CHAPTER 3

3. A COMPARISION OF MARKETING OF FINANCIAL SERVICES

3.1 INDIAN FINANCIAL SYSTEM

The financial system of India is made up of closely connected and interlinked financial institutions, financial markets, financial instruments and financial services that help in transferring the funds. The Indian financial system performs variety of tasks like encouraging saving, creating wealth, liquidity continuity, and economic development to name a few of their functions. The Indian financial system can be seen as follows
It can be seen from the above that the highest authority is the ministry of finance. It regulates RBI as well as SEBI. Under RBI, there are financial institutions, commercial banks, primary dealers and non banking financial corporation. Financial institutions provide term finance. Some of these institutions are IDBI, ICICI, IFCI, IRCI, etc. IDBI is the apex financial institution. Financial institutions also provide sectoral finance for which there are specialized institutions like Exim Bank, SIDBI, and NABARD etc.

Exim bank caters to export import sector. SIDBI assist small scale industries and NABARD is the apex financial institution for agriculture. Financial institutions also have investment corporations like LIC, GIC, UTI, etc. Financial institutions also include state level institutions like State Financial Corporation, State Industrial Development Corporation etc.

Commercial banks include public sector banks, private sector banks, co-operative banks, rural banks, foreign banks, etc. The other elements of financial market are primary dealers and non banking financial companies. NBFC generally deal with hire purchase, leasing & investment activities. Securities Exchange Board of India regulates mutual funds, venture capital & capital market operations. Capital market includes stock exchanges, brokers, depositors, underwriters, foreign institutional institutions, etc.

Thus India’s financial market consists of large number of network of financial institutions. Financial market plays an important role in an economy contributes to the process of growth and development in variety of ways. These are:

<table>
<thead>
<tr>
<th>1. Mobilisation of saving</th>
<th>2. Promotion of Investment</th>
<th>3. Creation of credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Encourage entrepreneurship</td>
<td>5. Investment in different financial assets</td>
<td>6. Finances Agriculture, Industry &amp; trade</td>
</tr>
<tr>
<td>7. Provide financial services</td>
<td>8. Develop backward areas</td>
<td>9. Promote capital</td>
</tr>
</tbody>
</table>
Before analyzing the details of India’s financial market, let us analyse the broad macroeconomic parameters of Indian economy.

**3.1 (A) MACRO ECONOMIC OVERVIEW OF INDIAN ECONOMY**

It refers to the macroeconomic parameters of Indian economy. The important macroeconomic variables are Gross Domestic Product, Inflation, savings & investments, money supply, balance of payment, exchange rates etc.

The study of macro eco variables is important because it has direct impact on the financial market of an economy i.e. when an economy performs better, financial market also perform better.

Some of the macro economy variables over the period of time can be seen as below.

a. **Gross Domestic Product: -**

One of the most important macroeconomic variables is the Gross Domestic Product. It is the “money value of all goods & services produced in a country during a year.” It is important because it indicates the growth rate, consumption, investment, Aggregate demand, size of the market, income distribution, per capita income, sectoral contribution, inter temporal growth etc.

The trends in GDP over the last few years can be seen as below:

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>9.3</td>
</tr>
<tr>
<td>2008-09</td>
<td>6.7</td>
</tr>
<tr>
<td>2009-10</td>
<td>8.6</td>
</tr>
<tr>
<td>2010-11</td>
<td>8.9</td>
</tr>
</tbody>
</table>
It can be seen from the above table that the GDP growth rate which was 9.3% in 2007-08 declined to 6.7 in subsequent year and again increase to 8.9 in 2010-11. After that it has shown declining trend from 8.9% to 6.7%, 4.5% and marginal increase to 4.7% in 2013-14.

Thus Indian economy has witnessed marginal fall in growth rate during the last few years. At one time it was the largest or fastest growing economy in the world (i.e. 9.3%).

b. Inflation: -

The trends of inflation over the period of time can be seen from the following table.
It can be seen from the above table that WPI which was 3.8% in 2009-10 increased to 9.6% in 2010-11, and then declined continuously to 8.9%, 7.4% and 6.0%. In 2013-14 CPI also declined from 12.4% in 2009-10 to 9.7% in 2013-14.

c. Gross Domestic Savings (GDS): -

Savings are an important aspect of economic development as higher savings lead to higher investment & capital formation. The trends in savings can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>24.8</td>
</tr>
<tr>
<td>2003-04</td>
<td>29.0</td>
</tr>
<tr>
<td>2007-08</td>
<td>36.8</td>
</tr>
<tr>
<td>2009-10</td>
<td>33.7</td>
</tr>
<tr>
<td>2012-13</td>
<td>30.1</td>
</tr>
</tbody>
</table>
It can be seen from the above table that GDS which was 24.8% of GDP in 2001-02 increased gradually to 36.8% in 2007-08. Subsequently there is gradual decline in savings to 33.7% in 2009-10 and 30.1% in 2012-13.

d. Balance of Payment: -

India’s balance of payment position over the period can be seen as below. (Rs in crores)

<table>
<thead>
<tr>
<th>Description</th>
<th>2000-01</th>
<th>2009-10</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>264589</td>
<td>1423200</td>
<td>2815918</td>
</tr>
<tr>
<td>Exports</td>
<td>207852</td>
<td>863300</td>
<td>1931074</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-56737</td>
<td>-559900</td>
<td>-884845</td>
</tr>
<tr>
<td>Capital A/C</td>
<td>39241</td>
<td>243900</td>
<td>283804</td>
</tr>
<tr>
<td>Overall Balance</td>
<td>27643</td>
<td>64200</td>
<td>96054</td>
</tr>
</tbody>
</table>

(Source Eco Survey 2013-14)
It can be seen that India’s trade balance which was Rs. 56737 crore (minus) in 2001 increased to - Rs. 559900 Crore and further to Rs. – 884845 crores in 2013-14.

However overall balance of payment position is comfortable and positive.

e. Exchange Rate: -

The trends in India’s forex reserves and exchange rate can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exchange rate (Rs./dollar)</th>
<th>Forex Reserves (USD Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>47.44</td>
<td>279</td>
</tr>
<tr>
<td>2010-11</td>
<td>45.56</td>
<td>304</td>
</tr>
<tr>
<td>2011-12</td>
<td>47.92</td>
<td>294</td>
</tr>
<tr>
<td>2012-13</td>
<td>54.51</td>
<td>292</td>
</tr>
<tr>
<td>2013-14</td>
<td>60.50</td>
<td>304</td>
</tr>
</tbody>
</table>

(Source Eco Survey 2013-14)
It can be seen that exchange rate which was Rs. 47.44 in 2009-10 increased to Rs. 60.50 in 2013-14. India’s forex reserves which were 279 USD billion in 2009-10 increased to 304 USD billion.
3.1.1 FINANCIAL INSTITUTION

Financial institutions are the organizations whose main task is to act as an institution that moves money from the people who possesses money to the people who wants money. They also provide a plethora of financial services to the society. Financial institutions comprises of organizations whose main focus area is to participate in the countries payments mechanism i.e. they offer transactionary services and credit creation in the system.

The Financial institutions are further classified into Banking and Non Banking Financial Companies (NBFC’s) compartment. Banking System is further classified into either Public Sector Banks, Private Sector Banks or may be Foreign Sector Banks. Whereas, the Non Banking Financial Companies are those companies who are into the business of finance but does not act as a bank, to name a few of those we have companies like Life Insurance Corporation, Unit Trust of India, Industrial Development Bank of India, etc.

The Non Banking Financial Intermediaries also include intermediaries such as Investment Trusts, Nidhi’s, Mutual Funds, Chit Funds, etc. The Banks can advance credit by creating claims against themselves and Non Banking Finance Companies can lend money only out of their resources own by them or generated by them.

A) Non banking Financial Companies

Non banking financial companies are heterogeneous groups which provide finance to different purposes. NBFC are rapidly expanding and playing a significant role in India’s financial market. These companies are classified as Asset Finance Companies (AFC), Investment Companies (IC), Loan Companies (LC), Infrastructural finance companies (IFC) and Core Investment companies (CIC).

The trends in the AUM of NBFC over the period can be seen with the help of following table that gives a snapshot of the non – banking finance companies and their relative year
wise allocation and investment of the assets under management that gives a brief introduction about how the money of investors that have been invested and trust of AMC has gone in a progressive way, thus the periodic view of AUM of these non banks are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>AUM (Million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>20</td>
</tr>
<tr>
<td>2008</td>
<td>35</td>
</tr>
<tr>
<td>2009</td>
<td>34</td>
</tr>
<tr>
<td>2010</td>
<td>39</td>
</tr>
<tr>
<td>2011</td>
<td>49</td>
</tr>
<tr>
<td>2012</td>
<td>61</td>
</tr>
<tr>
<td>2013</td>
<td>64</td>
</tr>
</tbody>
</table>

(Source Handbook of statistics SEBI)

It can be seen from table that total AUM of NBFC raised from $ 20 million in 2007 to $ 64 million in 2013. Thus it has increased by three times over period. The CAGR is 17%.

Thus NBFC are growing and become an important segment in retail finance. They are in closed competition with banks in retail financing.
The share of NBFC and commercial banks in retail financing can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Banks</th>
<th>NBFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>74</td>
<td>26</td>
</tr>
<tr>
<td>2008</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td>2009</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>2010</td>
<td>62</td>
<td>38</td>
</tr>
<tr>
<td>2013</td>
<td>53</td>
<td>47</td>
</tr>
</tbody>
</table>

(Source Handbook of statistics SEBI)

It can be seen from table that share of NBFC increased from 26% in 2007 to 38% in 2010.

In case of NBFC, major financing is for vertical accounting for 33%, followed by property financing and gold loan.
Thus NBFC are emerging as an important segment in financial market in India and in retail finance giving stiff competition to commercial banks. NBFC are one stop destination for all financial needs of a retail customer.

3.1.2 FINANCIAL MARKET

Financial market refers to any place where financial transactions are carried out or any place where buying and selling of financial assets take place. The components are as such

Thus financial market can be classified into two sectors namely organized financial market and the unorganized financial market.
**Organized Financial Market:**

It refers to a market which has well organized rules and regulations. It is regulated by the Central Bank of the country and other regulatory agencies.

The organized financial market can be classified into two categories namely

(1) Money Market  
(2) Capital Market

**(1) Money Market:**

It is a market which deals with short term funds, assets, securities i.e. funds used for a period of less than one year. Money market includes

<table>
<thead>
<tr>
<th>(i) Call Money Market</th>
<th>(ii) Commercial Bill market</th>
</tr>
</thead>
<tbody>
<tr>
<td>(iii) Treasury Bill Market</td>
<td>(iv) Short Term Loan Market</td>
</tr>
</tbody>
</table>

**(i) Call Money Market:**

It is a market for very short period funds from 1 day to 14 days. The funds are repayable on demand. In the call money market interest varies from day to day basis. Banks also lend money for such short period because it brings income to the banks and at the same time funds are highly liquid. Thus it provides liquidity as well as profitability to banks.

**(ii) Commercial Bill Market:**

It includes trade transactions. For example in case of credit sale seller draws a bill of exchange on buyer. The buyer pays bill at some future date. However sellers get bill discounted and get immediate cash. However in India bill market is not fully developed.

**(iii) Treasury Bill Market:**

A treasury bill is a promissory note issued by the government. It is an instrument through which government borrows money for short period. Such bills are highly liquid. Financial institutions purchase these bills as they guarantee some returns of repayment. Treasury
bills are for a period of 91 days or 182 days or 364 days only. Banks also make investment in government bills.

(iv) Short Term Loan Market:
Commercial banks generally provide short term loan to business houses or corporate. Such loan is given for working capital requirement commercial banks do not provide long term finance for fixed capital requirements because banks depend on public deposits and these deposits can be withdrawn at any time. Therefore commercial banks cannot block public of money for long time.

(2) Capital Market:
It is a market for long term finance. It deals with long term securities which are for a period of more than one year. It consist of

| (i) Industrial Securities Market | (ii) Government Securities Market | (iii) Long Term Loan Market |

(i) Industrial Securities Market:
It is a market for shares, debentures and bonds issued by industrial houses to raise capital from the market. It includes primary market and secondary market.

Primary Market refers to a market in which securities are issued by a company for the first time. It is IPO (Initial Public Offer) or New Issue Market. A company raises capital in three ways namely Public issue, Right issue and Private Placement. When a company raises capital from the public for the first time it is called public issue. On the other hand in the case of right issue a company raises additional capital by offering securities to the existing shareholders. In the case of private placement securities are offered to small group of investors privately.

Secondary Market is a market for traded securities. Securities are traded through stock exchanges. Stock exchange lists all the securities and its values and trading takes place on
daily basis. For example National Stock Exchange and Bombay Stock Exchange. The stock market is regulated by SEBI (Securities Exchange Board of India)

(ii) Government Securities Market:
It is a market where government securities are traded. These securities are issued by the central government, state government, semi government authorities etc. These securities are for long period. These are in the form of stock certificates, promissory notes, bearer bonds. Government raises fund through these securities.

(iii) Long Term Loan Market:
It is a market for long term funds. It includes various term lending institutions or industrial banks like IDBI, ICICI, IFCI, SFCs, etc. Long term loan market includes term loan, mortgages market & financial guarantee market.

Term loan market means market for long term loan i.e. 5 years, 10 years, 15 years or more. Industrial banks offer long term loan for fixed capital requirement. Industrial banks provide long term loan because they depend on shares and debentures and these shares and debentures are openly traded in the stock market. Mortgage market refers to market for long term loan against certain mortgage like real estate or property. The mortgage may be equitable or legal mortgage. It may be first charge or second charge. In the case of equitable mortgage only the property documents or title is kept as security while in the case of legal mortgage the property is transferred in the name of the lender or financier.

First charge means the assets are transferred as security for the first time and in the case of second charge means the same property is again mortgaged to the same property is again mortgaged to third party. Banks provide housing loan by mortgaging properties. Financial guarantee market is a market in which funds are provided against the guarantee of some person. Guarantee can be financial guarantee or performance guarantee. Such guarantee is provided by commercial banks, industrial banks, central government institutions, etc. Thus financial market consists of organized market and unorganized market. The organized market consists of money market and capital market. Capital
market includes industrial banks as well as primary and secondary market or stock market.

### 3.1.3 FINANCIAL INTERMEDIARIES/FINANCIAL SERVICES

In financial market there are multiple financial intermediaries/financial services which functions as a link between buyer & seller or those who want to save and those who want to invest or borrow. These intermediaries can be classified as

Thus India’s financial market is highly diversified with multiple financial intermediaries in the money market as well as capital market. These intermediaries operate in the market with the help of financial instruments. These instruments are shares, debentures, mutual funds, bill of exchange, treasury bills etc.
3.2 NATURE AND SCOPE OF FINANCIAL SERVICES

3.2.1 INTRODUCTION:

The financial system of an economy includes all financial institutions and financial markets. All those services which are provided by these financial institutions can be brought under financial services.

Financial markets can also be called financial intermediation. Financial intermediation is a process by which funds are mobilized from large number of savers and make it available to those investors who need funds for investment especially the corporate business houses or corporate customers.

There are two sources of revenue or earnings for a financial service company and they can be identified with the help of the following points

1. Fund based sources

Fund based income is mainly from the different in the rate of interest i.e. difference between interest earned and interest paid.

2. Fee based sources

Financial intermediaries also undertake various activities which provide a lump sum fee to the financial company; such fee is collected for providing consultancy and support services such as Merchant banking, mutual funds, loan syndication, etc.
3.2.2 CAPITAL MARKET & MONEY MARKET:
The financial services industry can be classified into two categories namely, Money Market Intermediation and Capital Market Intermediation. Thus financial services are the products of both money market as well as capital market. Both these markets deal with financial intermediation. The basic difference can be seen as below:

- Money market is the financial market for short term borrowing and lending. It provides short term funding usually for one year. Capital market is the financial market for long term borrowing and lending usually more than 5 years.

- Money market generally provides funds for working capital requirement while capital markets generally provide funds for fixed capital requirements.

- The common instruments of money markets are Bill of exchange, treasury bills, calls loans, short term government securities, commercial paper, certificate of deposits, etc. The instrument of capital markets are shares, debentures, public deposits of business houses, bonds and other long term securities of government.

- Money market provides assistance in solving liquidity problems of banks and govt. While capital market assist in providing long term capital to industries and govt.

- The main institutions of money market are central bank, commercial banks, financial institutions, foreign banks, co-operative banks, etc. On the other hand the institution of capital market are the various term lending institutions like IDBI, IFCI, ICICI, SFCs, Insurance companies, etc.

- Money market is controlled by RBI or central bank of the country. RBI regulates the rate of interest in money market. On the other hand interest and dividend in the capital market forces of demand and supply and it is regulated by SEBI.

Thus, financial services are offered by both money market as well as capital market.
3.2.3 SCOPE OF FINANCIAL SERVICES:

Financial services cover a wide range of activities. They can be broadly classified into two categories namely:
(1) Traditional Activities
(2) Modern Activities

(1) Traditional Activities:

Financial intermediaries have been providing wide ranging services since the beginning or emergence of financial markets in India under money market as well as capital market. These services can be further classified as under:

![Diagram showing Traditional Activities]

- **a. Fund based activities:**
  The activities cover under fund based scheme comprise of techniques such as:
  1. Underwriting or investment in shares, debentures, bonds, new issues (primary market)
  2. Dealing in secondary market activities
  3. Money market instruments like commercial paper, certificate of deposit, treasury bills.
  4. Equipment leasing, hire purchase, venture capital, seed capital
  5. Foreign exchange market.
b. Non-fund based activities:
These activities under non fund based are also called as Fee Based Services and includes
1. Managing the capital issue in accordance with the SEBI guidelines
2. Placement of capital and debt instruments
3. Arrangement of funds for project cost
4. Project based consultancy in clearance from the government.

(2) Modern Activities:
Financial intermediaries also provide innumerable activities today which are mostly non fund based activities. These are:
1. Project advisory services
2. Planning for merger and acquisition
3. Guidance in capital restructuring
4. Trustee to the debenture holders
5. Management structure changes
6. Structuring of financial collaboration
7. Restructuring of sick unit.
8. Hedging of risk due to change in exchange rate, rate of interest
9. Advising on the sources of fund
10. Undertaking services related to capital market
11. Promoting credit rating agencies
3.2.4 KINDS OF FINANCIAL SERVICES

1. Merchant Banking

2. Portfolio Management

3. Money Market Operations

4. Investment Consultancy

5. Issue House Management

6. Venture Capital

7. Stock broking, Underwriting

8. Advice on Mergers, Capital Restructuring

9. Mutual Funds

10. Housing Finances

11. Leasing and Hire Purchases

12. Other Services

Different institution in non bank financial sector provide non bank financial services like Banks, Non Banking Financial Companies, Subsidiaries of banks & Financial Institutions, Private sector investments and Finance companies, Investment consultants, Underwriters portfolio managers, leasing company, etc. Some of the financial services are detailed as under:
3.2.4. (1) MERCHANT BANKING:

In India merchant banking is considered to be a non fund based and non banking services. Merchant bankers are neither bankers nor merchant.

SEBI (merchant bankers) Rules 1992 defines a merchant banker is “any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager consultant, advisor or rendering corporate advisory services to such issue management”.

