CHAPTER – 4

DEVELOPMENTS IN BANKING AFTER PRIVATIZATION
TRENDS IN INDIAN BANKING

Indian Banking Industry - Overview

The main objective of the Indian Banking Sector reforms of the 1990s was to have a good and efficient financial system. As the new economy now continues to grow much higher, new demands are placed on the Banking industry. Higher growth is contributing to increase in higher income categories households and this has led to higher consumption thus ultimately leading to more demand for financial savings. On the production side, industrial production has accelerated, trade has increased in terms of exports thus leading to a lot of investment demand in this area. Thus higher consumer demand and production demand has led banks to bring new and new products and innovate continuously and produce more customized products thereby increasing competition in the sector. If Indian banks have to sustain such high demand pressures it has to expand both organically and inorganically. Looking at the global banking scenario only 22 banks figure in the top list of top 1000 banks and only 5 in the top list of 500 banks. Though banking in India has changed a lot, it has shown signs of transformation whereby it can feature in the top rung of banks. The loan book of the banks has increased tremendously and also the credit has exceeded the deposit growth.

Indian banks have also realized that with organic growth there is a need to grow inorganically as well, to be competitive with other players in the market. For e.g. State Bank if India, India’s largest bank has acquired 76% stake in the Keynian Bank, Giro Commercial Bank. ICICI Bank, Bank of India, Bank of Baroda have also followed the same route. Even nationally banks like Bank of Punjab has been merged with Centurion Bank to form Centurion Bank of Punjab Ltd. Many such instances have started growing in the Indian banking industry thereby giving signals that inorganic growth is important to compete and sustain in the Indian banking industry. To meet
these challenges of growing through inorganic growth and Indian banks going
global, banks have started following international norms. There has been
increased transparency in the system. The use of technology in the banking
industry has changed things a lot, thus creating faster processes, addressing
customer problems in a more efficient way etc. India has also compiled with
all the Core Principles of Effective Banking Supervision of the Basel
Committee. Currently, India has 96 scheduled commercial banks (SCBs) - 27
public sector banks (that is with the Government of India holding a stake), 31
private banks (these do not have government stake; they may be publicly listed
and traded on stock exchanges) and 38 foreign banks. They have a combined
network of over 53,000 branches and 49,000 ATMs.

According to researches carried out by the Reserve Bank of India (RBI), on
an all India basis, 59 per cent of the adult population in the country has bank
accounts and 41 per cent don’t. In rural areas, the coverage of banks is 39 per
cent, against 60 per cent in urban areas. There is only one bank for a
population of 13000. Banking sector in India has been transformed
completely. Presently the latest inclusions such as Internet banking and Core
banking have made banking operations more user friendly and easy. At present
there are 20 public sector banks, State Bank of India and its associate group.
The financial reforms that were initiated in the early 90s and the globalization and liberalization measures brought in a completely new operating environment to the banks those were till then operating in a highly protective milieu. The private banks from the day one of their existence were totally computerized and networked banks as mandated by RBI. The services like ATM, mobile banking, internet banking became popular and this was responsible to took way the clientele from PSBs. So in order to cope with this PSBs approached Core Banking Solutions. The arrival of private banks, foreign banks and measures of reregulation that encouraged the competition has led to a situation where the survival of those who do not join the race will become difficult. Unless the state-of-art IT was introduced as early as possible, winning new business and even holding on to the old one will become increasingly difficult. Private Banks have played a major role in the development of Indian Banking Industry. They have made banking more efficient and customer friendly. In the process they have jolted Public Sector Banks out of complacency and forced them to become more competitive. A country wide survey has revealed that while the private banks have got a tight grip on the purse strings of the salaried class and professionals in the country, a large majority of customers in India still prefer time tested Public Sector Banks for services. With the entry of private players in India services and products like:

- Anywhere Banking
- Telebanking
- Internet Banking…..are becoming buzzwords

Banks are trying to cope with the competition by:

