytime in any place, which is biggest advantage in banking. E banking includes all kind of electronics like internet, telephone etc.

Internet banking is one of the electronic banking. Internet banking is also known as online banking. Initially internet banking was found to overcome the competition. The banking sector took advantage of the rapid growth of internet and came up with this invention.

Internet banking became simply bank transactions compare to other mode of transactions. It is easy for the customers to approach the bank through internet. Many functions are made through internet banking that is payment of bills, online transactions. No internet banking is useful addition to the banking sector doesn’t mean the direct banking is useless. The direct banking can restrict certain cyber crimes. Even now many people trust on direct banking.

Evolution of Internet Banking

The first internet bank was introduced in New York city. The US governmental tested this in major banks like chase manhattan, manufacturers Hanover, Chemical bank and citi bank. In India, ICICI is the first bank to introduce internet banking. The aim objectives to introduce the internet banking is to reduce the operational cost and to meet the competition. There are many reason for the growth of the net banking but the main reason is that there is no need in standing long lines and waiting for the customer turn which saves the time and many aspects. Secondly the home made banks. The customer can use there accounts simply being in home. i.e., the easy access of the bank.

Benefits of Internet Banking

The benefit of internet banking in modern days is way better compare to the initial development of internet banking.

i) Ease Use

Compare to traditional bank account, the internet banking is very ease to use and also easy to set up. The internet bank available all the banks 24x7 and 365 days. It saves time and irrespective to the geographical places. It is fast and the funds

will be sufficient. When in holidays and weekends the funds transferred from one account to another account very easily. Internet banking is user friendly. The online transactions cause less stress than the direct transactions convenience. The net banking or e-banking is also provides solution for the issues related banking through online. These are the special services that the e-banking provides.

ii) Transfer

The transfer of funds is very fast, safe transfer of funds is ensure. The customer can even pay their bills anytime even they can generate automatic bill payment. The internet banking gives better interest through online banking. There are also many offers that being offered by the online bill payment websites. The internet banking helps for online purchase and transactions for the particular purchase efficiently. Through internet banking the customers can always ensures the safety of the account that is monitoring the accounts then and there according to their convenience. This is to eliminate any fraudulent activity and threat to the customers and protect several damages. Internet banking act as a medium for several other product or services which includes investment options.

iii) Convenience

It is quite convenient and easy to pay your bill through internet. The customer service is normally provided in banks but the customer satisfaction is been given in internet transactions. The internet banking is very convenient for the customers. To access bank at anytime and anywhere. It gives faster, easier and more efficient and effective compare to direct banking. Among the other electronic banking internet banking is more convenient and comfortable. We can check the account balance and any matters relating to banking service can be checked through online banking websites.

iv) Other Benefits

The online banking includes mobile accessibility. The new features are introduced day by day to improve the maximum benefit for the customers. There is no need for the infrastructure and large number of employees needed to work because of internet banking. Internet banking helps to foreseen the customers debts and liabilities and balances. Internet banking is environmental friendly, it reduces the usage of paper, pollution free and it gives economical importance. The special service(internet banking) rendered by the banks increased the customers and also developed the bank. The deposit limit and withdraw limit is not there in time of denominations

The Drawbacks

The internet banking might be difficult for the first time users. But there are other problems the customers are afraid of.

Transaction Problems

The most customers are scared of their online fraud and cyber crimes. The customers are with the doubts whether the funds are transacted to the other account or correct account because now a days face to face transactions itself leading to so many problems that make customers to worry about the online transfer. The customers have equally responsible for there online transactions goes wrong. The customers should aware of the procedure to use online transactions and also make user they enter the numbers correctly. The transactions issues arise because of the negligence of the customers and also the hurricane that they have are the reason for most of the wrong transactions. Transactions issues is done by the customers and as well as the banks.