The reasons for the growth of merchant bankers in India are:

a. Changing nature of corporate entities
b. Complexity of rules and procedures
c. Rapid Industrialization
d. Specialized services needed by small medium enterprises
e. Expansion of the size of market due to globalisation
f. Growing competition and need for cost reduction and efficient use of resources
g. Increase in number of joint ventures in India and abroad
h. Rapid increase in number of financial services and methods

The objectives of merchant banking are:

i. Capital formation and economic development of the country
ii. Creation of the secondary market and help in discounting and rediscounting of bills
iii. Support foreign exchange transactions within the framework of rules and regulations
iv. Providing support and guidance to industries in the areas of underwriting, advising
v. Promotion of venture capital fund
vi. Help in project formulation and development
vii. Assist in business diversification, modernization and acceleration of business activities in the country.
viii. Support mobilization of resources.
The main features of merchant bankers are:
1) Undertake the business of issue management
2) Services cover buying, selling and subscribing to securities
3) Acts as a manager, consultant to issue management
4) Acts as a financial intermediary between those who demand funds and those who supply funds.
5) Provide specialist services like acceptance of bill of exchange, corporate finance, portfolio management, underwriting and banking services
6) Engage in money market activities
7) Provide innovative and sophisticated services on a global level.

In India merchant banking activities can be undertaken by any of following organization:
• Institutional Base
• Banker Base
• Private Base
• Broker Base

Merchant banking differs from commercial banks in the following respect:
1. Banks take care of the needs of individuals as well as corporates but merchant banker takes care of the needs of business firms.
2. Banks accept account of the public but merchant bankers do not accept account of the public.
3. Banks provide financial assistance in the form of short term loan or long term.
4. Banks accept deposits of the public but merchant bankers do not accept deposits from the public.
5. Banks can be related to the secondary market while merchant banker related to the primary market.
6. Banks are asset oriented institutions while merchant bankers are management oriented institution.
Merchant bankers are classified into four types namely:
1) Management
2) Consultancy
3) Advising
4) Underwriting

In India merchant banking are classified as:
a. Institution based merchant banking
b. Banker based merchant banking
c. Broker based merchant banking
d. Private Merchant Banker

Institution based merchant banking acts as a subsidiary of any private institutions. On the other hand banker based merchant banking’s are subsidiaries and commercial banks or nationalized banks or foreign banks. Broker who are qualified also undertake merchant banking services like portfolio management. The last type is a private company run on the basis of sole trader or Partnership Company, private limited, public limited also works as merchant banker.

The various functions of merchant bankers are:
1. Corporate Counseling:
Merchant banker acts as corporate counselor in managing enterprise efficiently through proper management of financial resources. They provide complete guidance to corporate houses with respect to choice of products, market studies, cost analysis, investment decisions, corporate restructuring, portfolio management, financial forecasting, etc.

2. Project Counseling:
Merchant banker also provide services with respect to project counseling such as preparation of project report, project appraisal or feasibility report, capital structure of the
project, technical, economic and financial viability, compliance of government procedures, rules and regulations like obtaining letter of intent, license, etc.

3. Management of Debt & Equity offerings:
Another major and most important function of merchant banker is the management of debt and equity offerings. This function include pricing of the new issue, underwriting support, registration of the documents, marketing of the public issue, allotment of shares, refund of funds, listing as stock exchange. Many banks have taken up this function of merchant banking as a part of banking activities. Banks have the advantage of many branches spread all over the country. Even private merchant banker undertakes this function through commercial banks only. There is rapid expansion in companies entering with IPO and thus there is greater demand of merchant bankers for taking up this work.

4. Loan Syndication:
It means the project is financed by more than one term lending institution. Merchant banks help the corporate to obtain such loan from different financial institutions loan syndication involves various steps such as finalization of the project cost, preparation of financial plans, preparing loan application, attending meeting with banks officials, arranging joint meeting of different banks, preparation of documents, negotiation the terms of lending etc. Generally loan syndication is done for large investment projects.

5. Issue Management:
Merchant banker also performs the function of issue management i.e. management of the entire public issue of a corporate. It includes public issue, rights issues, debenture issue, non resident’s issues, etc.

Merchant banker undertake entire work related to marketing of public issue, advertising and publicity, finalization the date of opening and closing, registration of prospectus pricing of the issue, advising the company on timing of public issue, obtaining permission of the SEBI for reservation of shares for non residents, employees and
business associates, selection of broker, banker, compliance with all rules of RBI & SBI with respect to public issue, monitoring the progress etc.

6. Underwriting of capital issues:
Corporate who raise capital in the stock market also engage merchant banker to undertake the entire process of underwriting the issue. The merchant bank decides the stocks to be issued, the price, the timing of such issues, etc.

The entire compliance work is done by merchant banker. Merchant baker also ensures minimum subscription for the capital issue.

Sometimes in the case of large stock issue, two or more merchant bankers join together, one being the lead underwriter. Recently State Bank of India announced raising of capital of Rs. 1500 crore for which it has appointed 15 merchant bankers.

7. Management of Fixed Deposits of Joint Stock Companies:
Merchant bankers also undertake the function of management of fixed deposits of joint stock companies.

It advises companies on the amount of fixed deposit that can be raised from public, the terms and conditions of such deposits including advertisement and publicity, compliance with all rules and regulations with RBI, companies act, and collections of such deposits and maintaining records of such deposits.

8. Portfolio Management:
It refers to management of portfolio of investors. It is a mix of different stocks which give maximum revenue to the investors. The investors aim at safety of funds, liquidity and profitability. Merchant banker advise on such portfolio which provide maximum returns with minimum risk. Merchant banker also undertake buying and selling of securities on behalf of investors.
9. Bought out Deals:
It is a deal in which a company sells its shares to an agent or merchant banker. It helps company in the easy and quick sale of securities at lower cost. Merchant banker advises on the amount of equity to be offered to public.

10. Venture Capital:
Venture capital refers to a funding of high technology & high risk projects in which banks hesitate to finance in the early stage of project development. Merchant banks provide services of providing such fund for such projects which are started by unknown entrepreneur having higher profit potential.

11. Merger & Acquisition:
Merchant banker also provides services for merger and acquisition by analyzing the strengths and weaknesses of business, monitoring and implementing the merger and acquisition schemes, advising an acquisition plans etc.

12. Other Services:
Besides above function merchant banker also undertake various other services such as leasing, stock broking, insurance broking, underwriting, investment research, economic research, forex advisory services, currency derivatives, etc. In India merchant banker needs to register with SEBI and obtain certificate of registration. Merchant banking activities are regulated by SEBI. There has been continuous expansion of number of merchant banker in India. This can be seen as such

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. OF MERCHANT BANKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>128</td>
</tr>
<tr>
<td>2006</td>
<td>130</td>
</tr>
</tbody>
</table>
It can be seen from the above table that the number of merchant banker rose from 128 in 2005 to 198 in 2013. Thus, it includes public sector banks, private sector and foreign merchant bankers.

Some of the important merchant bankers are:

- **Public Sector Merchant Bankers**
  1. SBI Capital Market Ltd.
  2. Punjab National Bank
  3. Bank of Maharashtra
  4. IFCI Financial Services Ltd.
  5. State Bank of Bikaner & Jaipur

- **Private Sector Merchant Bankers**
  1. ICICI Securities Ltd.
  2. Axis Bank Ltd.
  3. Bajaj Capital Fund
  4. Tata Capital Market Ltd.
  5. ICICI Bank Ltd.
  6. Reliance Securities Ltd.
  7. Kotak Mahindra Capital Company Ltd.
  8. Yes Bank Ltd.
• **Foreign Merchant Bankers**

1. Goldman Sachs (India) Securities Private Ltd.
2. Morgan Stanley India Company Private Ltd.
3. Barclays Securities (India) Private Ltd.
4. Bank of America
5. Deutsche Bank
6. Deutsche Equities India Private Ltd.
7. Barclays Bank
**3.2.4 (2) MUTUAL FUNDS**

Mutual Funds can be defined as “the mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives”. Investors who have surplus fund invest in units of mutual fund. This fund is invested into shares debentures and other securities and the profit is distributed among all investors in proportion to the number of units they hold, such mutual funds are quoted on the market but it is not same as shares. The value of a unit varies but generally it is Rs. 10 per unit. A mutual fund is established in the form of a trust which consists of sponsor, trustees, asset Management Company, custodian and transfer agents. SEBI regulates the working of all mutual funds in India. SEBI has framed guidelines for smooth working of mutual funds.

Sponsor refers to the company which has established mutual fund. The sponsor can be a public Ltd. Or private Ltd. Company registered under the company’s act 1956. A sponsor can be more than one company also. Sponsor takes all the initial steps in the establishment of mutual fund with all the compliance with the rules and regulations of SEBI. Once the fund is established then the trust deals with other aspects or functioning of mutual fund. The trust undertakes various functions such as framing of new policies and schemes, getting approval of SEBI, marketing of mutual fund schemes, monitoring the progress of mutual fund, ensuring that the asset management company compliance with all the rules of SEBI, ensuring safety of securities and investments, maintaining proper accounts of all fund or unit holders, supplying them with annual returns. In other words trust takes care of all the activities of Asset Management Company and ensures that the interest of investors is protected and taken care.

The Asset Management Company takes care of the fund by allocating it in different securities. Thus while planning, marketing and collection of fund is the responsibility of trust, its investment and utilization is the task performed by Asset Management Company. The company invests funds in primary market or in secondary market. The Asset management company works under the control of the trust.
The securities in different investment schemes are kept with the custodian. It is the responsibility of the custodian to check all securities, transfer exchange, redemption, and receipt of dividends & maintenance of all the transactions. Asset Management Company has at least 50% of director as independent director not associated with superiors.

Transfer agents undertake the job of day to day number of transactions like purchase, sell or transfer of units by the investors. Mutual funds have outsourced this function to transfer agents. These agents maintain records of all such transactions on behalf of the mutual funds.

Mutual Funds are of different types. Broad classifications of its schemes are as follows:

(1) Structure Based Schemes
(2) Investment Objective Based Schemes
(3) Generic Schemes

(1) Structure Based Schemes:
Structured based mutual funds classified as:
i. Open Ended Schemes
ii. Close Ended Schemes
iii. Internal/Hybrid Schemes

i. Open Ended Schemes:
Under this scheme an investor can invest on a continuous basis, buy or sell any number of units at any time at prices fixed by the mutual fund or at NA declared on daily basis. Thus under this scheme an investor can invest regularly, withdraw regularly, get instant liquidity and there is free entry and exit.

ii. Close Ended Schemes:
Under this scheme an investor can invest a fixed amount on a specified period of time. It has a fixed number of units. Investors can purchase units at the time of initial offer. These
units are traded on stock exchange. Some schemes have option of selling back units to mutual fund.

iii. Internal/Hybrid Schemes:
It combines the feature of open ended as well as close ended schemes. It is traded on stock exchange or open for sale at some period of time.

(2) Investment Objective Based Schemes:
Mutual fund investment objective based schemes can be classified as:

i. Growth Schemes
ii. Income Schemes
iii. Balanced Schemes
iv. Money Market Schemes

i. Growth Schemes:
The major objective of such scheme is capital appreciation over long period of time. A large part of this fund collected is invested in high growth equity shares. The scheme provides the option of dividend or capital appreciation, such funds have higher risk.

ii. Income Schemes:
The major objective of such scheme is to provide regular income to investor. A large part of this fund collected is invested in high yielding bonds, government securities & money market instruments. Such schemes are less risky but appreciation of capital is less as compared to growth schemes. Such funds are not affected due to fluctuation in market.

iii. Balanced Schemes:
The major objective of this scheme is growth or capital appreciation as well as regular income to the investors. Such schemes are suitable to investors who look for moderate growth and regular income.
iv. Money Market Schemes:
The major objective of this scheme is to provide easy liquidity to investors. The funds collected under such schemes are invested in short term money market instruments like treasury bills, certificate of deposits, commercial papers, government securities. Such schemes are less risky and fluctuation in income is also compared to other schemes.

(3) Generic Type Schemes:
This scheme includes various general as well as specific schemes. The general schemes are tax saving schemes, gift fund, fund of fund scheme. The special schemes are Index schemes, sector specific schemes, foreign security scheme, small capital equity schemes, etc.

Mutual funds offer the following benefits:
- Large collection of funds
- Buy cheaper and sell dearer
- Optimum diversification is possible
- Maintains large research team
- Higher return on investment
- Greater accessibility through bank branches
- Direct access to big investments and opportunities
- Diversification of risk
- Limited expenses
- Participation of small investors
- Tax benefits (no tax deduction at source of dividend)
- Greater liquidity
- Transparency & disclosures
- Convenience and flexible to investors
- Mobilisation of savings
- Increase in shareholder’s wealth
- Supporting capital market
However, some of the risks involved in mutual funds are:

- Subject to market risk like fluctuation in market conditions
- Higher risk in pure growth schemes
- Depends on investment expertise of asset management company
- Business risk due to business failure
- Political risk due to change in government

The government of India has allowed commercial banks to start mutual funds as subsidiaries. This will help banks in number of ways. These are:

1. Banks are not in position to provide higher returns on fixed deposits while many financial institutions offer higher returns to investors on various innovative financial services.

2. There is increase in the savings and investment in the economy (as percentage of GDP). Banks have wider network in terms of branches and hence banks can mobilize more funds.

3. Small investors hesitate to invest directly in capital market and hence banks can provide them another option or alternative to invest through mutual funds.

4. Banks can also provide a large variety of financial services to customer and mutual fund provide one such option.

5. Banks can also enter capital market by investing their fund in securities and earn higher returns on investment.

6. Banks are already acting as a merchant banker and hence banks have requisite expertise in managing mutual funds.

7. Banks entry in mutual fund will generate greater competition in the financial market. This will improve quality of customer services.

8. Banks can provide better services to customers as they have branches all over the country, in urban as well as rural areas.

9. Banks can improve their profitability and also diversify their banking operations.
3.2.4 (2A) MUTUAL FUNDS IN INDIA

In India mutual fund industry was set in 1963 with establishment of Unit Trust of India by the Government and RBI.

At that time UTI had monopoly of mutual fund as there was no other competitor. The history of mutual fund industry can be divided into phases

1. First Phase 1964-1987
2. Second Phase 1987-1993
3. Third Phase 1993-2003
4. Fourth Phase 2003- Onwards

1. First Phase 1964-1987:
This phase witnessed the beginning of mutual fund industry in India. It was started with setting up of Unit Trust of India in 1963 by an act of Parliament.

It was under the control of RBI. In the year 1978 UTI was separated from RBI and it came under the control of IDBI (Industrial Development Bank of India).

The first mutual fund scheme was launched in the year 1964. It was a big success as it offered common person to invest in government regulated mutual fund.

At the end of 1988 UTI has Rs. 6700 crores of funds under its various schemes. Thus till 1987 mutual fund remained the monopoly of UTI.

2. Second Phase 1987-1993:
In the year 1987 mutual fund industry witnessed the entry of other public sector banks which include Life Insurance Corporation, General Insurance Corporation of India, State Bank of India, Canara Bank Mutual Fund, Punjab National Bank Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, and Bank of Baroda Mutual Fund.
Thus the period saw entry of many public sector banks in the area of mutual fund. State Bank of India was the first public sector bank to set up mutual fund after UTI.

The entry of many public sector bank resulted in decline of monopoly power of UTI.

Thus the mutual fund industry changed from monopolistic structure to Oligopolistic structure, i.e. from one seller to few sellers. At the end of 1993 the mutual fund industry had assets worth Rs. 47004 crores.

3. Third Phase 1993-2003 (Entry of Private Sector Bank):
This period witnessed entry of private sector banks in the mutual fund industry. Franklin Templeton was the first private sector mutual fund registered.

In the year 1993 mutual fund regulations came into existences with the entry of private sector bank the number of players in the industry started rising.

It provided a variety of options and choices to the investor. The growing competition also resulted in better services to the customers. At the end of 2006 there were 33 mutual funds in India with total assets of Rs. 121805 crores.

This include Rs. 44541 crore of UTI. Thus UTI was the market leader of mutual fund.

4. Fourth Phase 2003 till date:
In the year 2003 UTI was bifurcated into two separate organizations namely Specified Undertaking of UTI (the assets of US 64 schemes) and the second is UTI mutual fund sponsored by SBI, PNB, BOB, LIC, etc.

The last phase witnessed rapid increase in mutual fund investment and this stage can be termed as consolidation of mutual fund industry in India.
The growth of fund over the period of time can be seen as below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. In crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>25</td>
</tr>
<tr>
<td>1987</td>
<td>4564</td>
</tr>
<tr>
<td>1993</td>
<td>47000</td>
</tr>
<tr>
<td>2000</td>
<td>121805</td>
</tr>
<tr>
<td>2003</td>
<td>87190</td>
</tr>
<tr>
<td>2003</td>
<td>79464</td>
</tr>
<tr>
<td>2004</td>
<td>139616</td>
</tr>
<tr>
<td>2005</td>
<td>149554</td>
</tr>
<tr>
<td>2006</td>
<td>231863</td>
</tr>
<tr>
<td>2007</td>
<td>326388</td>
</tr>
<tr>
<td>2008</td>
<td>505152</td>
</tr>
<tr>
<td>2009</td>
<td>417300</td>
</tr>
<tr>
<td>2010</td>
<td>613979</td>
</tr>
<tr>
<td>2011</td>
<td>592250</td>
</tr>
</tbody>
</table>

(Source Handbook of statistics SEBI 2012)
It can be seen from the above table that mutual fund assets which were Rs. 4564 crore in 1987 increased to Rs. 47000 crores in 1993. It rose to Rs. 121805 crore in the year 2000. Rs. 149554 crores in 2005 and then after 2005 there is rapid rise in the assets reaching to the level of Rs. 613979 crore in 2010. Thus the mutual fund industry registered an impressive growth since its inception in 1963. The industry registered a compound growth rate of 22.3%. The impressive growth can be attributed to various factors like rising household income & savings, comprehensive regulatory framework, favorable tax policies, introduction of various new schemes, growing awareness among investors, growing marketing of fund and the role of various distribution agencies. The tax benefits allowed by the government i.e. investment mode under equity linked saving scheme is qualified for tax deduction under section 80 C of Income Tax, has helped the mutual fund industry to attract large fund from investors. With strong growth in the AUM of the mutual fund industry there is increase in its share to GDP. It rose from 4.7% in 2001 to 8.5% in 2009. This can be seen with the help of following table and chart which depicts the way how mutual fund has responded to the growth story of India’s economical life style and has been able to balance the given situation for the upliftment of the country’s saving population into investment band wagon over a period of time.
Thus in India mutual fund industry experienced a rapid rise and today it has become an important segment of India’s financial market or financial services.

The fund mobilized by mutual funds under various schemes as on March 2013 can be seen from the following table. Mutual funds have become more popular with industrial investors. The number of folios of mutual fund can be seen as below:

<table>
<thead>
<tr>
<th>Plan</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 01</td>
<td>4.7</td>
</tr>
<tr>
<td>FY 02</td>
<td>4.8</td>
</tr>
<tr>
<td>FY 03</td>
<td>4.8</td>
</tr>
<tr>
<td>FY 04</td>
<td>5.5</td>
</tr>
<tr>
<td>FY 05</td>
<td>5.2</td>
</tr>
<tr>
<td>FY 06</td>
<td>7.1</td>
</tr>
<tr>
<td>FY 07</td>
<td>8.6</td>
</tr>
<tr>
<td>FY 08</td>
<td>11.7</td>
</tr>
<tr>
<td>FY 09</td>
<td>8.5</td>
</tr>
</tbody>
</table>

(Source Handbook of statistics SEBI)
Table No – 11

Number of Folio’s of Mutual Fund

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporates</td>
<td>377519</td>
<td>391836</td>
</tr>
<tr>
<td>Banks/FI</td>
<td>3671</td>
<td>11883</td>
</tr>
<tr>
<td>FIIs</td>
<td>133</td>
<td>130</td>
</tr>
<tr>
<td>High Net worth Industrial</td>
<td>656334</td>
<td>779226</td>
</tr>
<tr>
<td>Retail Investors</td>
<td>46926405</td>
<td>46051758</td>
</tr>
<tr>
<td>Total</td>
<td>47964062</td>
<td>47234833</td>
</tr>
</tbody>
</table>

(Source Handbook of statistics SEBI)

However mutual funds too face tough competition from other financial institutions offering various alternative modes of investment.