- Innovative and attractively packaged services to customers

The core issues faced by banks today are on the fronts of: customer’s service expectations, cutting operational costs and managing competition through technology.
As India began the era of globalization, the banking industry which was till then dominated by public sector faced enormous competition from private and foreign entrants. Customer attraction and retention proved to be a big challenge and public sector banks had to look out for innovative ways to keep their customers from moving to the nearby private or foreign bank, which were then offering better services with better quality and hospitality. In this competitive and technology driven period, Public Sector Banks had to strive hard to attract, retain and enlarge their customer banks and hence Customer Relationship Marketing became the buzzword.

With the entry of private banks in banking industry public sector banks faced tough competition. In order to survive in competitive environment several changes were made by public sector banks in different aspects which include:

- Automation i.e. massive computerization
- Core banking solutions
- Business Extension i.e. integrating traditional banking service with strategic tie ups like pension funds, insurance, advisory services etc.
- More and more branches
- Employee development i.e. well trained employees to work in the competitive environment. With computerization initially the employees use to keep account books handwritten but with the changing environment they were given training to use the computerized banking. Also hardworking and dedicated employees can help the public sector banks to face the competition. That's why nowadays bank employees are chosen from a well qualified and talented chunk of population.
- Marketing Initiatives i.e. the concept of relationship marketing evolved.
With India experiencing a cycle of growth, the Rs 64 trillion (US$ 1.25 trillion)-Indian Banking industry is poised to grow exponentially as the sector reflects the health of an economy. The pace of development for the Indian banking industry has been tremendous over the past decade. As the world reels from the global financial meltdown, India’s banking sector has been one of the very few to actually maintain resilience while continuing to provide growth opportunities, a feat unlikely to be matched by other developed markets around the world. The overall capital adequacy of the Indian banking sector has touched 14% as on March 31, 2011 and the profitability of Indian banks had been maintained at around 15% during the last five years. According to the world's largest rating agency, Standard & Poor (S&P)'s Ratings Services, India's banking system has a high level of stable, core customer deposits supported by the system's good franchise, extensive branch networks, and large, yet growing, domestic savings. In fact, the next three decades are highly crucial and opportunity-oriented for the Indian banking industry, which is primarily driven by demographics and reforms. In the present competitive era, change and dynamism have become the order of the day and Indian banking sector is no exception to it. The changes staring in the face of bankers relates to the fundamental way of banking—which is going through rapid transformation in the world of today. Adjust, adapt and change should be the key mantra. The three elements which determine the success of the Indian banking industry are technology, people and customer. The advancement in communication and information technology is gradually blurring the division between banking and non banking financial institutions. The Indian banking sector keeping up with this competition is no more confined to lending and borrowing activities. Banks in India – both public and private – have opened up to provide a plethora of services like insurance, DEMATs, etc., thanks to the IT era. The success of such wide array of services and hence the profitability of Indian banking sector however depends ultimately on the satisfaction of customers availing them. According to a survey conducted by Federation of Indian Chambers of Commerce and Industry 2010, the major challenge faced by banks today is the ever rising customer expectation as well as risk management and maintaining growth rate. In the competitive era,
Indian banks will have to strive hard to satisfy, retain and enlarge their customer base. The objective of customer satisfaction could be attained by building closer relationships with the customers. Such mutually binding closer relationships resulted in better returns to the organizations through increased use of services by the loyal customers and referrals by satisfied customers which bring in new customers. Thus customer relationship plays an important role in enhancing customer satisfaction, loyalty, customer base and hence profitability. The concept of relationship marketing was first introduced in the services marketing literature in early 1980s.