ii) Bank Relationship

Internet bank is effecting the relationship between the customer and bank because the customers are not approaching the banks so the relationship is effecting. The bankers can only understand the customer specific needs if he comes to know the problem face to face. Internet banking is effecting the bank personal support to help the customers. The customers service is effected by the internet banking, because of this the bank is not aware of the customers unique needs of the customers

iii) Security

Security is one of the biggest fear that customers afraid to use internet banking. The increase in cyber crimes and hacking is increasing day by day. The most threat in modern banking is hacking, clearly hacking into bank systems is getting common now a days. The banking sector constantly working on this issues but it still happening. The hackers are collecting information from the customers itself, so bank started giving awareness relating this issue. ATMs also risky so many people given lost there lives for this. Most bank in India introduced anti – phishing mechanism to protect the customers.

iv) Other Issues

The credit and debt card fraud can also be misused in transactions. The user id and password generation is also important in matter of protecting the customers privacy. Some of the simple issue is that customers isn’t aware whether the transactions is made or not. These are the very common issues in internet banking

The competition as well as the risk is increasing in banking sector day by day. Both online and direct banking is bears risk but the banking sector is trying to reduce the issues. Banking sector is developing daily, new innovation also bring great risk. The customers should maintain a both online and in – store banking for the self benefit. In this way the customers can have both saving, safety, convince and can able to maintain a proper relationship with the bank.

DIGITAL BANKING IN INDIA: RECENT TRENDS, ADVANTAGES AND DISADVANTAGES

ction Digital Banking is a system which enables banking transactions like transfer of funds, payment of loans and EMI's, deposit and withdrawal of cash virtually with the help of internet. It is one among the extended features which banks provide in addition to the traditional banking. It is the most used feature by the Indian citizens after the effect of demonetization. There are different types or sectors under digital banking services. The major services, offered by banks are internet banking, mobile banking, ATM's, NEFT, PPIs, SMS Banking, e-cheques, debit and credit cards etc. The first bank in India to offer digital banking was ICICI Bank in 1996. Since then a number of other banks have followed this and today most of the banks provide digital banking services.

To know about the recent trends of digital banking.

To study the advantages and disadvantages of digital banking.

Recent Digital Banking Trends

Consumers now have so many options when it comes to digital banking. Even the most established financial institutions will need to work to stay relevant if they want to stay ahead. The recent baking innovation trends and services described as follows

Automated Teller Machines (ATM's) – ATM is an electronic telecommunication device that enables the customers of a bank / financial institution to perform financial transactions, particularly cash withdrawl without the need for a cashier or clerk. The other functions performed by an ATM are balance enquiry, generating PIN, passbook printing, cheque deposit etc.

Mobile Banking

Mobile banking is a banking services using which a customer is able to do banking transactions and gather related information using a mobile phone or tablet anytime and anywhere without seeking assistance from the bank's CRM. All the customer need to do is to download and install the bank's mobile applications from their smart phone or tablet's application store. Mobile banking to customer is like carrying a virtual bank on their mobile devices. Using it we can download mini statement, get alert on account activity, monitor term deposits, access loan statements, manage insurance policy, transfer funds between customer's linked accounts and third party including bill payments etc.

Credit / Debit Cards

This facility promotes cashless purchasing. It enables the customers to purchase goods without holding physical cash. A credit card allows the customer to borrow money within pre determined limits and Credit Card Company charged certain amount of interest for the money being used for purchasing by the customer. However the debit card linked directly to the customer's bank account and when a customer make purchases through it, the money debited automatically from customer's bank account.

National Electronic Funds Transfer (NEFT)

It is a nationwide payment system facilitating one to one transfer. Under this scheme, a person can electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country participating in the scheme. Individuals, firms, and corporate maintaining account with a bank branch can transfer funds using NEFT. Even, the individuals who don't have a bank account can also deposit cash at the NEFT enabled branches with instructions.