The mutual fund industry faced various problems. Some of them are as follows:

1. Disparity between NAV and listed price:
   Mutual funds have problem of disparity between NAV and listed price i.e. investors are not able to sell their units at market price. Sometimes units are traded at discount.

2. Problem of calculation of NAV:
   There is also problem of calculating NAV. Different companies adopt different method of calculating NAV. Hence it is difficult to make comparison between different funds with different NA.

3. Lack of Transparency:
   There is also problem of lack of transparency. Mutual funds are not providing enough information to the investors and about their fund position from time to time.

4. Problem of poor servicing:
   The services provided by mutual funds are very poor. Investors do not their certificates in time. There is also problem of fake certificates.

5. Dependence on outside Agencies:
Most of the mutual funds do not have their own organization to collect data and undertake research. They depend on outside agencies for the same.

6. Investors compare returns with stock price:
Investors always compare return from unit with returns from the stock market shares. They never realize that units are low risk, long term steady returns instruments.

7. Lack of qualified and skilled manpower:
Mutual funds also face the problem of lack of qualified and skilled manpower. As a result mutual fund are not properly marketed and efficiently managed.

However despite these problems mutual funds continued to remain an important element of India’s financial market. Mutual funds provide a wide range of products to investors especially to low income group people. The SEBI and Government have provided all necessary support for the promotion of mutual fund industry in India.
3.2.4 (3) VENTURE CAPITAL

The concept of venture capital combines two words namely venture it means any business proposal which is uncertain risky and capital means funding the business. Thus venture capital implies financing those businesses which are risky uncertain, high tech which has strong potential to grow or succeed.

A) The main features of venture capital are:
1. It is investment in higher risk and high growth potential project.
2. It is available for commercialization of new ventures, ideas, and technologies.
3. It can be in the form of equity participation
4. Investors may join entrepreneurs as a co-promoter in the business projects and share the risk and rewards.
5. It can be a small scale project or a medium scale project.
6. It is not only the funding of business but also involve continues support in set up, designing, marketing strategies.
7. The main objective of investment is not profit but capital appreciation.
8. The investor disinvests his holdings to the promoter or to the market once the project reaches full potential.

The disinvestion options available in developed countries are selling stake to promoter, public issue, sale to other venture capital funds, sale in OTC market, management buyouts. In India most common disinvestment is promoters buy back.

B) The activities of venture capital include:
1. Seed capital
2. Additional capital to project
3. Project financing
4. Equity financing for taking over all units
5. Funds to new entrepreneurs
6. R & D financing
7. Start-up financing, Development Financing and Turnaround financing

C) The various stages of financing of venture capital can be classified as:

1. Development of an idea (Seed Finance)
Seed finance refers to finance at the initial stage of the project so that the ideas can be translated into a business proposition.

2. Implementation Stage (Start-up finance)
Start up finance refers and finance provided when the business is set up it is given to undertake the actual manufacturing activities or to provide services.

3. Fledging Stage (Additional finance)
Fledging finance refers to additional finance at the stage of manufacturing. When a business unit may not generate sufficient fund, additional finance is given for marketing and promotional activity.

4. Establishment Stage (Establishment finance)
Establishment finance refers to finance for expansion or diversification of business so that the business achieve benefits of large scale production or economies of scale. The business is fully developed and at this stage the venture capitalist disinvests his holding in the business.

D) Venture capital is highly beneficial to the economy, promoters investing public etc. The advantages of venture capital can be seen as below:

1. To investing Public: -
The venture funds have the necessary expertise and skills to analyse the business prospects. The venture fund also takes part in the management of the business. Thus the investing public will be able to reduce the risk.

2. To Promoters: -
Venture capital provides a strong base to business by providing finance. Promoters get quick finance to convert their ideas into business. Promoters cannot get such fund from banks or public.

Further for promoters public issue will be expensive and difficult. The venture capitalist acts as a business partners sharing reward as well as risk. Venture capitalist also acts as a mentor to young entrepreneurs who have no practical experience but ideas.

Also, venture capitalist also provides help in selecting key manpower for the business which in turn help in global business linkages.

3. Other Benefits:
Venture capital induces entry of large number of entrepreneurs and technocrats in the industry and thus creates pool of industrial leaders. It encourages entry of private sector with public sector.

Venture capital reduces time lag between business innovation and its commercialization. It helps in fuller utilization of existing resources thereby promoting higher growth and development in the economy.

Venture capital concept was originated in US and developed all over the world after 1970. In India venture capital concept is very old.

There were managing agency houses which provided fund and other management skills to risky projects.

It was in 1973 the Bhatt Committee recommended formation of Rs. 100 crore venture capital fund.

E) The Government of India issued guidelines for setting up of mutual fund consisting of:
1. The public sector financial institutions scheduled banks and their subsidiaries can set up venture capital funds with a minimum amount of Rs. 10 crore and debt equity ratio of 1:15.

2. Venture capital can raise capital from public subject to minimum contribution of 40% by the promoters, foreign equity up to 25% is allowed subject to certain conditions.
3. Venture capital can provide financial assistance to business up to maximum Rs. 10 crore of capital.

4. Venture capital should be managed by professionals.

5. Venture capital should not involve in trading, broking, money market operations, bills discounting and inter corporate lending.

F) In India venture capital is available in the form of:
1. Equity Participation
2. Conventional Loan
3. Conditional Loan
4. Income Notes

G) Venture capital companies can be classified into four categories namely:
1. Companies promoted by All India Financial Institutions
2. Companies promoted by State Financial Institutions
3. Companies promoted by banks
4. Companies promoted by Private Sector banks.
3.2.4 (4) LEASING

“Lease is a contract whereby the owner of an asset (lessor) grants to another party (lessee) the exclusive right to use the asset usually for an agreed period of time in return for the payment of rent.” (James C Van Horne)

Lessor can be a company, a society, a partnership firm or an individual. The lessee can be any person or professionals who use the expensive equipments for his business activities.

A) The lease can be of different types such as
1. Financial lease
2. Operating lease
3. Leverage lease
4. Sale & lease back
5. Cross border lease
6. Wet lease & dry lease
7. Vendor leasing

B) Leasing offers the following advantages
1. A firm can use and control assets without incurring capital expenditure.
2. It is cheaper than other methods of buying assets.
3. It is most flexible and can be adjusted as per the needs of the lessee.
4. It facilitates additional borrowing for working capital needs.
5. It is possible to avoid the risk of obsolescence in case of operating lease.
6. There are no birding rules in lease like debt equity ratio.
7. There is no need of down payment. Thus a firm can get 100% finance for obtaining an asset.
8. It is most suitable to SMEs who find it difficult to obtain funds from banks and financial institutions.
C) There are some disadvantages of leasing. These are
1. The lessee has to make some payment once lease agreement is signed and in new projects it takes some time to generate cash flow.
2. It is not possible to get government subsidy or incentives for lease financing.
3. This method of financing is costlier than debt financing.
4. It is not possible for a lessee to enjoy the benefits of appreciation of the value of assets.
5. It is not possible to terminate lease agreement without paying penalty.
6. The assets are purchased by the lessor and hence the lessee may not set any protection in case the asset supplier commits breach of warranties.

D) The evolution of Leasing has been in different stages which went into phases such as
Lease financing in India was started in 1973 when the first company was set up viz. Chidambaram Group to provide leasing of equipments. In the year 1979 another company was set up viz. Twentieth Century Leasing Company Ltd. in the year 1981 four more companies were established. In the year 1980 financial institutions started providing leasing finance in the year 1983 ICICI started leasing finance. State Bank of India was the first commercial bank to start leasing activities. It established a subsidiary namely SBI capital market in 1986. Soon many other commercial banks joined this by 1990 about 400 companies were in the field of leasing finance in India.

E) In India leasing companies are in Public sector as well as Private sector.
The Public sector leasing companies are:
1. Leasing division of Financial Institutions
2. Subsidiaries of Public Sector Banks
3. Other Public Sector Leasing Organizations
The Private leasing companies are:
1. Pure Leasing Companies
2. Hire Purchase & Finance Companies
F) There are certain problems faced by leasing companies. These are:

1. Too much competition
2. Declining profit margin
3. Lack of qualified professionals
4. Taxes add to cost of leasing
5. Higher stamp duty on lease transactions
6. Delayed payment of rent and bad debts

However leasing has great prospects in India.
3.2.4 (5) DISCOUNTING/FACTORING/FORFIATING

A) FACTORING

Factoring is a financial service which involves conversion of credit bills into cash. Factor is an agent who provides factoring services. The factor buys the bill receivables at discount and makes payment to the supplier.

The mechanism of factoring can be explained with the following diagram.

1. Customer places an order to seller or client. Customer is buyer of goods/services.
2. The seller supplies goods to the customer and sends invoice to the customer.
3. The seller enters in factoring arrangement with factor. The seller assigns invoice.
4. The factor makes pre payment of upto 80% of the cost of the goods and services.
5. Statements are sent to the customer and customer makes payment to the factor.
6. Factor makes balance payment to seller (client) after deducting some percentage.

Factoring involves a process of selling trade debts of a company to financial institutions. Some functions of factoring include:

<table>
<thead>
<tr>
<th>1. Purchase of debts</th>
<th>2. Sales ledger management</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Credit risk</td>
<td>4. Consultancy services</td>
</tr>
</tbody>
</table>
Factoring services can be classified as Full Service factoring, with resource factoring, maturity factoring, bulk factoring, invoice factoring, agency factoring, international factoring, limited factoring, buyer based/seller based factoring etc.

B) The difference between factoring and discounting can be seen below:

<table>
<thead>
<tr>
<th>Discounting</th>
<th>Factoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounting includes only those trade debts which are backed by debtor mgmt.</td>
<td>Factoring covers entire trade debt of a seller</td>
</tr>
<tr>
<td>It is an advance against the bills.</td>
<td>It is a purchase of trade debts.</td>
</tr>
<tr>
<td>Discounting is always made with resource to client.</td>
<td>Factoring may be without any resources to client in event of nonpayment by customers.</td>
</tr>
<tr>
<td>Under discounting accounts receivable are further subject to rediscounting.</td>
<td>Under factoring there is no further rediscounting.</td>
</tr>
<tr>
<td>It involves only provision of finance.</td>
<td>It involves purchase of debts, management of sales ledger, credit risk taking &amp; consultancy services.</td>
</tr>
<tr>
<td>It is applicable to an individual bill or individual transaction.</td>
<td>It is applicable to large number of unpaid invoices.</td>
</tr>
<tr>
<td>Bill discounting requires registration charges.</td>
<td>Factoring does not require registration charges.</td>
</tr>
</tbody>
</table>

C) The difference between factoring & forfiating can be seen as below:

<table>
<thead>
<tr>
<th>Factoring</th>
<th>Forfiating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring is used as short term instrument of financing.</td>
<td>Forfiating is used as medium term and long term tool of financing.</td>
</tr>
<tr>
<td>It is used in domestic marketing as well as export marketing.</td>
<td>Forfiating is always used in export business.</td>
</tr>
<tr>
<td>Factoring is much broader. It covers various elements like administration of sales ledger, credit risk, recovery</td>
<td>Forfiating is used only for financing purposes.</td>
</tr>
</tbody>
</table>
Factoring covers 80% of the invoice credit.  
Forfiating covers 100% of the export bill.  

Thus forfiating is another financial service like factoring. It is used in export financing. Exporter is the client and the financial institution is the forfiator and the importer is the debtor.

When an exporter intends to sell goods and services to an importer, he approaches the forfiator and gives all the details of the exports like details of importer’s country, currency of export value etc. A sale contract is signed between exporter and importer on the condition that payment should be made by the importer to the forfeiter.

The importer signs the promissory notes which are guaranteed by the importer’s bank and forwarded to the exporter bank when goods are exported all the shipping documents are handed over to exporter’s bank.

These documents are again handed over to the importer’s bank and then to importer. The exporter takes these notes to forfiator who buys it and gives immediate cash. Forfiating in India is done by EXIM bank in India.
3.2.4 (6) INSURANCE SERVICES

Insurance is another financial service provided by the financial institutions by collecting savings of the people and providing them with risk coverage. It provides protection to people or business from some risks which may be certain or uncertain.

The major categories of insurance are:
(1) Life Insurance
(2) Non life Insurance

Insurance in India began in the year 1818 when insurance was provided by Indian and foreign companies. In the year 1956 Life Insurance was nationalized and LIC was set up by merging over 245 companies large and small.

The objectives of insurance are:
1. Protection of the life of the insured
2. Provision of old age/retirement
3. Providing funds to charitable organization
4. Provide tax benefits

The insurance sector at one time resulted in:
1. Monopoly of the LIC and centralization of decisions
2. Lack of competition and poor management
3. Inefficiency and low productivity
4. Political interference
5. Lack of regulatory authority except government
6. Partial achievement of national welfare measures

The government appointed Malhotra Committee to look into the working of insurance sector. The government has implemented the major recommendations of Malhotra Committee and introduced a bill in Parliament in 1996. The bill was passed in 1999 and the insurance sector was privatized with the entry of foreign investor’s upto 26%. 
Insurance regulatory authority was set up i.e. IRDA (Insurance Regulatory Development Authority).

The major recommendations of Malhotra Committee were:

1. Setting up a strong regulatory authority
2. LIC to be registered under the companies Act and raising it’s paid up capital with 50% of the holding by government.
3. Decentralization of power and administration
4. Investment of insurance fund in government to be reduced from 25% to 35%.
5. Privatisation of insurance sector with entry of private sector/foreign investor
6. Minimum business coverage of rural areas.
7. Computerization of all working of insurance offices
8. Linking of pension schemes with savings and tax concession

Thus with the setting up of a regulatory authority and privatisation of insurance sector,
3.2.4 (7) MERGERS & ACQUISITIONS

In general terms it means consolidation of business. A merger is a combination of two companies into one new company, while acquisition is a purchase of one company by another company.

Thus in the case of acquisition there is no new company formation. Thus in both merger and acquisition two companies come together. There are many advantages as well as disadvantages of merger and acquisition.

The advantages are as follows:
1. Higher market share
2. Economies of scale
3. Reduction in cost
4. Tax benefits
5. Maximization of shareholder’s return
7. Acquisition of oligopoly power
8. New markets
9. Creation of new logo, production and services.

The disadvantages are:
1. Friction within the organization
2. Reduction of staff
3. Additional cost of developing new logo and material

Financial institutions offer services in the field of merger and acquisition. The entire process of merger and acquisition is cumbersome and needs proper understanding of various aspects such as legal and financial, structuring methods, implementation of deal, technical viability, etc.

Financial institutions offer services like:
(1) Assessment of business potentials
(2) Valuation of business
(3) Budgeting
(4) Preparation of Agreement
(5) Threats and risks involved
(6) Tax impact
(7) Strategic planning
(8) Specific training
(9) Sales forecasting

Thus merger and acquisition involves highly expertise and professional skills and knowledge of financial, legal business, management etc. Financial institution has such qualified, trained and competent manpower to provide consultancy services.

Globalisation process has resulted in higher cases of merger and acquisition and higher demand for consultancy services.
3.2.4 (8) HIRE PURCHASE

Hire purchase is another important financial services offered by financial institutions. It is one method of selling goods. Under hire purchases the customer buys the goods and he pays some money as monthly installments for a specific period.

In some cases the companies do not charge any interest on the amount. Hire purchase is different from leasing. In the case of leasing the ownership remains with the lessor while in the case of hire purchase the ownership of goods is transferred from seller to buyer.

Leasing is generally applied in case of purchase of assets while hire purchase is applicable to purchase of assets as well as consumer durables. Further in the case of lease no initial deposit is required while in the case of hire purchases an initial deposit of 10% to 20% is necessary.

Thus leasing finance is 100% while hire purchase financing is not 100%. The entire lease paid can be deducted as tax deductible expenses while only the interest part of the installment paid in case of hire purchase is tax deductible expenses.

RBI has issued certain guidelines with respect to hire purchase. These are:

(1) Banks should not directly take up the hire purchase business but set up subsidiaries to undertake the hire purchase.

(2) Banks should hold at least 51% of shares in subsidiaries for the purpose of leasing, hire purchase, merchant banking etc.

(3) Banks should take prior approval from RBI for the setting up of subsidiary.

(4) Investment of bank in shares of subsidiaries to undertake other businesses should not be more than 10% of the paid up capital and reserve of the bank.
(5) Banks may also invest in shares of other companies engaged in such business (hire purchase, leasing) but bank should not act as promoters of such companies.

Under hire purchase business banks lend to the finance intermediaries who provides finance for the sale of goods while providing finance to the dealer bank assesses the financial position of the customer, the nature and type of goods, the amount of loan involved, the period of loan and repayment and the security.
3.2.4 (9) CREDIT CARDS

A credit card is defined as “small plastic card that allows its holder to buy goods and services on credit and to pay at fixed intervals through the card issuing company”.

Thus a card can be used to get cash up to certain limits. For example, a bank may issue a credit card to Mr. X up to the limit of Rs. 100000. Thus Mr. X can purchase goods and services up to that limit and repay the amount as per his convenience.

Bank charges some interest on this amount, and that is the income of the bank. Thus credit card is one more financial service offered by banks to expand its business activities.

The parties involved in credit card are:
1. The customer
2. Card Issuing Agency
3. Dealer of goods and services
4. The Bank

There are different types of credit cards such as charge card, General credit card, single purpose credit card, premium card, smart cards, debit cards, ATM cards, etc.

The discovery of credit card has brought greater convenience and flexibility in the payment system. It is beneficial to bank, customer as well as dealer.

The benefits to a bank are:
1. Attract potential customer
2. Higher business/deposits
3. Additional customer services
4. Greater customer satisfaction
5. Higher income/profit
6. Market Image & Goodwill
7. Reduces credit risk
8. Better relationship with customer

The benefits to customers are:

1. Buys goods without cash
2. NO risk of carrying cash
3. Gets free credit facility generally 30-50 days
4. Less formalities
5. Minimizes cost of buying
6. Provide status to customer
7. Additional benefits to customer in hotels, free insurance, discounts
8. Gives exposure to banking operations

The benefits to dealer are:

1. Higher sales turnover
2. Offers credit facilities to buyer
3. Timely payment
4. Advertisement and sales promotion
5. No problem of bad debts
6. Better customer relationship
7. Systematic accounting
8. Higher Profit
3.2.4 (10) CREDIT RATING SERVICES

According to CRISIL “credit rating is an unbiased and independent opinion to issuer’s capacity to meet its financial obligations”. The ratings are in the form of code number or some terms. Ratings are the simplest and easiest way of finding out a company’s financial position without going into details of financial reports or audit reports.

The function of credit rating agencies are:

1. Provide unbiased information
2. Assess risks
3. Provide low cost information
4. Provides risk return trade off
5. Creates better public image of the rated companies
6. Helps institutional investors

The different credit rating agencies in India are:

1. Credit Rating Information Service Ltd. (CRISIL)
2. Investment Information and Credit rating Agency of India (IICRA)
3. Credit Analysis and Research (CARE)
4. Duff Phelps Credit Rating Private Limited (DCR India)
5. Onida Individual Credit Rating Agency Limited (ONICRA)

Credit ratings for investments are in the form of following grades:

AAA (Triple A) - Highest safety
AA (Double A) - High safety
A – Adequate safety
BBB (Triple B) – Moderate safety
BB (Double B) – Inadequate safety
B – High Risk
C – Substantial Risk
D – Default

Often Plus (+) or minus (-) signs are added to the above rating forms to indicate comparison within different categories.
3.2.4 (11) HOUSING FINANCE

Housing is one of the basic necessities of life. Demand for housing is continuously rising due to rising income, rising population, impact of urbanization, high investment opportunities, etc. There is always demand supply gap in India since 1951. Banks also cater to housing finance. Many commercial banks set up subsidiaries to provide housing finance as a special area of financing.