Prior to deregulation the public sector banks of India had the choice of being indifferent to its customers as they were operating in an almost monopoly market. However with deregulation, liberalization and globalization, the competition in Indian banking sector has grown so intense that banking services are almost available at door steps of customers today. This forces the public sector banks of India to adapt and innovate to keep pace with the competition from private sector and foreign banks. Thus public sector banks can no longer afford to lose their customers and it thereby becomes mandatory for them to adopt CRM practices if they have to continue playing in the market. A survey conducted by State Bank of India (Nov 2010) observed that while foreign and private banks share of younger customers is over 60% PSU banks have only 32% customers under the age of 40. Private sector banks were also found to have a much higher share of the more profitable mass affluent segment.

Though the Indian public sector banks have recently woke up to this low numbers, they are at lower levels compared to their competitors with respect to CRM practices towards attracting customers. Customer service levels, in-branch sales engine, proactive sales, usage of ATMs etc are at lower levels for the public sector banks. To overcome such low levels, it becomes mandatory for the public sector banks to shed their ancient practices of bureaucracy and red tapism and adopt practices which are customer friendly which is the only way out to meet the growing competition.
With the entry of private players the traditional transaction marketing changed into relationship marketing:

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<tr>
<th>Transaction Marketing</th>
<th>Relationship Marketing</th>
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<td>- Focus on single sale</td>
<td>- Focus on customer retention</td>
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<tr>
<td>- Orientation on product features</td>
<td>- Orientation on product benefits</td>
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<tr>
<td>- Little emphasis on customer</td>
<td>- High customer service</td>
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<tr>
<td>- Limited customer commitment</td>
<td>- High customer commitment</td>
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<tr>
<td>- Moderate customer contact</td>
<td>- High customer contact</td>
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<td>- Quality is primarily a concern</td>
<td>- Quality is a great matter of concern</td>
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Case Study of State Bank of India: how it coped the competition which emerged from arrival of private banks

After independence there was a phase of nationalization of banks whose main aim was to make it reach its clients in rural areas and be able to provide them with quality services and that occurred more in 1969, in that year only 14 banks were nationalized and in 1980 seven more banks. In the era of 1970s & 1980s there was a lack of communication and power hindered in the banks and they face problem in maintaining correct Information system as the account information was typically maintained at local branches with either semi-automated or manual ledger card processing, which was the major obstacle in the growth of the banking sector. Till then SBI’s branches were spread all over India and people had trust on this bank. For increasing popularity bank was not putting some extra efforts on its team, infrastructure, networking, etc but it become popular as there was limited number of competitors and no private player till 1990.
Then During the 1990s, the Indian economy began a period of rapid growth as the country's low labor costs, intellectual capital, and improving telecommunications technology allowed India to offer its commercial services on a global basis. The private-sector banks, such as ICICI Bank and HDFC Bank, altered the banking landscape in India.

After liberalization SBI hited adversely by the private players and lost their customer base, as private players know one thing that SBI had large but unsatisfied customer base. The bureaucratic nature of the bank's (SBI) management left little room for personal initiative, nor incentive for controlling costs. Moreover Private players studied the banking market: poor service quality, lack of innovation, manual records, rigid attitude, resistance to change, employee resistance, lack of automation etc. In fact, this technology-savvy market segment viewed the public-sector banks as technology laggards that could not meet their banking needs. Till then relationship marketing concept was not introduced in SBI which further squeeze the customer base of SBI. As a result, the Indian government sought to have the public-sector banks modernize their core banking systems. That was the tough phase for the bank as market was opened for private players, quality of services of SBI were not good, manual working- no automation, employees were not having active approach towards their work, no creativity and innovation in the product offering, very less use of marketing activities to attract customers. When a concern faced all these problems, it means there is no space for self marketing. In-fact in that phase people even didn’t know the meaning of self marketing.