Prepaid Payment Instruments (PPIs)

Mobile Wallets and PPI Cards – PPI's are payment instruments that facilitate purchase of goods and services, including financial services, remittance facilities etc. against the value stored on such instruments. There are three categories of PPI's closed, semi closed and open system. Closed systems are PPI issued by an entity for facilitating the purchase of goods and services from that entity only. Semi closed are PPIs which can be used for purchase of goods and services including financial services at a group of clearly indentified merchant locations/establishments which have a specific contract with the issuer to accept the payment instruments and open system are PPIs which can be used for purchase goods and services, including financial services like funds transfer at any card accepting merchant location (point of sale terminals) and also permit cast withdrawal at ATMs/business correspondents. While banks and non banks can issue closed and semi closed PPIs only banks are allowed to issue open system PPIs. Some of the largest non bank issuers of PPIs / wallets include paytm, mobikwik and itzcash. The PPIs have been registering impressive growth in recent past.

Unified Payment Interface (UPI):

This is the most convenient form of financial transaction interface. It is launched on 23rd August, 2016. It allows for instant money transfer through the mobile device anytime anywhere. It facilitates accessing different bank accounts through a single mobile app merging several banking features and single click two factor authentication. Every bank has its own UPI for different operating systems like android, IOS, Windows etc.

Social Media Banking:

Social Media is new trend in banking. The banking industry is aware of the power of social media. It gives the customers a voice and enables the banks connect and reach out for more customers than traditional channels, but currently banking activities on social media are limited to marketing products, engaging customers and providing support. ‘Few banks like ICICI bank and Kotak Mahindra bank allow their customers to transact online and open new account using facebook. Presently social media banking is not so popular but it will play an important role in shaping the future of banks.

Advantages of Digital Banking

There are a number of advantages of digital banking. Some significant benefits of digital banking are listed below:

Convenience:

Digital banking is available to anyone and everyone who is a bank account holder. It allows customers to easily access the bank website using their username and password and carry on with the transactions even if the bank is closed. For digital banking only one device and internet connectivity are needed, so it is very convenient to use.

Flexibility: Digital banking is flexible to use. Digital banking provides many 24 x 7 facilities like

ATM, mobile banking, debit cards, credit cards, payment of bills facility, e-wallet etc.

- Time Saving: This is the greatest advantage for all of us as we are not able to spend a lot of time in queues. Time management is one of the greatest challenges in our very busy lives.
  Digital banking enables us to carry on our banking services within minutes. Banking Benefits: With the increased convenience of anytime, anywhere banking, the number of customers has increased for banks. Human errors of calculations are reduced. It has also made record keeping more easy. In digital banking record of every transaction being maintained electronically. It is possible to generate reports and analyze data at any point and for any purpose.
- Lower Overheads: Digital banking has drastically reduced the operating costs of banks. This has made it possible for banks to charge lower fee for services and also offer higher interest rates for deposits. Lower operating cost will result into more profits.
- Online Bills Payments: Digital banking allows online payment of bills. It is a feature that saves a lot of time, effort and expense of customers. Customers don’t need to have physical cash and queue up to pay their utility bills or other kind of bills.
- Environment Friendly: Through Digital banking banks are now giving customers the option to receive their account statements online. This saves a vast amount of paper and postage waste, not to mention the delivery. Offers Availability: Through Digital banking we can stay aware about bank’s products like loans, investment options etc. We can avail a lot of offers on shopping and purchases and a range of other services that can help us get more for less.

Challenges or Disadvantages of Digital Banking

There are a number of benefits of digital banking, but it also has some challenges and disadvantages. Technology challenges, IT practices, certain cultural issues, security issues, industry lethargy and workplace constraints have affected widespread acceptance of digital banking. Some of disadvantages and challenges are listed as given below:

- Security: Many people shy away from digital banking due to security reason. People worry about this aspect as they read this kind of news about cyber crime in newspapers daily. Difficult for First Time Users: Navigating through a website of bank may be hard for first time users. Opening an account could also take time as some sites ask for numerous personal details including a photo identification, which can inconvenience the potential customer. Because of this inconvenience and complexity, they may feel discouraged to use digital banking services. Customer’s Preference for Traditional Branches: There are a number of highly active traditional bank branches in India. Most customers prefer the personal touch and customized service offered by staff in bank branches. Many Indians are also averse to calling call centres and bank’s customer contact lines to address issues related to online bank account.
- Low Broadband Internet Penetration: India has one of the lowest broadband connectivity penetration rates in Asia as compared to Japan, Taiwan, Korea and Singapore. While the bigger cities like – Mumbai, Delhi, Bangalore have relatively better broadband penetration rates but users in smaller cities and towns still use dial up connection. Slow connectivity speed demotivates users to use digital banking. Impersonal: Digital Banking transaction through internet can be very impersonal. Most of people generally like personalized services. For those kinds of people digital banking is not ideal. Regulation and Legalities: Digital banking makes it possible for the banks and their customers to do their business from anywhere in the world. But it is extremely difficult for regulatory authorities to enforce finance laws. Additionally every nation has different regulations. So it is difficult to enforce same laws and regulation in every country.

Fear of Online Threats: Conservative Indian bank customers used to deposit their hard earned money of years in bank accounts for the purpose of saving. They feel worried about online scams. Mostly banks make sure that their websites are secure, but no bank website is immune from cyber crime and hacking. This is biggest threat of digital banking. A Limited Scope of Services: Although we can do many things with an online bank account, such as make deposits, check balances and pay bills etc. but there are limitations to the kinds of services we can access. For opening a new account or applying for a loan or mortgage in most of cases we will need to visit a branch to sign forms and show identity documents. Unnecessary Mails and Notifications: Using digital banking services, we might become annoyed by constant unnecessary emails and updates. Customers might get overly marketed too and become annoyed by those kinds of notifications.

Today digital banking has taken a new shape in the world of technology. The banking industry is re-shaping itself and moving to a technological approach from traditional approach. Digital innovations are creating a new picture of banking services. Due to the adoption of digitization, the banking sector in India is facing some remarkable changes as well as hurdles. As we are living in the digital era, It is not possible to avoid the growth and services of digital banking. Everyone uses modern mobile devices called smartphones, which can be easily used to access many digital banking services.

Most of services provided by digital banking are available to anyone, at anywhere and at anytime. As people want to have convenient banking services so they feel very comfortable to use this system. People feel more comfortable and convenient to use digital banking than traditional banking. Banking sector has also become more competitive with the advent of digitization and the digital India program for ensuring better customer service, thereby attaining the goal of cashless economy. The digitization in banking has started shifting the paradigm of cash and paper based banking to cashless and paperless banking. On the other hand, the technology has cyber threats which should be properly covered by such a high security system. Low internet connectivity rate, lack of awareness are some other hurdles in the path of digital banking.

CHAPTER -6

CONCLUSION

The efficiency and productivity of employee may influence the business and if the funds are used efficiently with the help of higher productivity of personnel then it will lead to higher profitability. In order to increase per employee business, Banks should train their personnel accordingly, motivate them, and make them customer oriented. Second option is to reduce the size of men power by Voluntary Retirement Scheme (VRS) and Early Retirement scheme (ERS) and reset to out sourcing of some of the functions of the bank. The competition for market share is increasing the pressure on profitability and forcing banks to trim costs, particularly transaction costs and improve overall efficiency. Various schemes of financial assistance for capital restructuring of the economically weak public sector banks were also introduced during last decade. The economic liberalization measures introduced by the Indian government coupled with trends towards globalization have substantially altered the banking sector and the profitability of public sector banks has declined to a large extent. So Public Sector Banks will have to introduce new financial instruments and innovations in order to remain in business.

The banking system has failed to gain internal strength and the decline in efficiency, productivity and profitability has resulted in deteriorating the financial health of the sector[39].The ability of banks to face competition will depend on their determined efforts at technological up gradation and improvement in operational and managerial efficiency, improvement in customer service, internal control, house- keeping and augmenting productivity and profitability.