In the year 1988 the RBI set up National Housing Bank as apex body for housing finance in India. National Housing Bank provides refinance to commercial banks, co-operative banks, housing finance companies for providing housing loan.

Subsequently to promote housing sector Housing Development and Finance Corporation was set up in the private sector and Housing & Urban Development Corporation (HUDCO) in the public sector to take up the issue of housing finance in India. These agencies co-ordinate with National Housing Bank & RBI for providing housing finance.

Many financial institutions have established their own subsidiaries for housing finance. For example LIC has set up LIC housing finance.

Banks also provide direct finance for the purchase of housing. However, there are regulations on housing finance by Reserve Bank in respect of amount of loan, rate of interest, time period installments etc. Banks also provide some incentives to women for taking housing loan.

Thus housing finance has become an important segment of providing finance for banks. There is growing competition as many banks offer housing loan. The success depends on services provided by these banks and how they undertake effective marketing.

The demand for housing finance is growing much faster and banks can take advantage of the favorable market demand and provide effective services to customers.
3.2.4 (12) NON RESIDENTS & FOREIGN CURRENCY ACCOUNTS

Non Resident Indians also maintain their accounts with banks in India in savings or fixed deposits.

All residents’ foreign currency accounts are governed by FEMA i.e. Foreign Exchange Management Act 1999.

NRI can maintain their accounts in Indian currency i.e. Rupee or foreign currency like US dollar, Japanese Yen, European Euro, UK pound sterling.

However foreign currency account can be maintained in the form of fixed deposits 1 to 3 year period.

Banks provide such services to non residents by maintaining their accounts and transferring money from one place to another place.

This is also one important financial services provided by banks.
3.2.4 (13) CUSTODIAN & CUSTODIAL SERVICES

Custodial services refer to the safe custody of all certificates securities.

The responsibilities of the custodian are:
1. Receipt and delivery of securities
2. Holding securities
3. Keeping accounts
4. Collecting dividend, income

The functions of custodian are:
1. Safe custody and account maintenance
2. MIS services on corporates
3. Trade settlement and clearance
4. Corporate action
5. Support services after trade
6. Transfer Agents

In the year 1988 some financial institutions like IDBI, IFCI, ICICI, UTI, LIC, GIC, IRBI established custodian namely Stock Holding Corporation of India (SHCI).

It provides custodian services to these financial institutions and other institution in the capital market. It provides services on no profit no loss basis.
3.2.4 (14) UNDERWRITING SERVICES

It is another financial service offered by financial institutions. It is a contract between underwriters and the issue company.

It is like guarantee given by the financial institution that in the event of shortfall of subscription the underwriter subscribes the amount agreed upon. In return the underwriter gets commission ranging between 1% to 5% of the underwritten amount.

Earlier SEBI had made underwriting compulsory but now it is not compulsory. The underwriters are the merchant banks, stock brokers, banks, financial institutions and other companies who are authorized by SEBI to act as underwriters and who are registered.

The underwriters must have:
1. Minimum Net worth of Rs. 20 lakh
2. Past Experiences
3. Reputation and Goodwill
4. Commitment
5. Record of default or failure

SEBI has laid down code of conduct for underwriters. The companies Act 1956 has also given the provision of employing underwriter.

The underwriting work is also carried out by major financial institutions like LIC, IFCI, ICICI, GIC, SIDCs, SIFCs, banks, stock broker firms.
3.3 MARKETING OF FINANCIAL SERVICES

3.3.1 MARKETING OF SERVICES:

Marketing of services is a specialty and not same as marketing of goods. Marketing include goods as well as services. Goods and services differ in characteristics. Services have some unique features which are not applicable to goods.

These unique features create unique implication in marketing of services. In other words service marketing is totally different from product marketing and it is more complex and challenging.

Definitions of Services

1. American Marketing Association:
   “Services are activities, benefits or satisfaction which are offered for sale or provided in connection with the sale of goods”.

2. Philip Kotler:
   “Service is any activities or benefits that one party can offer to another that are essentially intangible and do not result in ownership of anything. Its production may or may not be tied to any physical product”.

3. Christopher Lovelock:
   “A service is an act of performance offered by one party to another. Although the process may be tied to physical product the performance is essentially intangible and does not normally result in ownership if any factors or production”.
3.3.2 MARKETING IMPLICATIONS OF UNIQUE FEATURES OF SERVICES

Services are different from products in a variety of ways. There are unique features of services which are not found in products. These unique features of services create marketing of services more complex and challenging. The challenges faced by marketing personnel in service marketing are:

1. Implication of Intangibility:
Customer always looks for some tangible clues to get an idea about the quality of any product or services. But in case of services as they are intangible it is difficult to show to the customer to get the impression of the quality. Hence the marketing task becomes difficult. The marketing personnel can overcome this problem of intangibility by highlighting the benefits of services. They can show the data, facts, figures to market the services. For example an educational institution highlights its campus facilities, faculty, student’s results, student’s placements to show customer about it quality and performance. Often customers do not understand the service offer and therefore it is necessary to explain the offer by associating it with certain easily perceived objects and ideas. For example an educational institution can promote services by using benefits such as 100% results. It is also possible to provide some element of tangibility by using testimonials from well known personalities or other customers who use these services. Service provider should build reputation over the period of time. Such reputation becomes tangible aspect in marketing of services. For example in the field of higher education for MBA the IIMs have built a reputation and they do not face any problem in marketing of their services.

2. Implications of Inseparability:
Services are inseparable and that limit the marketing of services as the service provider cannot multiply through marketing intermediaries. Customers prefer some services only through specific person. This again creates marketing challenges as to how to cover larger market place or how to provide services to more number of customers. This problem can be solved by some degree of automation and some standardization of
services. For example ATM services, Bank provides these services at any place and at any time as the services are standardized and automatic. It is easy for a bank to expand through network of ATM centers than through physical branches. Services personnel who deliver the service can be properly trained and motivated to provide standardized services.

3. Implications of Variability:
Services are variable and heterogeneous in nature. Every individual service provider provides different experiences or services at different times. A particular salesman may be better than others because of his services. However it is difficult to ask that salesperson to handle all the customers. A doctor who may be popular has more number of visitors and he can’t keep all of them waiting for long. It is necessary to improve the quality of services so that customer feels happy and satisfied some degree of automation can also be introduced.

4. Implications for Perishability:
Services cannot be produced in anticipation of demand and supply when demanded. This creates problem in marketing. Demand fluctuates from time to time and supply cannot be adjusted immediately. Hence service provider must proper plan with respect to capacity, with respect to schedules. Services marketing personnel should use different strategies such as differential pricing policies, reservation system, and employment of more part time staff. Thus they must control and balance demand for services and supply of services without affecting their business and profit.

Thus service marketing is more challenging and complex than product marketing but it is essential of a firm wants to expand its services, create larger market share, earn higher revenue and profit. Marketing is in general a difficult task and a good marketing person has to take this challenge for his survival and growth.
3.3.3 TASKS INVOLVED IN SERVICE MARKETING:

The various tasks involved in service marketing can be shown with the help of chart

1. Understanding the nature of services:

The first task in the service marketing process is to understand the nature of services provided by the firm. It means collecting all details of the component of services i.e. whether services are directed toward people or towards goods. Again services directed at people can be directed at public bodies, mind or both. Further whether services are availed regularly or one time or occasionally, whether services are provided at one point or at different location, whether customer comes to service provider or service provider
goes to customer. Thus once the nature of services are well defined it is possible to find out the ways of means of marketing it.

2. Understanding the customer and his expectations:
The next task involved in service marketing is to understand the customer and his expectations from the services. They must know customer requirements and service staff must be trained for the same. There are always chances that service provider may think about the customer expectation and the actual customer expectation may not be the same. The result in gap between what customers wants and what service provides. Such gap should be filled in through proper research and understanding of customers.

3. Giving shape to the services:
Once marketing personnel understand the nature of services and the custom expectation from the serves it becomes easy to give shape to the service product. They must consider service benefits provided by the service. Consumer avail services because he wants benefits, service benefits and customer benefits. Besides service benefits they must provide something extra as service expectation. It adds to customer satisfaction. They must provide service offer i.e. bunch of benefits offered by company to customer. It may include core and supplementary services and other elements along with service offer.

4. Organizing Service Delivery:
The next task is to deliver the services. It must match to what is promise and what is expected by the customer. Service provider decides the mode of distribution of services i.e. involving some intermediaries and location ultimately governed by service delivery i.e. service delivery should not be affected. Short channels are more suitable to services than long channels. Some services also use franchising model for service distribution. Again it depends on the nature of services.

5. Pricing the services:
The next task is pricing the services. Intangibility and perishability features of services create many problems in pricing services. Greater the intangibility greater is the pricing
problem. For example in dry cleaning services tangibility is higher and therefore it is possible to fix the standard price of services while in case of legal services financial consultancy, the intangible part is more and therefore pricing cannot be standardized. However pricing should be such that it is indicative of the quality of services and image of the services in the minds of the customers.

6. Promoting Services:
In service marketing the most important tool of marketing is the word of mouth communication and the reputation of the service provider. Service marketing highlights the personal touch to show that they care about customer.

7. Extended Ps of Marketing Mix:
Service marketing need an extended marketing mix i.e. 7 Ps and not 4 Ps. The traditional marketing mix i.e. 4 Ps is not sufficient for service marketing. These include product, price, place, promotion, people, physical evidence, process etc.

8. Differentiating the service offer:
The next task of service marketing is to differentiate the service offering from their competition. The services offering should differ in respect of supplementary services, price differentials, quality differences, sped of service, differentiation through people, personalization of services, building relationship, etc.

9. Measuring Service Quality:
The ultimate task of service marketing is to measure service quality to ensure that service provided matches customer expectations. Service quality is measured in terms of five quality parameters namely tangibles reliability, responsiveness, assurance and empathy.

10. Monitoring Customer Satisfaction:
Finally customer satisfaction is the ultimate goal of providing services and this should be monitored continuously on the basis of customer feedback, consumer survey including misty shopping.
3.3.4 SERVICE SECTOR IN INDIAN ECONOMY

FACTORS RESPONSIBLE FOR THE GROWTH OF SERVICES/SERVICE SECTOR IN INDIAN ECONOMY:

The various factors responsible for the growth and development of service sector/services in India are/can be classified into four categories.

<table>
<thead>
<tr>
<th>1. Demographic</th>
<th>2. Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Economic</td>
<td>4. Political &amp; Global</td>
</tr>
</tbody>
</table>

1. DEMOGRAPHIC FACTORS:
The demographic factors comprises of factors such as:

a. Size of Population:
The rapid rise population in India over period of time has created increased demand for goods and services. There is rapid rise in population from 360 million in 1951 to about 1200 million in 2014. Thus larger population creates large market size for any product.

b. Rise in life Expectancy:
The life expectancy in India has increased over period of time. It has increased from 46 years in 1951 to 67 years in 2014. It has created higher demand for medical and health.

c. Rise in Literacy Rate:
There is also rapid in literacy rate is the country. It has increased from 36% in 1951 to 65% in 2014. This has created higher demand for education and educational services like tuition, books, stationery, and educational loan and so on.

2. SOCIAL FACTORS:
The social factors consist of factors such as:
a. Working Women:
There is increase in the economic participation by more and more women. As a result working women have no time to look after other family work like cooking, taking care of children, etc. This created high demand for babysitting, play group school, etc.

b. Small family (Nuclear Family):
The family size is today very small. It has created demand for housing and other services.

c. Higher mobility:
There has been rapid increase in mobility of labour both domestic and international. This resulted in increase in demand for service including financial service like loan, forex, etc.

3. ECONOMIC FACTORS:
The economic factor is made up of factors such as:

a. Changing Consumer tastes and preferences:
There are greater changes in consumer’s taste and preference creating higher demand.

b. Impact of Urbanization:
There is continuous flow of population from rural to urban. This is due to various push and pull factors. This has created higher demand for civic, infra and services

c. Rising Income:
The per capita income of Indian has increased over period of time. It has increased from Rs. 5000 in 1971 to Rs. 85000 in 2014. The rising income has created higher demand.

d. Impact of Globalisation:
The globalisation process has resulted in greater integration of economies, financial markets all over world. There is rapid rise in FDI and investment in India. Foreign retailers are entering Indian market in big way. This has created additional demand.

e. Specialisation and complex nature of products and services:
Many specialized products and services have entered the market. This has created demand for specialized persons like technical experts, tax consultants, legal experts, etc.

**f. Growth of Information Technology (IT):**

There is rapid growth of IT all over the world and India is one of the leading software and IT service player. India has highest number of software skilled personnel in the world. IT exports are an important part of India’s exports. There is rapid growth of BPO and KPO.

**g. Privatisation:**

The government policy is encouraging privatisation and disinvestment. Government has allowed 100% FDI in many important sectors like housing, banking, health care, etc. This has created additional demand for services and service provider.

**4. POLITICAL AND GLOBAL FACTORS:**

The political & global factors have a huge impact on the business and factors such as:

**a. Changing Business Environment:**

There is change in business environment all over world. In India business environment is changing. There are changes in economic, banking, financial sector policies and so on.

**b. New Rules under WTO:**

WTO has passed various agreements like TRIPs, TRIMs, GATS, etc. WTO has abolished quota. This has benefited India especially the textile sector.

**c. Mergers & Acquisition:**

There is also growing trend in mergers and acquisitions. Many foreign firms are entering Indian market by way of joint venture and merger. This has expanded market for services
3.3.5 MARKETING MIX OF FINANCIAL SERVICES

The step involved in marketing of services include

|------------------------|---------------------|

3.3.5 (1) MARKET SEGMENTATION:

It refers to division of a heterogeneous market into some segments which tend to be homogeneous. Market segmentation can be done on various bases. These are:

a. Geographic Segmentation
b. Demographic Segmentation
c. Psychographic Segmentation
d. Volume Segmentation
e. Benefit Segmentation

a. Geographic Segmentation:
Under this type of segmentation the market is divided on the basis of geographic units such as South, East, West, and North. Banks have this type of segmentations. E.g. Western Branch, North Branch, West Branch and so on. As bank has large number of branches it becomes easy to divide these branches on the basis of geographic areas.

b. Demographic Segmentation:
Under this type of market segmentation the market is divided on the basis of demographic features like age, income, occupation, sex, education, etc. For example a bank has account for senior citizens and banks pay higher interest for such accounts. Demographic segmentation is most common in all types of marketing.

c. Psychographic Segmentation:
Under this type of market segmentation the market is divided on the basis of social class, life style, personality, etc. Companies market special products for this segment. For example BMW car.

d. Volume Segmentation:
Under this type of segmentation market is divided on the basis of rate of consumption, consumer’s expenses and brand loyalty. It can be divided on the basis of heavy usage, medium usage, light usage and non users. For example in the case of heavy users 20% of the customer may account for 70% of the sales of the store.

e. Benefit Segmentation:
Under this type of segmentation the market is divided on the basis of benefits sought from the product/services by the customer. For example a bank may provide special services to the segment that need the benefits of speed and convenience. For example on the spot loan approval, open holidays, etc.

3.3.5 (2) MARKET TARGETING:

After market segmentation the focus is on targeting few segments in which the firms can concentrate their marketing activities. It is not possible for a firm to focus on all the market segments due to limited resources financial and physical. Therefore it is ideal to select few segments which can be served better satisfying the specific needs of target customers. For example Raymond target the upper income group customers, as its products are high priced or expensive. It will serve no purpose if it targets the lower income segments. Thus a firm can target a particular segment after studying the profile of the segment in term of customer, their preference, and choices and so on.

3.3.5 (3) MARKET POSITIONING:

It is the process of creating the image of the product or service in the minds of the target customers. The basic purpose of positioning is to create a distinct image of the product/service and to provide a competitive edge.
The steps in developing position strategy are:
1. Determine the level of positioning
2. Identify the unique features
3. Location of attributes on position map
4. Evaluating position option
5. Implementation of strategy

The different position strategies are
1. Service Positioning
2. Price Positioning
3. Quality Positioning
4. Competitive Positioning
5. Service Application Positioning
6. Service Benefit Positioning
7. Leadership Positioning
8. Excellence Positioning

3.3.5 (4) MARKETING PLANNING (PLANNING OF MARKETING MIX):

The marketing of services are totally different from the marketing of products. This is due to the inherent characteristics of services such as intangible, inseparable, perishable and so on. Hence the traditional marketing mix (i.e. 4Ps) is not sufficient for service marketing and thus, there is a need for additional marketing mixes i.e. 7 Ps and they are as follows:

1. Product
2. Price
3. Place
4. Promotion
5. People
6. Physical Evidence
7. Process

These marketing mix are briefly discussed as under

1. PRODUCT MIX (SERVICE PRODUCT):

A) Introduction
Product mix in case of services can be called as services product. A service product means the benefits and the performance that the customer buys from service provider to satisfy his needs and desire. A firm has to differentiate its services from its competitors to create its own image or position in the minds of the customer.

A product is anything that can be offered to market for attention acquisition, use or consumption that satisfy a want or need. Service is activities or benefits or satisfactions which is offered for sale or are provided in connection with sale of goods

B) Components of Service
The various components of service product are
1. Customer benefit concept
2. Service Concept
3. Service Offer
4. Service Delivery

1. Customer Benefit Concept:
Customers buy services because they get some specific benefits and values. It is therefore necessary for the service provider to highlight these benefits to customer. Customer looks for benefits rather than features. For example in the case of banking services the benefit customers gets is loans and deposits.

2. Service Concept:
Service concept implies different levels of services to satisfy customer needs. These services can be classified into

1. Core service
2. Expected service
3. Augmented service
4. Potential services.

Core benefits is what customer is looking for or really buying without core benefits there is no service offering. Core service is the basic service offered by service provider. For example in case of a hotel core service is the food provided to customer.

Basic service or expected service refers to the intangible service through which the core benefit is provided. The company adds certain features to core benefits and translates into basic services. For example in the case of hotel the basic service or expected service is fresh food, cleanliness, menu card, sitting place etc.

When the service quality is beyond the expectations of the customer it is called augmented service. For example in the case of hotel it is comfort chair, live music etc.

In the case of potential services the firm tries to find out the better methods of delighting the customers. It is better best and more enjoyable services. It is the result of research and innovation in service delivery. It helps a firm to enjoy greater market share, market goodwill and eventually a position of market leader.

3. Service Offer:
   It includes tangibility and intangibility of services offered. It aims at satisfying different needs of the customer and providing different levels of customer satisfaction.

4. Service Delivery System:
   It shows how services will be delivered to the customer. It is an interaction between service provider and customer and between customer and service facilities.
C) Scope of Services Management

The scope of management service offering includes

1. New Service Development
2. Service Life Cycle

1. New Service Development:
It is similar to product development but it is highly complex and challenging because it involves customer. Service development becomes necessary when existing service reaches the level of saturation. When firms have spare capacity or unused resources which can be utilized or diverted from developing new services. It is also necessary when customer additional needs can be satisfied and firm wants to retain its existing customers.

The new service development may be in the form of style change, service improvement, process line extension, supplementary services and major innovations.
In the case of style change there is slight change in the existing services. For example banks offering welcome kit to new account holders.

In the case of service improvement in the existing services. For example banks offering ATM to customers. The purpose is to improve efficiency.

In the case of process line extension there is an increase in the areas of services. For example airlines offering new route, banks offering online banking.

In the case of supplementary services more services are added to the core service. In the case of major innovation new processes are intended with additional benefits and values. Example railway ticket computerization.

In the case of a bank the product service mix may include more than 100 different banks related or finance related services. These services can be described in terms of three parameters namely width of services, depth of services and consistency of services.
Width refers to number of product/service line. It can be narrow or wide. Narrow means the product line are limited and wide means the product line is large and extensive.