But when private player jumped into Indian market then there was a drastic change in the Indian banking system. Because of sharp edge competition SBI change its approach and outlook, which includes:

1. **Automation**
   - Massive Computerization: during 1990s which include implementing a highly customized version of Kindle Banking Systems' Bankmaster core banking system (now owned by Misys), which is helpful in the improvement of efficiency and accuracy of the branches.
• SBI engaged KPMG Peat Marwick (KPMG) in 2000 to develop a technology strategy and a modernization road map for the bank. This effort would encompass the largest 3,300 branches of the bank that were located in city and suburban areas.

• The SBI selected Tata Consultancy Services to customize the software (BaNCS Core Banking), implement the new core system, and provide ongoing operational support for its centralized information technology. The overall effort included the conversion of approximately 140 million accounts held at 14,600 domestic branches of SBI and its affiliate banks.

• To remain competitive with its private-sector counterparts, in 2002, SBI began the largest implementation of a centralized core system ever undertaken in the banking industry.

2. Business extension

• The bank is entering into many new businesses with strategic tie ups – Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc – each one of these initiatives having a huge potential for growth.

• It is consolidating its global treasury operations and entering into structured products and derivative instruments. Today, the Bank is the largest provider of infrastructure debt and the largest arranger of external commercial borrowings in the country. It is the only Indian bank to feature in the Fortune 500 list.

• The bank is also looking at opportunities to grow in size in India as well as internationally. It presently has 82 foreign offices in 32 countries across the globe. It has also 7 Subsidiaries in India – SBI Capital Markets, SBICAP Securities, SBI DFHI, SBI Factors, SBI Life and SBI Cards - forming a formidable group in the Indian Banking scenario. It is in the process of raising capital for its growth and also consolidating its various holdings.
SBI also introduced E-banking, in which it offered all the branch level services and other like E-tax, E-rail reservation etc.

3. Networking of branches

- The Bank is changing outdated front and back end processes to modern customer friendly processes to help improve the total customer experience. With about 8500 of its own 10000 branches and another 5100 branches of its Associate Banks already networked, today it offers the largest banking network to the Indian customer.

- The Bank is also in the process of providing complete payment solution to its clientele with its over 21000 ATMs, and other electronic channels such as Internet banking, debit cards, mobile banking, etc.

4. Employee development

- With four national level Apex Training Colleges and 54 learning Centre’s spread all over the country the Bank is continuously engaged in skill enhancement of its employees.

- In a recently concluded mass internal communication program termed ‘Parivartan’ the Bank rolled out over 3300 two day workshops across the country and covered over 130,000 employees in a period of 100 days using about 400 Trainers, to drive home the message of Change and inclusiveness. The workshops fired the imagination of the employees with some other banks in India as well as other Public Sector Organizations seeking to emulate the programme.

- State Bank of India adopted the e-Learning mode. V2LearnTech designed SBI’s training methodology and delivered a mix of classroom training involving lectures, group discussions, case studies, structured exercises, audio-visuals, project work, lab training including computer based training etc.
5. Marketing Initiatives

Now bank is putting efforts in increasing the marketing activities of the customers. SBI carried out various marketing initiatives to enhance its reach. They include segregating and targeting existing high value customers, cross sales of other products, setting up call centers and outbound sales force to secure new customers. Plans were also made to utilize database marketing to pursue large and medium sized corporate, government and trade finance customers. Database marketing was expected to draw increased revenue from cross selling, lower costs and increased customer loyalty. SBI also introduced various other ways of reaching out to customers like extension of hours of work and aggressive marketing through print and television media. SBI increased daily working hours by two hours and Sunday banking was introduced.

SBI is a customer preferred bank. Common public considered its funds secure and safe in this bank. In self marketing concept, one bank need not to put extra efforts or money but it need to improve its day to day working and extend its reach to the customers. With this approach SBI undertook above mentioned step, which is help in spreading positive word of mouth and regaining trust of public
Consequent to nationalization in 1969 and economic liberalization in 1991, banks in India are on fast track growth in size, technology and deliverables to customers. Every aspect of banking will be transformed by new technology by 2020. Customer friendly products, delivery channels, relationship banking, dependency on IT systems and competitive pricing would be the driving forces, but a pressure cooker atmosphere cannot be avoided.