In today‟s competitive era, banks need to have a strategy backed by management and organization and supported by skilled committed personnel. Under the competitive environment, the focus is on profitability and trim balance sheets. Hence, banks will need to increase fee business, concentrating on areas like guarantees, safe deposit lockers, investment advisory services, drafts and remittances. The forces of deregulation, technology and growing customer sophistication are broadly likely to have an impact in India. But Indian bankers can eventually expect to face an environment marked by growing competition, pressure on margins and

[39] ukumaran K. (1996) "Indian Banking: Past, Present and Future" , in challenges to Indian Banking (Ed. Narendra Jadhav) Mac Millan India Ltd. p.36

increased risks. Indian banks do not show the characteristics of efficient competitors in the banking markets, the better managed institutions will soon be making significantly progress in this sector. In the wake of liberalization banks will also have to pay great attention to strategic management, strategic planning and to greater specialization in the technical aspects of lending and credit evaluation. The Indian banks are decades behind the West and Japan and the newly industrialized in computerization and mechanization.[40]

The man power employed in banks could not cope with this work load due to ineffective work technology and growing culture of work avoidance. This resulted in poor customer service, increase in frauds, large number of branches making losses and showing signs of stagnancy or unsatisfactory performance, etc. The rapid expansion of bank braches and spectacular increase in banking operations unaccompanied by proper training of staff and adoption of modern techniques of banking resulted in deteriorating customer services. Banks" productivity had been reduced due to hike in wages and increasing operational cost in banks. Interest spread of banks was also under pressure due to administered rates imposed on the banking system. In order to identify appropriate competitive strategies, Public Sector Banks will have to make a careful study of the market and segment customers into various categories based on their expectations, the extent of competition, customer profitability etc.

SUGGESTIONS:

After studying the Productivity and Profitability Analysis concept, undertaking a preliminary investigation and careful observations as well as on the basis of the analysis and interpretations of the collected data, the researcher has found some suggestions emerge for consideration. On the basis of the study the following suggestions are given to the Public Sector Banks and Private Sector Banks to improve the profitability and raise their productivity:

A. Productivity per Employee:

A comparative study of public sector banks regard to productivity per employee, in public sector banks three banks viz, Central Bank of India, Punjab National Bank and State Bank of India have recorded worst performance. A critical review of the year-to-year performance of these three

[40] Roma R. (1993) "Customer Services in Banks" IBA Bulletin, Vol. XV Jan. p.97

banks reveals that they have shown some improvement in successive years under study. This in itself indicates that the banks have certain untapped potential which if properly oriented can result in a better performance. On the whole the entire group of public sector banks under review presents a dismal picture in terms of employee productivity. Similarly when the group of private sector banks is taken for comparison all the banks have fared well with the sole exception of Development credit Bank and Kotak Mahindra Bank Ltd. Hence the following suggestions are made to improve the situation:

To improve productivity per employee, Public Sector Banks have to either¬ improve deposit and advances rate of the branches or to decrease the number of employee by introducing VRS scheme again.

The banks should adopt more aggressive marketing strategies in line with¬ the new private sector banks to add to the business volumes both in terms of deposits as well as advances.

The major asset of the banks being their human resources, they should be¬ redeployed matching their skill sets and providing on the job training wherever necessary in order to derive optimum level of efficiency and productivity. Apparently there is a mismatch in the deployment of resources, which resulted in lower productivity.

Productivity of labourers can be improved through internet banking and mobile banking so their time to explain each and every transaction to the customers has been saved and they can do their daily work. Now a day ATMs are time saver for banking transactions which adds points in increasing the productivity

In Public Sector Banks, low compensation is the biggest demotivator for¬ the efficient employees. So it is suggested that the pay should be linked to individual performance, group performance and overall business result of the bank. Such a pay structure will motivate the employee.