On the other hand depth of service mix includes the number of the product items within each product line. In the case of banking the width and depth of product services can be seen as below.

<table>
<thead>
<tr>
<th>Width of services</th>
<th>Deposits</th>
<th>Advances</th>
<th>Discounting</th>
<th>Forex</th>
<th>Utility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services Depth Of Services</td>
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Consistency refers to the relationship amongst the product lines in terms of their sharing the end use, distribution network, customers and cost factor.

2. Service Life Cycle:
Service life cycle passes through four distinct stages. These are service introduction, service growth, service saturation and service decline.

In first stage the services are just introduced and launched in the market. During this stage consumption rate of services is low. However the cost of providing service is high and therefore initial profit margins are either low or negative.

In second stage the consumption rate of service is rising. It contributes to higher sales and profit. Firm focuses on promotion to attract new customers and to retain the original customers. Competition starts growing as due to higher sales other competitors may also enter the market. Firms try to bring better service quality and better service delivery.
In third stage consumption starts declining. The sales reach maximum level or point of saturation. Market competition becomes stiff and firm competes to maintain share.

In the last stage there is decline in the sales. Some customers find other services or better services available in the market and hence switch their loyalty from the existing service. Firms try to bring some modification or innovation in the existing services to postpone the declining stage or firm may introduce some new value added services.

**2. PRICE MIX:**

A) Introduction

Price mix is most important element of marketing mix as it is only element that gives revenue while all other elements in mix generates costs. Pricing has many names

<table>
<thead>
<tr>
<th>Services</th>
<th>Price Element</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>Premium</td>
</tr>
<tr>
<td>Banks</td>
<td>Interest / Service Charge</td>
</tr>
<tr>
<td>Property</td>
<td>Rent</td>
</tr>
<tr>
<td>Medical</td>
<td>Fees</td>
</tr>
<tr>
<td>Road</td>
<td>Toll</td>
</tr>
<tr>
<td>Education</td>
<td>Fees</td>
</tr>
<tr>
<td>Stock Market</td>
<td>Commission / Brokerage Charges</td>
</tr>
</tbody>
</table>

Price mix is also the most crucial factor for both customer as well as service provider. A high price may divert customers to other competitors and a low price may lead to lower earnings from services. Therefore pricing decision is the most important and strategic decision in services. For example banks provide housing loan and the rate of interest charged on such loan is not uniform for all banks. It varies from bank to bank.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Interest on Housing Loan</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Bank</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>9.50% – 9.75% P.A.</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>10.50% – 10.75% P.A.</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>10.35% - 10.60% P.A.</td>
</tr>
</tbody>
</table>

Source: Bank Websites

Banks charge different interest rates so as to attract more number of customers. Banks also take advantage of RBI guidelines as RBI has not specified a fixed rate for housing loan but provided a range between minimum and maximum rates and thus banks charge different rates depending on their operating cost, cost structure, margin, etc.

B) Objectives of Pricing

The basic objectives of pricing are

1. Survival and face market competition
2. Growth and expansion
3. Profit maximization
4. Sales maximization
5. Providing Service Quality
6. Market Positioning and leadership

C) Factors Influencing Pricing Decision

The various factors determining price can be classified as

1. Internal Factors
The Internal factors that influences pricing decision are as follows
   a. Organisational factors
   b. Marketing Mix
   c. Market Positioning
   d. Service Cost

2. The External Factors
The External factors that induces pricing decision of a product comprises of
   a. Market Competition
b. Market Demand
c. Government Regulations

D) Methods of Pricing
The different methods of pricing are

1. Cost based pricing
In the case of cost based pricing some percentage is added to the total cost of the service. For example if service cost is Rs. 100 and if the margin is 20%, then Rs. 20 is added to the cost of service and hence the price charged will be Rs. 120.

2. Demand based pricing
In the case of demand based pricing, the price is customer oriented. It is based on customer’s perception of the value of the services provided by firm or service provider. Price charges spending on market demand for the services.

3. Competition based pricing
In the case of competition based pricing, price depends on the market conditions and the price charged by other competitors. For example if one bank charges 10% on housing loan, the other bank may charge 10.5 or 9.75% on housing loan and not 15% or 20% on housing loan.

E) Pricing Strategies
There are different pricing strategies adopted by different service providers such as

1. Skimming strategy
In the case of skimming pricing strategy the seller charges high price during the launching of the services. For example in the beginning when banks started giving housing loan some industrial banks charged a flat rate of interest of 9% or 10%. Even customer used to pay flat rate of interest as during this period obtaining a loan from bank
was a difficult task. As competition started growing the flat rate of interest gradually became reducing balance interest rate on housing loan.

2. Penetration pricing strategy
In the case of penetration pricing banks charge lower rate of interest during the launching of the services. This is to attract more and more customers. Gradually demand rises, the price starts rising.

3. Differential pricing strategy
In case of differential pricing strategy a seller charges different price in different markets. It is due to difference in elasticity of demand for the product, time period location and customers.

4. Service mix strategy
In case of service mix pricing s firm has multiple products and services and therefore the service provider may use optional product pricing, capture product pricing or competitive product pricing.

5. Price Bundling.
In the case of price bundling a seller offers multiple services at one price.

6. Relationship pricing.
In the case of relationship based pricing the main objective is win over the customer and make existing customer as loyal customer.

7. Value based pricing.
In the case of value based pricing the main focus is to give value product and services to the customer.
3. PLACE MIX (PHYSICAL DISTRIBUTION)

A) Introduction

Place is the only marketing variable which satisfies demand while all other variables are demand determining.

Place in service sector refers to location, channels of distribution through which the services are delivered to the ultimate consumers.

For Success of any business organization, the most important factor in marketing mix is Location, Location, Location…

B) Interaction between Customer and Service Provider (B2C)

In service sector there are three types of interaction between customer and service provider. These are

1. Customer goes to service provider
2. Service provider goes to customer
3. Both mutually meet

Service location is influenced by level of participation or degree of participation between customer and service provider. When customer goes to service provider location becomes most important. For example banks branches, ATM.

On the other hand when service provider goes to customer location is less important and when customer and service provider meet mutually location is least important. For example an insurance agent may go to customer to sell insurance policies.

Place is important because it is a marketing tool for providing customer services. Service offerings are to be produced and consumed at the same place and time. When a customer comes to bank to withdraw money he gets it immediately.
Even bank notifies that the withdrawal of cash should not take more than so many minutes (time). It is to indicate the efficiency and performance of service offerings.

C) Factors Influencing Selection of Channel of Distribution

The ultimate decision regarding location and selection of channels can be taken on the basis of following

1. Nature of the services
2. Nature of interaction
3. Customer needs
4. Competitive position
5. Geographical and natural location
6. Use of technology
7. Other complementary services (Dependency on other services)
8. Infrastructure needed
9. Closer to target customer

D) Channels of Distribution

The major channels in service marketing are

1. Agents and Brokers
2. Franchising
3. Electronic Channel
4. PROMOTION MIX

A) Introduction
Services must be promoted and marketed through different tools of promotion such as advertising, sales promotion, personal selling, public relations, word of mouth, direct selling, etc. Service marketing is complex and difficult as services are intangible, perishable, not transferable, simultaneous by produced and consumed etc.

B) Communication Programme
The steps involved in developing suitable communication programme are
1. Identify the target customers
2. Determining promotion objective
3. Developing the message
4. Determination of communication mix

C) Guidelines for Effective Service Communication
The guidelines for effective service communication or service promotion are
1. Show tangible clues
2. Make service easy to understand
3. Communicate continuously
4. Promise what is possible
5. Capitalizing word of mouth
6. Communicate directly with employee

D) Tools for Communication
The various tools of service promotion are
1. Advertising
2. Sales Promotion
3. Word of Mouth
4. Personal Selling
5. Direct Marketing
6. Public Relations
7. Publicity
5. PEOPLE MIX

A) Introduction
In service organization people are the key element as all services are delivered through people only. It refers to all the employees who are engaged in service delivery process i.e. front office and back office services are essentially the contact personnel between the customer and the organization.

In services, people are important because customer first see employee only and not the services. Employee represents service to the customer. Employees are brands of service organization and they are real marketers as they can influence customer due to their close contact in service interaction or delivery process.

B) Classification of People
Service employees can be classified on different basis. These are
1. On the basis of interaction
   • Low contact employees
   • High contact employees
2. On the basis of service provided
   • Consumer service employees
   • Professional service employees
3. On the basis of frequency and length
   • Contact personnel
   • Moderate contact personnel
   • Back office staff
   • Supporting staff
   • Management

People mix is concerned with employees, recruitment, training motivation, reward, team work, education, etc. People mix is the most important component of service organization.
because all business is run by people only. The machines and equipments are meant for and run by the human element.

C) Importance of People Mix
The success of any organization depends on the quality of its manpower. It is therefore necessary that human element is taken care of and their issues are promptly settled by the management.

This can be done by
1. Hiring right employees
2. Proper training and motivation
3. Providing proper support
4. Clarifying the role of the employees
5. Training in technical and interactive skills
6. Retaining the best employees
7. Taking periodic review
8. Empowering employees
9. Establishing appraisal system
6. PROCESS MIX

A) Introduction

Process refers to the steps procedure, mechanism and all those activities through which service is delivered. The basic purpose of process is to optimize service delivery and maintain service quality. Service process must deliver value to the customer so that customer gets better experience. The process itself can be altered to satisfy the changing needs of the customers.

“If you cannot describe what you are doing as a process, you don’t know what you are doing”

----- Demming.

B) Service Design Process

The factors to be considered in service designing process are

1. Nature of service
2. Customer participation
3. Degree of customer contact
4. Degree of divergent
5. Location of service delivery
6. Complexity of services
7. PHYSICAL EVIDENCE MIX

A) Introduction

Physical evidence is also termed as the environment facilitates the performance and the communication of the service. In the service sector as the services are intangible physical evidence provides a tangible clue to customer about the quality of services.

B) Components of Physical Evidence

Physical evidence includes

1. Physical facilities:
   It includes physical facilities like building, furniture, equipments. It includes essential and peripheral facilities.

   a) Essential facilities are those technical facilities without which services cannot be delivered. For example ATM in a bank or computer.

   b) Peripheral facilities are other supportive facilities which also have some impact on the delivery of services. For example brochure, visit card, stationery. These facilitates enhances the delivery of services and create corporate image.

2. Physical setting:
   It refers to the service conditions or service environment under which services are delivered also called as Service Scape.

   It includes ambience (i.e. temperature, quality of air, noise, smell, space, layout, design, furnishing, colour, and lighting) space (i.e. ease of access, good visibility, proximity to linked services) and décor (i.e. sign board, symbols, artifacts).

3. Social Setting:
It refers to the appearance and attitude of the service personnel. It includes the behavior of the staff whether they are friendly, approachable, empathetic, professional, etc. Customer evaluates the service provider in terms of technical skills, interactive skills, attitude and consistency of performance.

C) Factors Influencing Physical Evidence

In service marketing physical evidence plays an important role in influencing the perception of customer. This is because
1. It provides an opportunity to the service provider to create first impression on the customer.
2. The consistency in the quality of physical setting helps in winning trust of customers.
3. Good physical evidence facilitates employee participation in the service production delivery and consumption process.
4. Changes in the physical environment also result in change in the image of service provider.
5. It creates social bonding among the employees due to better interaction and better co-ordination.
6. Physical evidence differentiates one service provider from another.
7. It helps a service provider to reposition its place or position in the market segment.
8. It contributes to higher efficiency and overall productivity of employees which ultimately result in better services to customer.
3.4 OVERVIEW OF COMMERCIAL BANK AND DEVELOPMENT BANK

3.4.1 INTRODUCTION

Bank is an institution which deals with money and credit. Crowther defines a bank as “one that collects money from those who have it to spare or who are savings it out of their income lends the money so collected to those who require it”.

According to Prof. Sayers “Banks are not merely purveyors of money but also in important sense manufacturers of money”.

In India banking structure is classified as

1. Scheduled Commercial Banks

Scheduled commercial banks refer to those banks which are included in the second schedule of Reserve Bank of India Act 1934. These banks are further classified as

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>3. Regional Rural Bank</td>
<td>4. Private Sector Banks</td>
</tr>
</tbody>
</table>

2. Non scheduled Commercial Banks

On the other hand non scheduled banks are those which are not included in the RBI second scheduled Act of 1934. The different types of banks are

<table>
<thead>
<tr>
<th>1. Central bank</th>
<th>2. Commercial Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Industrial Banks/Development Banks</td>
<td>4. Exchange Bank</td>
</tr>
<tr>
<td>7. Indigenous Bank</td>
<td>8. Saving Banks</td>
</tr>
</tbody>
</table>
3.4.2 COMMERCIAL BANKS

In India commercial banks are classified as Scheduled bank & non scheduled banks. Scheduled banks are those banks which are listed in the second schedule of RBI Act 1934. Certain norms have been laid down for scheduled banks such as minimum capital of Rs. 100 crores, maintaining cash Reserve Ratio with RBI at certain fixed rate.

These banks also enjoy certain privileges than non scheduled bank like refinance facilities, greater safety of funds, cheque clearance, etc. At the same time there bank have to comply with the dictates of RBI from time to time like filing of returns.

Some of these scheduled banks are nationalized by the government on 19th July 1969. These banks are also called Public Sector Banks, State Bank of India and its subsidiaries are part of these banks.

Non scheduled banks are those banks which are not included in the second scheduled of RBI Act 1936. These banks do not enjoy the facilities like refinancing & rediscounting of bills from RBI. These banks generally perform the functions of lending money, discounting bills and various agency functions.

3.4.2 (A) Functions of Commercial Banks

The various functions of commercial banks can be classified as

1. Primary Functions
2. Secondary Functions

1. Primary Functions:

The primary functions of commercial banks are:

a) Acceptance of Deposits
Deposits are the life blood of commercial banks. Commercial bank mobilizes deposits of the public and channelizes it into investments. Commercial banks accept different types of deposits from the public such as

**Time Deposits:**
These deposits are deposits for a specific time period and such deposits cannot be withdrawn by way of cheque or draft. Commercial banks pay higher interest on time deposits. The different time deposits are fixed deposits, recurring deposits, cash certificates, etc.

Fixed deposits are for a fixed period say one year, 5 years or 10 years. These deposits can be withdrawn after its maturity along with interest accumulated on it. Commercial banks also advance loan against these deposits. These deposits are non-transferable.
In the case of recurring deposits, a person deposits a fixed amount regularly or monthly for a fixed period of time say one year or 3 years or 5 years or more. These deposits can be withdrawn on maturity along with interest amount.

Cash certificates are issued by bank for a larger period of time 5 years or 10 years. It is issued at a discounted value. For example a cash certificate of Rs. 10,000 is issued at Rs. 5000 for a period of 6 years. It means 5000 after 6 years become Rs. 10,000.

**Demand Deposits:**
Demand deposits are deposits which can be withdrawn at any time (on demand). It can be withdrawn by cheque or draft from the account. It can be current account deposits and saving account deposits.

Current account deposits are deposits of business houses or individual firms. Commercial banks pay no interest on such deposits. It can be withdrawn at any time. Commercial banks provide the facility of overdraft on these accounts. Such deposits help business units to meet their day to day capital requirements.
Saving deposits are kept by individuals or households to maintain their personal savings. Commercial banks pay low interest on such accounts. Business units cannot open saving bank account.

b) Advancing of Loans
Another important function of commercial banks is advancing of loan. Commercial banks give loan out of their deposits only.

Out of their deposit they retain some percentage as cash balance and give the remaining fund as commercial banks generally provide short term loan for working capital requirements.

Banks provide loans in different forms such as overdraft, cash credit, discounting of bills, loans, etc.

The overdraft facility is given to existing account holders. It helps the account holder to draw more than the balance in their account. Banks charge interest in this amount. Such overdraft is given to business firms or corporate houses.

In the case of cash credit bank allows the borrower to draw certain amount upto a fixed limit. This amount is credited to their accounts which they can withdraw at any time. Commercial banks charge interest on this amount.

Cash credit is generally given to business houses as working capital requirements. Such credit is given against certain security or surety.

Commercial banks also provide short term credit to business house by discounting their bills. It means commercial banks after deducting some amount pays immediate cash to business firms. Commercial banks get full value of the bill after its maturity.
Commercial banks also advance loans for specific purposes such as educational loan, housing loan, personal loan, business loan. Loan against saving certificates, consumer loans and advances, securitization of loans, loans against shares and bonds etc.

2. Secondary Functions
The various secondary functions of commercial banks can be classified into

a) Agency Functions:
Commercial banks provide various agency functions to customers, business houses. These are
1. Collection of demanded interest cheques
2. Payment of taxes
3. Payment of rent, insurance, electricity bills
4. Buying & selling of shares/debentures
5. Foreign exchange transaction
6. Filing of tax returns
7. Acts as a executors of trustee, attorney
8. Business consultancy, project consultancy

b) Utility Services/Functions
The various utility services provided by commercial banks are
1. Safe deposit lockers
2. Transfer of money, custodial services
3. Traveler’s cheque, gift cheques
4. Letter of credit
5. ATM facility
6. Credit cards
7. Merchant banking
8. Referee/Guarantor
9. Financial consultancy
10. Dematerialized Accounts
3.4.3 **DEVELOPMENT BANKS**

The emergence of the concept of development banking in India is a post independence phenomenon. Till 1950 there were no such banks established in India.

Development bank is also called industrial bank or term lending institution. It is a multipurpose bank mainly engaged in providing medium term & long term finance to industries to meet their fixed capital requirement or initial investment capital.

**The main features of a development bank are**

1. Specialized financial institution
2. Gives medium term & long term finance to industries
3. Does not accept deposits from public
4. Multipurpose financial institution
5. Development oriented bank
6. Financing private sector as well as public sector industries
7. Promotes savings and investments
8. Objective is public interest rather than profit motive

Soon after independence it was felt that to provide long term finance to industries it is necessary to establish industrial bank in the country and this was essential for economic development.

Thus various development banks were established one after the other and they are as follows:
3.4.3 (A) INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

This was the first development bank established in India in the year 1948 soon after independence. It was set up under the Industrial Finance Corporation Act 1948. The main function of this institution was to provide medium term & long term finance to industries. Initially it provided finance to only public limited companies in the private sector but gradually it started funding even public sector organization, private limited companies and even partnership firms. In the year 1993 the structure of this organization was changed from statutory corporation to a company under the companies Act 1956. The services of IFCI can be broadly classified into two categories namely

1. Financing & General Services
Financing and general services include short term, medium term and long term loan, IPO finance, Pre IPO funding, lease financing, equity participation, etc.

2. Advisory Services
Advisory services include corporate advisory and infrastructure services monitoring agency for IPO, restructuring advisory services.

IFCI has funded various segments of the industries in India which include power, infrastructure, ports, airports, urban infrastructure, manufacturing industries, public sector units, hotels, NBFCs etc.

The promotional functions of IFCI can be classified as
1. Provides soft loan assistance
2. Provides financial support to EDP
3. Industrial development in the backward area
4. Provides concessional consultancy for market research, revival of sick units, promotion of ancillary units, modernization, pollution control etc.
5. Management Development Programme
3.4.3 (B) INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI):

It was set up in 1964 under the act of parliament as a subsidiary of RBI. In the year 1976 its ownership was shifted from RBI to Government.

It was considered as the apex financial institution for all industrial banks or development banks. In the year 2004 RBI incorporated IDBI as a scheduled bank under RBI Act & IDBI became IDBI Ltd. from 2004.

IDBI bank was merged into IDBI in 2005. It is one of the commercial bank owned by Government of India or Government bank.