The most successful institutions will be those that combine visionary technology and very competitive pricing with strong relationships and brands built on trust with previous indepth experience of the client business.

Banks would have adopted the following strategies to move to hi-tech banking as a necessity of e-commerce, e-banking etc.

- Identification of select branches from out of the entire spread of the branch network to provide innovative services.
- In the scenario of severe competition and escalating expectation of the customers for newer products and improved as well as alternative delivery channels, the nerve centre of banking will be redefined.
- The key to survival of banks, therefore, is retention of customer Loyalty by providing value added services tailored to their needs, using state-of-the-art technology, instead of relying on outdated practices.
- With the identified select number of branches for creating hi-tech banking, an ideal centralised solution can be considered. A countrywide network of computers could offer banking products to select corporate clients and high net worth individuals.
• Needless to say, flawless security and seem less integration of operations through untiring efforts of employees and cohesive support from the management would be the key factors that will enable banks to make successful inroads into enabled 'New Age' banking.

• Once the centralised topography is put in place, the infrastructure required for banking and commerce(with the necessary security) can be built to provide state-of-the-art innovative services.

• Flexi-work atmosphere with banking officials working out of their homes, without the need to go to offices, may be put in place. Instead of intrabank cross country transfers, there may be inter bank movement of senior officers in the public sector domain, if at all it remains so.

• Allocation of capital to each product/service and also borrower wise Capital allocation.

There is no way banks can remain lukewarm in their attitude and lackadisical in their approach to hi-tech banking and yet hope to grow. It is clearly a choice of either survival or extension, and that which survives would provide core commercial activity, instead of providing just financial services. The internet would be the engine of the banking revolution in the decade to come, and e-commerce its fuel. Business to Business (B2B) involving business organisation as buyer and seller; Business to Consumer (B2C) involving customisation of business would all pave way for a radical change in the banking habits of the Indian consumer. E-commerce through client and server and M-commerce through mobile agent would fuel the change in banking requirements.
E-banking: The New Age Banking

Technology innovation and fierce competition among existing banks have enabled a wide array of banking products and services, being made available to retail and wholesale customers through an electronic distribution channel, collectively referred to as e-banking. The integration of e-banking applications with legacy systems implies an integrated risk management approach for all banking activities of a banking institution.

Banks have traditionally been in the forefront of harnessing technology to improve products and efficiency. Technology is altering the relationships between banks and its internal and external customers. Technology has also eroded the entry barriers faced by many industries. With one time investment, technology has brought about superior products and channel management with a special focus on customer relationship. The incremental costs incurred for expansion and diversification are also more beneficial.

The major driving force behind the rapid spread of e-banking is its acceptance as an extremely cost effective delivery channel. But on the flip side, it is associated with risks such as reputation risk, security risk, cross-border risk and strategic risk, which are unique to e-banking. Banks need to have an effective disaster recovery plan along with comprehensive risk management system in place to tackle the problems. An effective risk management tool is significant not only to the bank but also to the banking system as a whole. All these issues underscore the importance of sound supervisory policies and a high level of international co-operation among the bank regulators. The Basle Committee on Banking Supervision has taken the lead in this area through the creation of its Electronic Banking Group - a group comprising 17 central banks and bank supervisory agencies in the late 1999. The main focus of this group has been to develop sound risk management practices.

Internet has created plenty of opportunities for players in the banking sector. While the new entrants have the advantage of latest technology, the good-will
of the established banks gives them a special opportunity to lead the online world. By merely putting existing services online won't help the banks in holding their customers close. Instead, banks must learn to capitalize their customers' different online financial-services relationships.

Coming home, India is on the threshold of a major banking revolution with the invasion of net banking. With the concept of payment gateway coming in, banks are vying with one another for the lion's share in the market.