B. Productivity per Branch:-

A comparative study of public sector banks regard to productivity per branch that the performance of Central bank of India and Dena bank is below average whereas SBI, BOB and

BOI have registered above average performance. Similarly among the private sector banks, the performance of DCB, IndusInd Bank, KMB, and Axis Bank is below average while other banks have fared better. In respect to the average business per branch of public sector banks is way below that of the private sector banks. It is therefore safe to assume that the private sector banks have been implementing a well-defined strategy to perform exceedingly well. The following suggestions are made to improve the productivity per branch in relation to public sector banks.

The productivity related to business per branch was not remarkable in¬ Public Sector Banks. Public Sector Banks either should close down the unviable bank branches by selling out the existing business to some other bank which has been able to maintain a sustainable growth rate or increase the business volume at branches by adopting aggressive marketing strategies and by redeployment of employee wherever necessary.

To improve productivity in the emerging competitive environment, bank¬ should work towards transforming branches from transaction dispenses to relationship centers. The Public Sector Banks in particular can improve their productivity by managing some of the important elements in a rational way.

There is a need to make some practical strategies for the Public Sector¬ Banks to make them as much competitive as new Private Sector Banks.

The men power of branches should be deployed in a proper way. If necessary re deployment and down-sizing of staff should be resorted to. Loss making branches with insignificant level of business should be closed or merge with profit making branch. Further branches should be open at strategic location and business potential of that area should be explored by aggressive marketing and efficient customer service.

Public Sector Banks are required to improve branch business activities.¬ They should concentrate on operating activities of existing branches instead of increasing number of branches.

C. Productivity per unit of Capital:-

A comparative study of public sector banks regard to productivity per unit of capital, the capital productivity in New Private Sector Banks regarding interest earned per unit of capital and spread per unit of capital shows excellent result during the study period. The capital productivity related to interest expenses per unit of capital, Business per unit of capital and net profit per unit of capital was remarkable in Public Sector Banks. Hence the following suggestions are made to improve the situation:

- To improve productivity in the emerging competitive environment, bank should work towards transforming branches from transaction dispenses to relationship centers.
- The Public Sector Banks in particular can improve their productivity by managing some of the important elements in a rational way.
- There is a need to make some practical strategies for the Public Sector Banks to make them as much competitive as New Private Sector Banks.

There was the lack of awareness about banking rules and regulation not only in the private sector and cooperative banks but at many of the small branches even in case of nationalized banks also. This may cause the further delay in the implementation of the transaction and which is ultimately converted into reduction of productivity and the business of banks. To remove this hurdle effective training programme should be arranged for educating the manager cadres or other employees who are concerned with the banking.

REFERENCES

1. Agrawal, O.P., “Modern Banking of India”. New Delhi, Himalaya Publishing House, 2008

2. Bhatt. Chinmayee J, (2012) “An analytical study of financial performance of selected nationalized banks in India” A Thesis Ph. D. (Commerce) to Sardar Patel University.

3. Chandra, Prasanna, “Financial Management – Theory and Practice”. Sixth Edition.

4. Gordon E., Natarajan, K. (2013), “Banking Theory, Law and Practice”. Himalaya Publishing House pp.18-28.

5. Jain, G.L., “Banking and Finance”. New Delhi, F.K. Publication, 2002.

6. Khubchandani, B.S., “Practice and Law of Banking”. Calcutta, Macmillan India Pvt Ltd, 2007.

7. Marvaniya, Nilesh M., (2011), “A Comparative Study of Non-Fund Based Income of Selected Public Sector Banks & Selected Private Sector Banks in India” Thesis Ph.D, Saurashtra University

8. Natarajan S., Parameswaran, R. (2007), “Indian Banking”, S.Chand & Company LTD. New Delhi.

9. Singh, Ravishankar Kumar (2006), “Indian Banking and Financial Sector Reforms Realizing Global Aspirations”, Abhijeet Publications Delhi”.

10. Somashekar, N. T., “Banking”, New Age International Publishers New Delhi”, pp. 136-139.

11. http://shodhganga.inflibnet.ac.in/community-list

12. https://rbi.org.in/home.aspx