The main functions of IDBI are
1. Financing
2. Refinancing
3. Promotion
4. Development

IDBI provides loan in rupee as well as foreign currencies. It has branches set up out of India also. It is one of the largest banks in India having large number of branches all over the country.
3.4.3 (C) INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF
INDIA (ICICI)

This was the first development bank established under the private sector in the year 1955.
It was established as a company registered under the companies act 1956. ICICI was set
up to encourage industrial developed under the private sector.

It has branches in many part of the world which include UK, Russia, Canada, US,
Singapore, Bahrain, Hongkong, Qatar, Dubai, Sri Lanka, UAE, China, South Africa,
Bangladesh, Thailand, Malaysia, Indonesia etc. ICICI bank offers wide variety of
financial products or services. These can be classified as

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<table>
<thead>
<tr>
<th>Financial Services of ICICI</th>
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<tbody>
<tr>
<td>Personal Banking</td>
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<tr>
<td>NRI Banking</td>
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<tr>
<td>Business Banking</td>
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</tbody>
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ICICI is the single largest bank in the private sector with diversified financial services. It has a network of 2531 branches, 6199 ATM & presence in 19 countries of the world.

3.4.3 (D) SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

In order to provide finance to small & medium enterprise, government established SIDBI in the year 1990. It is an apex financial institution of micro, small & medium enterprises.

The main functions of SIDBI
1. Financing SSI/Medium scale
2. Refinancing short & medium enterprises
3. Discounting/Rediscounting bills
4. Providing seed capital to SME
5. Leasing & factoring services
6. Finance for purchase of raw material
7. Provide working capital needs
8. Co-ordinate with other financing agencies
The various schemes of SIDBI are:

1. Direct Assistance Scheme:
SIDBI provides direct finance to micro, small and medium enterprises for various purposes such as project financing, equipment financing, infrastructural development funding, ISO 9000 certification, modernization & technological development fund, venture capital, etc.

2. Indirect Assistance Scheme:
SIDBI also provide indirect finance to micro, small & medium enterprise units against the loan given by other financial institution like state financial corporations, state industrial development corporations and commercial banks. The refinancing scheme is useful in promoting the development of small & medium industries in India as banks generally hesitate to fund small industries.

3. Promotional & Developmental Scheme:
SIDBI takes various promotional & development measures to encourage the development of SME in the country. This is done through various activities such as entrepreneurship training programme, Technological Upgradation Programme, Micro Credit Scheme, etc.

4. Other Schemes:
SIDBI also undertake various other schemes to promote the interest of SME. It includes National Equity Fund scheme, technological development & modernization scheme, composite loan scheme, single window scheme, equipment finance scheme, venture capital scheme, micro credit scheme etc.
3.4.3 (E) NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

It is an apex financial institution for agricultural finance. It was established in year 1982. Earlier this function was looked after by RBI & then NABARD took over the task of providing finance to agriculture & rural industries. Thus, it is an apex financial institution for agriculture.

NABRAD’s major focus is on

(1) Policy formulation for rural financing agencies
(2) Providing finance
(3) Credit planning
(4) Monitoring flow of credit

The major functions of NABARD are:
1. Financing Function
2. Development & Promotion function
3. Coordinating & supervision function
4. Institutional Building function

1. Financing Function:
This function includes preparation of guidelines for other financial institutions operating in the rural areas, providing refinancing to financing units, preparation of credit plans for different districts, monitoring the flow of rural credit and so on.
It may be noted that NABARD does not provide direct finance to farmers, cultivators or rural industries. It is the apex body for financing.

2. Development & Promotion Function:
NABARD undertakes various development & promotion function in the field of agriculture finance such as research & development, financial support to training
institutes, nurturing rural financial institution monitoring implementation of development plan etc.

3. Co-coordinating & Supervision Function:
One of the important functions of NABARD is to coordinate & supervise the function of various financial agencies involved in the rural credit & agricultural credit.

The various functions under supervisory and co-coordinating agency include
1. Removal of regional imbalances
2. Employment Generation
3. Poverty Reduction
4. Development of micro enterprise
5. Developing financial norms for financial institution
6. Promotion of micro finance
7. Infrastructural development in the rural areas
8. Undertaking hi-tech & export oriented projects
9. Creating policy framework for rural credit
10. Support weak banks
11. Inspection & monitoring co-operative banks
12. Promoting innovative financial services

4. Institution Building Function:
NABARD also undertakes various functions to develop rural financial institutions
1. Helping rural financial institution to develop action plans
2. Entering MOU with state governments & co-operative banks
3. Monitoring of implementation of action plan
4. Financial support to co-operative banks
5. Training & managerial development programme
6. Financial support for MIS, computerization & HRD
Thus NABARD is playing an important role as a development bank in India in the field of agricultural finance & rural credit. It has created a strong financial base & net work in the rural areas for financing agriculture & rural development.

3.4.3 (F) EXPORT IMPORT BANK OF INDIA (EXIM BANK):

It is another development bank in the field of foreign trade (or export & import). The bank was established in the year 1982 under Export Import Bank of India act 1981. It was set up to promote India’s foreign trade & accelerate eco growth of the country. It is an apex financial institution in the field of exports & imports.

The various functions of EXIM bank are

1. Financing Function:
   It provides finance to Indian companies, foreign companies, financial institutions, foreign government in the field of export & import. It is offered in the form of pre shipment finance, deferred payment exports, term loans, finance for export marketing, exports bills rediscounting, refinance of export credit etc.

2. Promoting:
   It aims at promoting exports imports trade through undertaking variety of financing programme, advisory services, research & analysis.

3. Facilitating:
   As an apex financial institution, it facilitates the flow of finance for exports & imports. It also participates with commercial banks in the issue of guarantees required by Indian business contracts in foreign countries. It has financed large number of projects spread all over the world (in about 70 countries). It has helped in boosting exports from India and helped in earning valuable foreign exchange for the country. It has helped to solve balance of payment problem.
Thus to sum up, Development banks in India have created an institution for providing fixed capital & long term finance to industries & helped in the promotion of industrial & eco development. India today has well developed financial market to cater to the growing needs of the industry.

3.4.4 STATE BANK OF INDIA (SBI)

State Bank of India is the only bank in the country which is a part of fortune 500 companies of the world. This itself speaks of the achievements of the bank in the financial sector of the country.

The history of SBI goes back to 1806 when the government established the first bank in the country as Bank of Calcutta which was changed to Bank of Bengal subsequently in the subsequent years two more banks were set up between 1840-1845. These were Bank of Bombay and Bank of Madras. After eight years of their existence these banks were merged as Imperial Bank of India.

After independence in the year 1955 State Bank was set up under the special act of Indian Parliament. The bank was controlled and owned by the government of India.

Soon SBI took over other banks as subsidiary of it. These were
1. State Bank of Bikaner & Jaipur
2. State Bank of Hyderabad
3. State Bank of Indore
4. State Bank of Mysore
5. State Bank of Patiala
6. State Bank of Saurashtra
7. State Bank of Travancore

Thus SBI and its subsidiaries constitute one of the most important and largest part of banking institution in the country.
The progress of SBI over the period of time can be summarized as under:

1. **Number of Branches:**
   In the year 1955 SBI had about 477 branches. Then the number kept on rising and each year and more and more branches were set in the country both in urban and rural areas.

   It has largest number of rented branches in the country as it is an old bank and during the earlier period rented property was most common. In the year 2001 SBI has 21315 bank branches in the country.

   It ranks first bank in terms in number of bank branches and also in terms of other financial parameters. The total bank branches in the country are 109811. Thus SBI has a market share of about 20% of the total branches.

2. **Global Branches:**
   SBI can be considered as a truly globalised bank in India as it has large number of foreign branches increased from 08 in 1955 to 190 in 2014. Thus the bank has its presence in many countries of the world.

3. **Number of Employees:**
   The total number of staff of SBI was 14388 in the year 1955 which reached to a high figure of 222033 in the year 2014. It includes clerical staff, officers as well as supporting staff in terms of staff too, the bank ranks first in the country.

4. **Number of Customers:**
   SBI has the highest number of customers in the country. The total customers are about 300 million. This is because SBI is widely spread to all parts of India and thus the customer coverage is high. In other words out of 1200 million populations SBI cater to about 25% of India’s population. Thus every 4th Indian has an account with SBI.

5. **Total Business of the bank:**
The total business of the bank has gone up rapidly over the period of time from Rs. 327 crore in 1955 to Rs. 263953 crore in 2014. The daily business transactions carried out by SBI re about 56 million.

6. Number of ATM:
SBI has the highest number of ATM in the country. The totals ATM are 43515 which are about 30% of total ATM in the country. The daily ATM transactions are about 70 lakhs which covers 38% of the total business through ATM.

7. Debit Card Holders/Internet Users & Mobile Users:
SBI has the largest number of debit card holders, internet users and mobile users in the country. It shows that the bank has adapted to the changing technology in the country and world. The bank has 170 million debit card holders, 10.70 million internet users and 10 million mobile users.

8. Financial Indicators:
Some of the financial indicators of the bank can be seen as below.

a. The total income of the bank has reached to a figure of Rs. 154904 crore in 2013-14.
b. The operating profit of the bank has gone up over the period of time. It was Rs. 32109 crore in 2013-14.
c. The net profit of the bank has reached to the level of Rs. 10891 crore in 2013-14.
d. The net interest income of the bank in 2013-14 was 49282 crore.
e. The cost to income ratio in the year 2013-14 was 52.67%.
f. The net interest margin of the bank was 3.17 in 2013-14.

Thus most of the financial parameters of the bank show strong financial position of the bank in terms of profitability.
3.4.5 INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

IDBI is one of the largest and oldest industrial banks in India. After independence the government wanted to provide finance for term lending or long term finance to meet the fixed capital needs of the industry. Hence the government played an important role in establishing development banks in the country. It was in the year 1964 the government established IDBI as an apex financial institution in the country providing term lending finance to industries.

IDBI created variety of activities that ultimately resulted in:
1. Removal of regional imbalances in the economy or geographical balanced development of industries.
2. Development of backward areas or less developed regions.
3. Creation of a class of entrepreneurs who can take up business and develop entrepreneurship in the economy.
4. Development of a strong vibrant capital market in the country.

Thus financial market in India witnessed remarkable developments with the emergence of term lending institutions mostly under the public sector. Most of the industrial banks were under the government ownership and control. Earlier these functions were under the control of RBI but gradually they were separated. The chart can be seen as below.
Thus today different sectors have different apex financial institutions. NABARD is an apex financial institution for agriculture. IDBI for industries, SIDBI an apex financial institutions for small industries and EXIM bank is an apex financial agency for export and import. RBI looks after the money market or all banks in the country. IDBI provides various services under one roof such as banking services, term lending funding, project financing, project consultancy, refinancing, core investment services, financing trade, financing exports, etc. IDBI has become the top bank in country on par with SBI

3.4.5 (A) ORGANISATIONAL STRUCTURE:

IDBI organisational structure is flat or horizontal. This is to enhance its efficiency, better co-ordination and control. At the top of the organization it has chairman and then President as the head of the institution. There are four vice presidents heading different functional areas like Finance, Marketing, Personnel (HR) and Operations. Under each vice president there are regional head, zonal head, Divisional manager and territory incharge as functional executives.

The organisational structure of IDBI is as follows
3.4.5 (B) STAFF PATTERN:

The total staff of the bank in the year 2015 was 16555. The breakup of the staff in terms of officers, executives and others can be seen from the following table.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Description</th>
<th>Numbers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Officers</td>
<td>14038</td>
<td>84.80</td>
</tr>
<tr>
<td>2</td>
<td>Executives</td>
<td>435</td>
<td>2.63</td>
</tr>
<tr>
<td>3</td>
<td>Clerk</td>
<td>1119</td>
<td>6.75</td>
</tr>
<tr>
<td>4</td>
<td>Sub-Staff</td>
<td>963</td>
<td>5.82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16555</strong></td>
<td></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source www.idbibank.com

It can be seen from above table that majority of staff at bank are officers with 84.80%. This indicates greater amount of job satisfaction and motivation in staff as there is higher empowerment, financial incentives, higher amount of training and development. This staff pattern is quite different from staff in other commercial bank.

3.4.5 (C) BANKING OPERATIONS:

The banking operations of IDBI bank Ltd can be seen from the following chart.
It can be observed that the IDBI bank Ltd performs the functions of retail banking business as well as development bank. Such dual functioning has helped the bank to perform better compared to other financial institutions.

Retail banking business includes all accounts namely saving account, current account and other investment banking functions. It provides account facilitates to individuals as well as corporate.

Development banking functions include financing, refinancing, promotional & development functioning, etc.

3.4.5 (D) IDBI PRODUCTS/SERVICES

The various services provided by IDBI bank can be classified into following categories

<table>
<thead>
<tr>
<th>i. Personal Services</th>
<th>ii. Corporate Services</th>
<th>iii. MSME</th>
</tr>
</thead>
<tbody>
<tr>
<td>iv. Agriculture</td>
<td>v. NRI</td>
<td>vi. Customer Care</td>
</tr>
</tbody>
</table>

The major services of IDBI have been Personal Services which is given in detail as such and they are as follows:

I. PERSONAL SERVICES:
It includes various types of accounts and deposits, loan & banking services available to individual customers. The personal services can be classified into

1. Preferred banking
2. Savings Account
3. Flexi Current Account
4. Corporate Payroll Accounts
5. Fixed Deposits
6. Lockers
7. Loans
8. Cards

1. Preferred Banking:
The preferred banking services includes three main types of accounts namely

```
Preferred Banking
  Royal Account
  Preferred Account
  Power plus Account
```

The Royal Account is a type of saving account which treats customer as royal customer. It provides free services and other facilities which can differentiate from other banks or competitors. It gives free welcome kit to all account holders which include cheque book, debit card and other material connected with the accounts.

The account can be accessed through any ATM local or international without any changes. It provides free net banking facilities including free RTGS and NEFT services. In additional the family member of the account holder is given free power plus account as complementary to this account. It also provides international platinum debit card, waiver of petrol surcharge, and insurance coverage upto Rs. 5 Lakh. It allows customers to
withdraw cash amount upto Rs. 100000 per day and make purchase upto Rs. 200000 per
day. It also provides discounts on lockers, demat transaction charges, etc.

The Second account offered is preferred personal banking account which also provides
the benefits of Royal account. In addition it provides higher withdrawal limit on
international gold debit card and waiver of petrol surcharge. It also provides attractive
insurance coverage. It provides various other conveniences such as door step banking,
access to banking through internet, ATM, Mobile, phone, higher limit on RTGS &
NEFT. In addition to this there is availability of services of dedicated relationship
manager to give consultancy, advises to account holders regarding investment, portfolio
management and other banking services.

The third account is Power Plus Account which is based on customer day to day
operations and requirements of account facilities. It offers higher return on deposits, free
NEFT upto Rs. 1 Lakh, enhanced limit on cash withdrawals, 25% discount on locker
facilities, etc.

2. Saving Accounts:
IDBI offers various types of saving accounts to customers which can be classified as
1. Suraksha Plus Savings Account
2. Super Saving Account
3. Super Shakti Saving Account
4. Jubilee Plus (Senior Citizens) Saving Account
5. Being Me Account
6. Power Kids Account
7. Small Accounts (Relaxed KYC)
8. Sabka Basic Saving Account
9. Pension Saving Account
10. Capital Gain Account
Suraksha plus saving account is linked to insurance coverage. It provides insurance coverage to all account holders in the age group between 18 years to 65 years. The insurance coverage is offered at nominal cost of Rs. 100 for accident insurance and Rs. 413 for life insurance. There is no need of separate documentation for insurance coverage. In addition to this it provides all benefits of banking services like ATM, online debit card, NEFT and RTGS, etc.

IDBI has introduced a special super saving account. It provides faster transfer of funds, option to pay all bills, higher rate of interest, debit card & various other banking services.

IDBI has a special saving account for women name and super Shakti women account. It promotes two free accounts for children below the age of 18 years. There is simple documentation and procedure for agency of this account. It also provides faster payment of funds & online payment of bills. The two accounts for children can be zero balance account. There is a special international ATM card for selected women. The account gives 25% concession for lockers and 50% discount for DEMAT AMC.

IDBI has also taken initiatives for senior citizens by introducing a special account for senior citizens with various additional benefits and services. There is provision for zero balance account, simple procedure and documentation, quick transfer of money, payment of bills through e banking, supply of statement of account by email. There is 25% discount on locker facility and higher ATM cash withdrawal limit of Rs. 50,000 per day. The bank deputes official to senior citizens at their residence to open the account.

IDBI also cater to needs of Indian youth by having a special saving account called “Being Me” saving account. The main objective is to connect to youth of country and cultivate saving habits among the youth. The youth savings account also provides benefits like concessional rate of interest on educational loan, preference for summer internship for the students for project work, provisions of training on financial planning and discount on opening share trading account. The account also provide special ATM debit card for youth and cash withdrawal of Rs. 25000 per day. There is provision of free transfer of funds through net banking. The account can be used for payment of bills online.
IDBI has also created account for children- “Children Saving Account” or “IDBI bank power kid account”, or “POWERKIDS” account. It helps children to start with small amount right from the early age. The money can be withdrawn at any time. The bank also provides educational loan and bank finance linked to this account. The minimum balance to be maintained is Rs. 500 and withdrawal limit at ATM is Rs. 2000. Bank provides free pass book and free statement of accounts to the children.

IDBI has started another saving account called IDBI bank small account with relaxed KYC provision. It is meant for everyone in the society. It aims at financial inclusion i.e. to bring most people under banking network by opening their accounts. It is zero balance account with free debit card and ATM card. IDBI has another saving account called IDBI Sabka basic saving account with complete KYC provision. It also aims at financial inclusion. There is zero balance facility with debit card, ATM card and other banking facilities.

IDBI has also started a special account for senior citizens or retired personnel who get regular pension from the government, semi government and other organizations. It allows people zero balance facility, faster transfer of funds, international debit card, free online transfer of money and various other banking facilities and services.

Another important account provided by IDBI is IDBI Capital Gain Account. It helps the account holders to save money due to capital gain tax due to capital gain from selling of properties, businesses, land and other assets. It is applicable to individual customer, firms, association, etc.

There are two accounts to be opened namely saving account and fixed deposit account. The minimum value can be Rs. 100 crores. The period of account can be 15 days to maximum 20 years.
Thus IDBI offer diversified saving accounts to different groups of customer. This has helped the bank to reach out to large number of customers and increase its banking network. This can be seen as below.

![Diagram of IDBI saving accounts](image)

3. Current Account (IDBI Flexi Current Account):
   In order to provide financial services to the business class IDBI offers flexi current account. It facilitates business of the firm by providing various financial and banking facilities and services. The account can be opened instantly. The account is called flexi account as it is linked to various needs of the firms. The facilities are linked to monthly average, balance maintained in the account. There is provision of multi city cheque book, free transfer of funds under NEFT, RTGS, and free e banking services, free gold card, and ATM card.

4. Corporate Payroll Account:
   IDBI provides variety of corporate payroll accounts. These are
   a. Imperial Salary Account
   b. Crown Salary Account
   c. Star Salary Account
   d. Prime Salary Account
The details of these accounts can be seen as below.

a. Imperial Salary Account:
This account is offered only to special or selected valued customers based on their position in the organization they serve and their needs and requirements of banking facilities. It helps the customer banking facilities any time any place round the clock. It is possible to obtain multi city cheque books, internet banking, phone banking, mobile banking, electronic fund transfer, gold card, insurance coverage concession on locker facility, provision of demand draft, concessions on housing loan, car loan, etc.

b. Crown Salary Account:
It is another important salary account for corporate executives. It offers various benefits to account holder such as multi city cheque book facility, internet banking, mobile banking, telephone banking, free transfer of funds, gold debit card, insurance coverage, concession on home loan, car loan, etc.

c. Star Salary Account:
Another salary account provided by IDBI is the star salary account with various facilities and banking services. There is facility of zero balance under this account, multi city cheque book facility, internet banking, debit cum ATM card, insurance coverage, demand draft pay orders etc.

d. Prime Salary Account:
Another salary account offered by IDBI is the prime salary account with various facilities and services to the account holders. It has zero balance facility, free transfer of funds, internet banking, debit card, ATM card, demand draft pay orders, etc.

e. Pride Salary Account:
This account specially offered to defense services staff with variety of value added banking services and hassle free banking.

f. Indian Army Salary Account:
IDBI is closely associated with Indian Army and defense personnel. It has a special salary account for army personnel with all the benefits, concessions and services.

g. Indian Navy Salary Account:
IDBI is also associated with Indian Navy and it has offered a special Indian Navy salary account for navy personnel with all banking facilities, services and concessions.

5. Fixed Deposits:
IDBI offers various fixed deposit account to its customers. These are
1. IDBI bank freedom deposit
2. Suvidha tax savings fixed deposit
3. Recurring deposit
4. Godhuli Retail Term deposit
5. Floating Rate Term deposit

1. IDBI bank freedom deposit:
IDBI has maintained to pay maximum interest on the deposits much higher than the market rate of interest. On the freedom deposits the bank pay highest interest in the country.
The freedom deposits provide various benefits to deposit holders like freedom of tenure of deposits (from 15 days to 20 years), minimum amount of deposit (Rs. 10,000), higher extra interest to senior citizens (0.5% higher), freedom to withdraw money at any time before maturity, provision of regular income (monthly, quarterly, annual), over draft facilities etc.

2. Suvidha Tax saving Fixed Deposits:
This deposit scheme offers benefits of higher rate of interest (7.5% & 8% for senior citizens) and tax benefits under income tax. A person can save upto Rs. 1.50 lakh for a period of 5 years and take back the lump sum after 5 years. It also provides all other benefits and concession of IDBI bank.

3. Recurring Deposits:
Under this deposit a person can start saving Rs. 100 minimum regularly for a period to ten years. The maximum limit on the amount is one crore per month. This amount is deducted from the saving account of the individual with IDBI. There is no tax deduction on this savings. It helps an individual to start saving with a small amount and build capital over the period of time.

4. Godhuli Retail Term Deposit:
This deposit is most suitable to people who are retiring once they attain the age of 60 years. Thus when a person retires his fixed deposit automatically connected into Godhuli Retail Term deposit and start earning higher rate of interest. Thus there is no need to encash or renew the fixed deposits kept under IDBI. The minimum amount is Rs. 10000 and maximum of Rs. 1 crore. The period of deposit is one year to 20 years.

5. Floating Rate Term Deposit:
Under this deposit the interest rate period is not fixed during the period of deposit but it changes from time to time. The interest rate is paid every quarter on the basis of rate prevailing on that quarter. The depositor can take loan or overdraft on this deposit. The loan can be 90% of the value of the deposit and the interest rate on loan is 2% higher than the interest paid on that deposit. There is minimum lock in period of one year for this deposit. After one year the amount can be withdrawn before maturity.

6. Lockers:
The bank also provides safe deposit lockers to customers who open saving bank account with a minimum deposit of Rs. 5000. The lockers are of different sizes depending upon
the need of the customers. There is nominal face value for these lockers. These lockers are provided to customers (individuals or corporate, associations, clubs, trusts, etc).

7. Loans & Advances:
IDBI provides various types of loans and advances to customers such as Home loan, Auto loan, Educational loan, personal loan, loan against property, loan against securities, etc. These are described briefly as below.

IDBI provides home loan to individuals, employed or self employed. It also assists customers in home search and selection of property. IDBI has certain approved housing projects for providing home loan. There are 66 dedicated loan processing retail asset centers of IDBI. In addition loan is available through all the branches of IDBI. The bank has expertise staff having indepth knowledge of the industry.

IDBI provides loan for buying vehicles including higher end motor bike and luxury cars. It has tie up with various auto dealers and distributors for the best deal.

IDBI also provide educational loan to students for higher education both in India and abroad. It provides educational loan under vocational courses, non vocational courses, management quota and financial inclusion.

IDBI provides personal loan to individuals, salaried class, self employed persons for various purposes like marriage, education, house repair and renovation, hospitalization, etc. The loan period is between 12 months to 5 years. The amount of loan for salaried class is between Rs. 50,000 to Rs. 10,00,000.

IDBI also provides loan against property (through mortgage of property). This loan is for various purposes like education, marriage, medical treatment, purchase of house, renovation, etc. The loan amount provided upto Rs. 10 crore.
IDBI also provides loan against securities. It helps in liquidating long term investment. Such loan is provided against equity shares, mutual fund investments, RBI bonds, LIC policies, Kisan Vikas Patra (KVP) etc.

8. Cards:
IDBI also offer credit card, debit card, prepaid card, card offers to customers. There are different ranges of credit cards depending upon the needs of the customers. It also offer points on the credit card used for purchasing and these points are used as cash back in the credit card account.

3.5 MUTUAL FUND

3.5.1 INTRODUCTION:
Savings are a function of income. As income rises people tend to save more and more as their consumption does not rise in the same proportion. Thus those who have surplus fund want to invest in some profitable business venture. There are many options available to investors such as stock markets, debt markets, mutual funds, insurance, money market, real estate markets, commodity markets, investment in gold, Silver or bullion markets, etc. The question arises as to which option is better or more profitable. This depends on the assessment of the investor’s needs. This depends on three important factors such as

1. **Purpose of Investment**
   Purpose of investment implies health care, insurance coverage, retirement planning, housing purpose, wealth accumulation, etc. The purpose of investment can be many.

2. **Liquidity preference**
   Another factor is liquidity preference of the individual or investor i.e. whether he will need the money immediately or not or he can wait for long period of time. Thus he will invest in short term or long term investment avenues.

3. **Risk factor**
   Another factor is the extent of risk an investor is willing to take. The higher the risk the higher will be the investment in most risky avenues. In such investment there is possibility of higher returns or earnings.

However in practice a person finds it difficult to decide where to do investment, how much to invest. Here he needs guidance of professionals or investment consultants. Mutual fund is one such avenue available to investors. Mutual fund is a trust which collects savings of large number of people and investment funds in profitable ventures. Thus mutual funds collect huge capital from small investors and invest in capital market, money market, gold market, realty sector, etc.

**3.5.2 ORGANIZATION OF MUTUAL FUND**
A Mutual fund is set up as a trust as per the rules of Indian Trust Act 1882. Mutual fund is sponsored by some agency or body. The fund of the mutual fund is taken care by Asset Management Company (AMC). The AMC is controlled by Board of Trustees. These trustees are appointed by the sponsorer. The AMC gets consultancy fees for managing the funds. It is 1.25 percent or % depending on the amount i.e. 100 crore or more. Thus the various parties in mutual funds are

<table>
<thead>
<tr>
<th>1. AMFI (The Self Regulator)</th>
<th>2. Sponsor</th>
<th>3. Trustee</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Custodian, Registrar/Transfer Agent</td>
<td>5. AMC</td>
<td>6. SEBI (The Regulator)</td>
</tr>
</tbody>
</table>

Sponsorer appoints Trustee, AMC and custodian. After the appointment of AMC the job of sponsorer is over. He is like one stakeholder. The sponsorer is not responsible for the operations of mutual funds.

Trustee is like body or board of directors. They are responsible for introduction of different mutual fund schemes. They also market these schemes. They take all necessary permission for operations of mutual fund schemes. Trustee also evaluates the working of AMC. They are responsible for submitting the reports to SEBI.

Thus trustees play an important role in the working of mutual fund schemes. They protect the interest of the investors. SEBI has put certain conditions on the appointment of trustees. For example 2/3 rd directors of the mutual fund must be independent directors
and not connected to sponsor. Trustees are paid annually from the assets of the mutual fund at 0.05 percent of the NAV.

AMC (Asset Management Company) is created by trustee as Investment Manager. However AMC should be approved by SEBI to function as AMC of particular mutual fund. There are some conditions for the AMC such as 50% of the directors should be independent and not connected with sponsorer. The net worth of AMC should be at least 10 crore. AMC cannot take up any other business except that of mutual fund.

3.5.2 (A) FUNCTIONS OF ASSET MANAGEMENT COMPANY (AMC)

The functions of AMC includes
1. Managing funds of investors
2. Taking investment decisions
3. Maintaining all accounts of the funds
4. Provide dividend to investors
5. Providing information to all stakeholder
6. Submitting reports to trustees
7. Protecting the interest of the investors and controlling the use of fund.

AMC appoints custodian to the mutual fund. In many public sector mutual funds the custodian is the sponsorer or the trustees.

3.5.2 (B) FUNCTIONS OF CUSTODIAN

The main functions of custodian are:
1. Taking custody of all assets
2. Delivery of securities
3. Collecting all revenues
4. Disbursing Profits
5. Keeping safe stock of units
f. Allocation of schemes

g. Providing information to investors

Mutual funds are regulated by SEBI and AMFI. SEBI has formulated policies and regulations for the working of mutual funds. AMFI (Association of Mutual Funds India) is the apex institution and it is registered with SEBI. It is the apex body of all AMC.

AMFI protects the interest of all members or AMC. It is a non-profit organization. It is under the control of Board of Directors. It helps the members to maintain higher professional standards and practices. It implements SEBI guidelines. It undertakes research and development activities for the benefit of stakeholders. It coordinates with other agencies like RBI, SEBI, etc.

3.5.2 (C) FEATURES OF MUTUAL FUNDS

Mutual funds in India are regulated by SEBI and Mutual Funds Regulations 1996. The main features of mutual funds are as follows:

1. It acts as a trust
2. It sells units to public
3. It sells units under some schemes
4. It invests funds in securities, money market, gold, real estate, etc.
3.5.3 HISTORICAL DEVELOPMENT OF MUTUAL FUNDS IN INDIA

The historical development of mutual fund industry in India can be divided into four phases viz.

<table>
<thead>
<tr>
<th>Phase one</th>
<th>UTI Era</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase two</td>
<td>Public Sector</td>
<td>1987</td>
</tr>
<tr>
<td>Phase three</td>
<td>Private Sector Entry</td>
<td>1993</td>
</tr>
<tr>
<td>Phase four</td>
<td>Mega Growth Bifurcation of UTI</td>
<td>2003</td>
</tr>
</tbody>
</table>

(Source Own Compilation)

These phases are discussed below.

1. PHASE ONE UTI ERA 1964-1987:

The first phase of the development of mutual funds in Indian can be the period of 1964-1987. This phase created the foundation of mutual funds in India. In the year 1963 Unit Trust of India was set up by the Government, RBI under an Act of Parliament. Thus the initiatives for the setting up of mutual funds came from the government. UTI was established by RBI. UTI was under the direct control and regulation of RBI. In the year 1978 the regulatory control of UTI was delinked from RBI and IDBI took the control of UTI. In the year 1964 UTI initiated the first mutual fund scheme in India i.e. Unit scheme 1964. This scheme became very popular in the market as there were no other alternative mutual funds in the market. UTI managed to collect Rs. 6700 crore of assets under management. Thus this period witnessed the foundation of mutual funds in India and it remained the monopoly of UTI.

2. PHASE TWO ENTRY OF PUBLIC SECTOR 1987-1993:

Till 1987 UTI had the monopoly of mutual funds in India. Subsequently government allowed public sector banks to set up mutual funds and hence many leading public sector
banks started mutual fund in the country. State Bank of India was the first public sector bank to the first non UTI mutual funds. Gradually many other public sector banks entered the field of mutual fund such as Canbank mutual fund, Punjab national bank mutual fund, Indian bank mutual fund, Bank of India mutual fund, Bank of Baroda mutual fund. Even LIC and GIC started their mutual funds. Thus the period 1987-1993 witnessed entry of many public sector banks in the mutual fund sector and hence there was raid expansion of mutual funds in the country. The total assets of mutual fund reached the level of Rs. 47004 crores from the level of Rs. 6700 crore. This stage also created the necessary competition in the market and the end of monopoly of UTI. However till 1993 the mutual fund industry in India remained under the public sector.

3. PHASE THREE ENTRY OF PRIVATE SECTOR 1993-2003:
The third phase of mutual fund was the entry of private sector banks in mutual fund. The government always created necessary competition between public sector & private sector which ultimately benefit the industry and its stakeholders. The entry of private sector provided greater investment opportunities to Indian investors. In the year 1993 the first mutual fund regulatory authority was established. It became necessary to register all mutual funds except UTI. Thus all mutual funds were regulated. The first private sector mutual fund was Franklin Templeton which was set in the year 1993. In the year 1996 SEBI mutual fund regulations were revised. The mutual fund now regulated under the SEBI Mutual Fund Regulation 1996. The period witnessed entry of many players in the market including some foreign player or institutions. There were many mergers and acquisitions took place during this phase. The total number of mutual fund rose to 33 by the end of 1993 and the total fund reached to the record level of Rs. 121805 crore. However the market leader was UTI with the total fund of Rs. 44541 crore. This period witnessed the growth of mutual fund under public sector as well as private sector.

4. PHASE FOUR CONSOLIDATIONS SINCE 2003:
The fourth phase began with the bifurcation of UTI into two separate identities one is under the control of the government and second is under the control of mutual fund regulation. The first covers the units of US 64 which provided assured returns to
investors. The total fund under the first entity was Rs. 29835 crore. The first entity remained with UTI. The second entity was UTI mutual fund sponsored by SBI and other public sector banks (SBI, PNB, BOB, LIC). This entity came under the control of SEBI regulation. Thus the last phase witnessed consolidation of mutual funds in the country. The growth of mutual fund industry under different phases can be seen as below.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Rs. In Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>4564</td>
</tr>
<tr>
<td>1993</td>
<td>47000</td>
</tr>
<tr>
<td>2003</td>
<td>121805</td>
</tr>
<tr>
<td>2010</td>
<td>613979</td>
</tr>
</tbody>
</table>

(Source Mutual Fund Association Report)
3.5.4 TYPES OF MUTUAL FUNDS

There are different types of mutual fund catering the requirement of the investors, these mutual funds are classified on different basis and they are as follows:

A) CLASSIFICATION OF MUTUAL FUNDS (ON BASIS OF STRUCTURE):

Mutual Funds on the basis of structure is classified as

- **Open Ended Scheme**: In case of open ended scheme an investor can invest in this fund anytime during working of scheme or the operation of the scheme. The investor can redeem the units at any time.

- **Close Ended Scheme**: In case of close ended scheme an investor can invest only during initial offer period. Such schemes have some lock in period. Under such scheme units are listed on stock market.
Mutual funds on the basis of investment & objectives are classified as:

1. Growth Schemes
Growth schemes are high risk high income schemes. Such schemes provide capital appreciation. Growth schemes are highly diversified with variety of investments. Growth schemes are highly diversified with variety of investments.

Growth schemes are highly diversified with variety of investments. Growth schemes offer different options and possibilities such as sector specific funds like infrastructure related, bank related fund, pharma related fund, etc.

Investors who have specific interest in a particular industry can opt of such schemes. Another option is index fund in which the fund is invested in the stock market in those stocks which are most promising and profitable.

Thus as the stock index goes up, mutual fund index rises. Another option is opportunity funds, in which the objective is to get benefits from the market situation.
When IPO are oversold there is possibility of encashing. Another option is equity linked saving scheme in which investor get tax benefits under 80 C of Income tax. There is 100% tax rebate up to investment of Rs. 1,00,000. Under this scheme most of the funds are invested in equity.

2. Income Schemes
In the case of income schemes the fund is invested in debt instruments. Sometimes certain fund is invested in government securities i.e. GIT edge funds, commercial papers of companies or invest in short term debt instruments like call money.

3. Balanced Schemes
In the case of balanced schemes there is proper mixture of debt and equity instruments. There is moderate risk and moderate returns. The allocation is decided by the fund manager. There are other schemes like monthly income plan scheme which provide regular income to investors.

C) CLASSIFICATION OF MUTUAL FUNDS (NON FINANCIAL ASSETS):

There are some non financial asset schemes such as
1. Gold Exchange Traded Fund Scheme
2. Real Estate Mutual Fund
3. Assured Return Fund

D) OTHER FUNDS

Thus to sum up, different type of mutual funds offered by financial services are
1. Open Ended Funds/Close Ended Funds/Interval Funds
2. Actively Managed Funds/Passively Managed Funds
3. Debt Equity and Hybrid Funds
4. Different Debt Funds
5. Different Equity Funds
6. Gold Funds (Gold Exchange Traded Funds, Gold Sector Funds)
7. Real Estate Funds
8. Commodity Funds
9. International Funds
10. Funds of Funds
11. Exchange Traded Funds

The AUM of the industry was Rs. 10,06,452 crores offered by 45 mutual funds having 1823 funds or schemes.

The details of the same can be seen as below

<table>
<thead>
<tr>
<th>FUND</th>
<th>Rs./Crore</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Ended</td>
<td>8,17,072</td>
<td>81.20</td>
</tr>
<tr>
<td>Closed Ended</td>
<td>1,79,980</td>
<td>17.90</td>
</tr>
<tr>
<td>Interval</td>
<td>9,400</td>
<td>0.90</td>
</tr>
<tr>
<td>Total</td>
<td>10,06,452</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source Mutual Fund Association Report)
It can be seen from the above table that the total AUM of open ended scheme is 817072 crore accounting for 81.20% of the total industry fund.

Close ended fund is Rs. 179980 crores accounting for 17.90% of the total AUM interval fund is 9400 crore accounting for negligible percentage.

Thus there is high share of open ended scheme. The breakup of the fund into different categories can be seen below.

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income</td>
<td>471651</td>
<td>46.90</td>
</tr>
<tr>
<td>2</td>
<td>Infra Debt</td>
<td>1099</td>
<td>0.10</td>
</tr>
<tr>
<td>3</td>
<td>Equity</td>
<td>221313</td>
<td>22.00</td>
</tr>
<tr>
<td>4</td>
<td>Balanced</td>
<td>16217</td>
<td>1.60</td>
</tr>
<tr>
<td>5</td>
<td>Liquid Money Market</td>
<td>244220</td>
<td>24.30</td>
</tr>
<tr>
<td>6</td>
<td>GIT</td>
<td>5465</td>
<td>0.60</td>
</tr>
<tr>
<td>7</td>
<td>ELSS</td>
<td>30317</td>
<td>3.00</td>
</tr>
<tr>
<td>8</td>
<td>Gold ETF</td>
<td>7773</td>
<td>0.80</td>
</tr>
<tr>
<td>9</td>
<td>Others ETF</td>
<td>5083</td>
<td>0.50</td>
</tr>
<tr>
<td>10</td>
<td>Fund of Funds</td>
<td>3134</td>
<td>0.30</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1006452</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

(Source Mutual Fund Association Report)
It can be seen from the above table that the most type of funds are income fund, equity fund and liquid money market fund. Income fund is Rs. 471651 crore with a share of 46.90%. It is followed by liquid money market fund which is Rs. 244220 crore with market share of 24.30% and the last one is equity fund valued at Rs. 221313 crore accounting for 22% of the total. In India mutual funds have great potential to grow and expand as the present share of the mutual fund is only 12.50% of the total bank deposits.

**E) BENEFITS OF MUTUAL FUNDS**

MF are important for country as well as other stakeholders like investors and sponsors

i) The benefits of mutual fund to an economy are

1. Contribute to higher savings
2. Compete FIIs
3. Activate Money Market
4. Promote Eco Development

ii) The benefits of mutual funds to investors are

1. Helps in the selection of proper scheme
2. Helps in diversification of investment
3. Minimise risk factor
4. Provide time for research
The benefits of mutual funds to sponsors are
1. Earns Revenue & Profit
2. Higher Customer Base
3. Creates brand image

Thus to summarize mutual fund is one such mechanism to mobilize money from different investors which can be invested in various markets and securities.

The major benefits and demerits of mutual fund can be broadly explained as follows:

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Service of professionals</td>
<td>1. Lack of customization of investments</td>
</tr>
<tr>
<td>2. Building wealth</td>
<td>2. Difficulty in choosing options</td>
</tr>
<tr>
<td>3. Affordable Investments</td>
<td>3. No control over cost</td>
</tr>
<tr>
<td>4. Portfolio Diversification</td>
<td></td>
</tr>
<tr>
<td>5. Economies of scale</td>
<td></td>
</tr>
<tr>
<td>6. Easy Liquidity</td>
<td></td>
</tr>
<tr>
<td>7. Taxation benefits</td>
<td></td>
</tr>
<tr>
<td>8. Convenient investment options</td>
<td></td>
</tr>
<tr>
<td>9. Simplifies investment</td>
<td></td>
</tr>
<tr>
<td>10. Protection to Investors by SEBI</td>
<td></td>
</tr>
</tbody>
</table>

The above summary of Mutual Funds enunciates both the advantages and disadvantages and can be broadly explained as follows:

**F) ADVANTAGES OF MUTUAL FUND**

1. Services of Professionals:
   Mutual funds are managed and operated by professionals and financial experts. Thus small investors or middle income group can get the services of professional free of cost.
2. Building Wealth:
Mutual funds are good for building wealth over the period of time. It offers various options to the investors like open ended scheme, close ended scheme or monthly income plan etc.

3. Affordable Investment:
Mutual funds provide opportunity for investment to all categories of people rich, middle class and poor. The investments in mutual fund are small investments and thus it offers opportunity for small income group people to participate in mutual fund.

4. Portfolio Diversification:
Mutual fund offers various schemes under each fund to investors. Such as income, infrastructure debt, equity, balanced, liquid money market, GLT, ELSS, Gold exchange traded fund, fund of funds, etc. Thus there is good portfolio diversification.

5. Economies of Scale:
Mutual Funds collects small amount of fund from an individual investors but collect huge sum from all the investors. Thus it is possible to enjoy economies of large operations. Further because of huge fund the Asset Management Company can strike a better deal with the banks and other stakeholders.

6. Easy Liquidity:
Mutual fund also offers quick liquidity as there are different types of funds like open ended and closed ended, investors can sell units at the present market value. Thus there is no need to block the funds for long time.

7. Taxation Benefits:
Investments in mutual funds also enjoy tax benefits. Under section 80 of income tax, investment up to Rs. 150,000 can be directly deducted from the total taxable income. Thus mutual fund provides inducement for investment.
8. Convenient Investment Options:
Mutual fund provides variety of schemes to investors. For example there are 45 mutual funds with 1823 options or schemes. Thus an investor can choose fund.

9. Simplified Procedure:
Investment in mutual fund is highly simplified and convenient. The investment advisors provide personal services to the customer. The procedure is easy and simple.

10. Protection to Investors:
Mutual funds are regulated by SEBI. It has laid down specific rules and regulations for operations of mutual funds. It is framed rules for sponsor, trustee, Asset Management Companies, Registrar etc. It has fixed limits of investments under different schemes. Thus mutual fund sector is professionally managed and highly regulated. Besides SEBI there is AMFI which protects interest of members/investors.

Thus mutual funds offer large number of benefits to small and individual investors. In advanced countries mutual funds constitute multiple of aggregate bank deposits. In India mutual funds are still at the developing stage and thus provide greater scope for expansion of the funds.

G) LIMITATIONS OF MUTUAL FUNDS

There are few short comings of mutual funds. These are as follows:

1. Customization Not Possible:
It is not possible to offer investors customized products or services. Individual needs of investment may differ widely. Hence investors have to adjust their investments.

2. Difficulty in choosing options:
Investors find it difficult to choose the best option or the best fund. They mostly depend on brokers or fund advisors. Investors cannot understand the complexities of different schemes.
3. No control over cost:
Individual investor has no control over the management of mutual funds. The asset management companies spend huge amount on research, market & financial analysis.

4. Greater risk involved:
There are risks involved in the investment such as market risk, business risks, political risks, investor’s confidence risks, etc.

5. Lack of Awareness in Rural areas:
Mutual funds have not much covered the rural population. There is lack of financial literacy among the rural people. Hence the growth of mutual fund is still at an initial stage and the potential is yet to be achieved.

H) RISKS IN MUTUAL FUND

However there are certain risks involved in mutual fund. There are

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Scheme related risk</td>
<td>8. Investment risk</td>
<td>9. Investor’s confidence risk</td>
</tr>
</tbody>
</table>

3.5.5 SEBI GUIDELINES AS PER SEBI ACT

SEBI has given certain guidelines for the mutual fund industry. Some of the important provisions are as under.

1. The sponsor is required to apply for a mutual fund with SEBI and fee of Rs. 25000/-.
The sponsor should be in business of financial services. His financial results should be positive and profitable. He should have a good reputation and track record.
2. The formalities for establishing mutual fund include trust deeds, board of trustee, asset Management Company, and custodian.

3. The registration charges are Rs. 25 lakhs.

4. Mutual fund must pay fees every year before 15\textsuperscript{th} April every year.

5. Trustees of mutual funds cannot be members of Asset Management Company.

6. Sponsor should appoint Asset Management Company with the approval of SEBI.

7. The company should be registered under companies’ act 1956.

8. Asset Management Company is responsible for investment of fund.

9. All schemes of mutual fund announced by Asset Management Company should be approved by trustee and SEBI.

10. The scheme of NFO for ELSS should not be kept open beyond 45 days.

### 3.5.6 TRENDS IN MUTUAL FUND SCHEMES:

The trends in mutual fund schemes over the period of time can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt</th>
<th>Income</th>
<th>Balanced</th>
<th>ET</th>
<th>Overseas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Debt</td>
<td>Income</td>
<td>Balanced</td>
<td>Equity Traded</td>
<td>Overseas</td>
<td>Total</td>
</tr>
<tr>
<td>---------</td>
<td>------</td>
<td>--------</td>
<td>----------</td>
<td>---------------</td>
<td>----------</td>
<td>-------</td>
</tr>
<tr>
<td>2010-11</td>
<td>679</td>
<td>376</td>
<td>32</td>
<td>28</td>
<td>16</td>
<td>1131</td>
</tr>
<tr>
<td>2011-12</td>
<td>872</td>
<td>352</td>
<td>30</td>
<td>35</td>
<td>20</td>
<td>1309</td>
</tr>
<tr>
<td>2012-13</td>
<td>857</td>
<td>347</td>
<td>32</td>
<td>37</td>
<td>21</td>
<td>1294</td>
</tr>
<tr>
<td>2013-14</td>
<td>1178</td>
<td>363</td>
<td>30</td>
<td>40</td>
<td>27</td>
<td>1638</td>
</tr>
</tbody>
</table>

(Source Mutual Fund Association Report)

It can be observed that the total number of schemes of mutual fund rose from 1131 in 2010-11 to 1638 in 2013-14.

There is rapid rise in debt scheme from 679 to 1178.
Income scheme declined from 376 to 363.
Balanced scheme declined from 32 to 30.
Equity traded scheme rose from 28 to 40.
Overseas scheme from 16 to 27.

**3.5.7 INDUSTRY OVERVIEW:**

After the liberalisation of economic policies in India there is rapid expansion of mutual fund industry. At present there are 44 AMC operating in the industry which include public sector, private sector as well as joint sector. The details of these 44 companies can be seen as below.
It can be seen from the above table that most of the companies are small in terms of Asset under Management but the number of these companies is large. There are 25 companies which have AUM at less than Rs. 8000 crore accounting for only 7 percent of the total market.

There are 6 companies with AUM between Rs. 10000 to Rs. 20000 crore accounting for only 6 percent of the total market share. Another 6 companies are having AUM between Rs. 20000 & Rs.50000 crore, accounting for 18 percent of the market share.

There are 03 companies with AUM between Rs. 60,000 -80,000 crore accounting for 20 percent of the market share. There are only 4 big companies having AUM between Rs. 110,000 to 150,000 crore accounting for 49% of the total market share.

Thus in all 07 companies control 69% market and remaining 37 companies control 31% market share.
Thus mutual fund companies differ widely in terms of size and market share. The top companies are:

1. HDFC
2. ICICI Prudential
3. Reliance
4. Birla Sun Life
5. UTI
6. State Bank of India
7. Franklin Templeton
8. Kotak Mahindra
9. IDFC
10. DSP

3.5.8 SBI MUTUAL FUND
3.5.8 (A) INTRODUCTION:

SBI mutual fund is one of the oldest mutual funds in India. It was the first mutual fund to establish when government allowed public sector banks to enter mutual fund in the year 1987.

Thus SBI mutual fund is 28 years old and it has the rich experience and a strong experienced professional team to manage fund and deliver value to the customer.

The vision of SBI mutual fund covers the following features.
1. Most preferred fund
2. Largest fund house
3. For all the income group
4. Provide consistent excellent returns
5. Provide best customer services

SBI mutual fund has joint venture with AMUNDI (France) which is one of the largest fund management companies in the world. It is the largest fund mutual fund in India with 5.4 million investors both individuals’ investors as well as institutional investors.

3.5.8 (B) Fund House Expertise:

SBI mutual fund has expertise professionals who make good investment strategies through research and proper selection of portfolios.

The three important factors influencing investment are:
1. Creating long term capital appreciation
2. Excellent selection of products services/portfolios
3. Professional Management of fund
3.5.8 (C) SBI Products:

SBI mutual fund offer six different products to suit the needs of the investors in terms of risks and rewards. These schemes are

1. EQUITY SCHEMES:
The basic objectives of equity schemes are to provide appreciation of capital through investment in company equities for medium and long period. The bank offers large variety of schemes under equity fund scheme. These are

![Equity Scheme Diagram]

1. **Equity Growth Fund:** The various schemes under this are
   i. SBI Magnum Equity Fund
   ii. SBI Magnum Global Fund
   iii. SBI Blue Chip Fund
   iv. SBI Magnum MultiCap Fund
   v. SBI Magnum Multiplier Fund
   vi. SBI Small & Midcap Fund
   vii. SBI Magnum Midcap Fund
   viii. SBI Emerging Business Fund

2. **Sectoral Funds:** The various sectoral funds scheme include
   a. SBI Contra Fund
   b. SBI FMCG Fund
   c. SBI IT Fund
d. SBI Pharma Fund
e. SBI Banking & Financial Services Fund

3. Thematic Funds: The various schemes are
i) SBI Magnum Fund
ii) SBI Infrastructure Fund
iii) SBI PSU Fund

4. ELSS Scheme: The various schemes include
a. SBI Magnum Tax Gain Scheme 1993
b. SBI Tax Advantage Fund I
c. SBI Tax Advantage Fund II
d. SBI Tax Advantage Fund III

5. Index Funds: it include
i. SBI Nifty Index Funds

6. Market Neutral Strategy: It includes
a. SBI Arbitrage Opportunities Fund

2. DEBT INCOME FUND & SCHEMES:
   The basic objective of this scheme is to provide regular and steady income to investors and therefore the investments are made in fixed income earning asset like bonds, debentures, government securities, money market instruments, etc. The various schemes under debt income fund are
1. SBI Saving Fund
2. SBI Corporate Bond Fund
3. SBI Magnum Income Fund
4. SBI treasury Advantage Fund
5. SBI Dynamic Bond Fund
6. SBI magnum Glt Fund (Short term)
7. SBI Magnum Glt Fund (Long term)  
8. SBI Short Term Debt Fund  
9. SBI Ultra Short Term Debt Fund

3. LIQUID FUNDS/SCHEMES:  
These schemes are focused on liquid fund and hence investments are made in short term  
assets like certificate of deposits, commercial papers. The various schemes under this are  
1. SBI Magnum Insta Cash Fund  
2. SBI magnum Insta Cash Fund Liquid Floater  
3. SBI Premier Liquid Fund

4. HYBRID SCHEMES:  
These schemes are a mixture of debt and equity securities invested in different  
proportions. It includes the following schemes:  
I. SBI Magnum Children Benefit Plan  
II. SBI Magnum Balanced Fund  
III. SBI Regular Saving Fund  
IV. SBI magnum Monthly Income Plan  
V. SBI Magnum Monthly Income Plan Floater  
VI. SBI Dynamic Asset Allocation Fund

5. FIXED MATURITY PLANS:  
These are close ended schemes which provide fixed income after the maturity of the  
schemes. The bank offers large number of Debt Fund Schemes with different time period.  
i.e. days, months & years.

6. EXCHANGE TRADED FUNDS:  
Under these scheme investments are made in group of securities which are traded on the  
stock exchange. It covers the following schemes  
a. SBI ETF Gold  
b. SBI ETF Sensex
c. SBI ETF Nifty Bank  
d. SBI ETF BSE 100  
e. SBI ETF Nifty Next 50  
f. SBI ETF Nifty 50  
g. Direct Redemption  
Thus SBI offers a large variety and product mix of mutual funds which cater to different customers and market segments. The large variety has helped SBI to capture large customer base in the mutual fund.

3.5.8 (D) DISTRIBUTION CHANNELS:  

The network of distribution channel for mutual fund covers three categories namely  
1. Banks (Approx 80)  
2. Distributors (Approx 3000)  
3. Independent Financial Advisor (Approx 40,000)  

<table>
<thead>
<tr>
<th>Description</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Sales</td>
<td>12</td>
</tr>
<tr>
<td>Banks</td>
<td>31</td>
</tr>
<tr>
<td>Distributors</td>
<td>30</td>
</tr>
<tr>
<td>Independent Financial Ad</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table No – 19  
Total Percentage Shares – Distribution Channels  

Source: Indian Mutual Fund Industry – T. Kamiyama

It can be seen that the main channel is banks accounts for 31% of the total share. It is followed by distributors accounting for 30% of the total fund, independent financial advisor account for 27% of the total share.
3.5.9 IDBI MUTUAL FUND

3.5.9 (A) INTRODUCTION

IDBI initiated mutual fund in the year 2010 when it established IDBI mutual fund Trustee Company under the Companies Act 1956. Thus IDBI is relatively a later comer in the mutual fund as compared to SBI which was the first public sector bank to enter mutual fund sector.

The mission of the IDBI mutual fund is to encourage financial inclusion by providing guidance to the common man in making investment decisions and give them the benefits of market conditions.

IDBI mutual fund is sponsored by IDBI bank which is one of the leading industrial bank in the country.

3.5.9 (B) PRODUCTS/SCHEMES:

IDBI offers various innovative schemes to customer through its network of branches spread all over the country. The various schemes of IDBI mutual fund are as follows.

```
   IDBI Mutual Fund
     ├── Equity
     └── Debt
          └── Gold
```
1. **Equity Schemes:**
Under the equity funds IDBI offers the following schemes.

1. IDBI diversified equity fund
2. IDBI equity advantage fund
3. IDBI Rajiv Gandhi Equity Saving Scheme
4. IDBI India Top 100 Equity Fund
5. IDBI Nifty Junior Index Fund
6. IDBI Nifty Index Fund

1. It is an open ended scheme. It provides an opportunity to investors to earn higher returns in long period through participation in variety of equity, stocks, debt and money market instruments. However there is higher risk involved in such investments as most of the fund is invested in stock market.

2. It is also an open ended saving scheme which offers tax benefits under section 80 of the income tax act 1961. There is lock in period of 3 years. There is some risk involved in such investments.

3. It is a closed ended scheme. It also provides income tax benefits under section 80 CCG of income tax act 1961. The minimum invt. under this scheme is Rs. 5000.

4. It is an open ended scheme which provides long term investment benefits. The fund is 100% invested in equity and diversified stocks of the companies in the stock market. The minimum investment under this scheme is Rs. 5000. There is high risk.

5. It is also an open ended scheme. It is mainly invested in the next 50 stocks of Nifty. There is high risk involved in such investments. The minimum invt. is Rs. 5000.

6. It is also an open ended scheme. It is 100% invested in Nifty next 50 stocks on the basis of total returns. There is high risk involved. Rs. 5000.
2. Debt Schemes:

IDBI offers various debt schemes. These are

1. IDBI Debt Opportunities Fund
2. IDBI Fixed Maturity Plan Series IV
3. IDBI Fixed Maturity Plan Series III
4. IDB Gilts Fund
5. IDBI Dynamic Bond Fund
6. IDBI Short Term Bond Fund
7. IDBI Monthly Income Plan
8. IDBI Ultra Short Term Fund
9. IDBI Liquid Fund

These schemes are briefly covered as under.

1. IDBI Debt Opportunities Fund:
The purpose of this fund is to generate regular income & appreciation of fund. The fund is invested in debt market and money market. The debt instrument fund allocation is 90% maximum and in money market is varies between 10% to 100%. It is open ended income scheme. The risk is medium.

2. IDBI Fixed Maturity Plan Series IV:
It is closed ended scheme. The period of fund is from minimum 30 days to maximum 120 months. The objective is to create regular income and appreciation of wealth. It is invested in debt and money market instrument. The minimum investment is Rs.5000/-

3. IDBI Fixed Maturity Plan Series III:
It is also a closed ended scheme. The period of the fund varies between 30 days to 60 months. Units are offered at Rs. 10 per unit and minimum investment is Rs. 5000/-

4. IDBI Dynamic Bond Fund:
It aims at regular income and appreciation of fund. It is invested in debt market and money market instruments. The risk factor is low.
5. IDBI Glt Fund Scheme:
It is an open ended scheme which is mainly invested in govt. securities and bills. The allocation of fund in government securities varies between 65% to 100%. Risk is low.

6. IDBI Short Term Fund Scheme:
It is an open ended scheme. It aims at giving regular income to investors. The fund is invested in many market and debt instruments.

7. IDBI Monthly Income Scheme:
It is an open ended scheme. It aims at providing regular monthly income to the investors. The fund is utilised for investing in debt instrument and equity and stocks of the companies. The minimum investment is Rs. 5000 and then multiple of Rs. 1000. It also offer systematic investment plan i.e. Rs. 500 per month or Rs. 1000 per month and Rs. 1500 per month for a fixed period.

8. IDBI Ultra Short Term Scheme:
It is an open ended scheme aims at providing regular income to investors. The fund is invested in debt and money market instruments.

9. IDBI Liquid Fund Scheme:
It is an open ended scheme to provide regular income to the investors. The face value of the unit is Rs. 1000 and the minimum investment is Rs. 5000 and then multiple of Rs. 1000. There is scheme of systematic investment plan.

3. IDBI Gold Schemes:
IDBI offers two schemes under the Gold schemes. These are

(i) IDBI Gold Fund:
The aim of this fund is to create income on par with Gold exchange traded fund. It is mostly invested in corporate stocks traded on the stock exchange.
The minimum investment is Rs. 5000 and multiple of Rs. 1000. There is monthly option of payment or investment.

(ii) IDBI Gold ETF:
It is an open ended scheme. It provides liquidity to the investors as the stocks are traded on the stock exchange. The objective of this scheme is to invest in Gold and to provide sufficient returns to the investors.

The fund is mostly invested in physical gold upto 95% and the balance 5% is invested in debt instruments. The minimum investment in this scheme is Rs. 10,000. The risk factor is moderate.

3.5.9 (C) TYPES OF MUTUAL FUNDS OFFERED BY IDBI
The mutual fund is a component that accumulates the savings of small investors and invests it into the basket of securities and develops a brand name and image for the country.

The mutual fund schemes offered by IDBI are many to name a few of them they are based on structure, nature, investment objective and others.

Each of them have different speciality which dedicates and concentrates the mutual fund to various needs of the society.

These schemes are purely based upon the need of the hour that is as per individual’s objective these packages are offered.

**3.5.10 SBI MUTUAL FUND V/S IDBI MUTUAL FUND:**

**3.5.10 (A) ASSETS UNDER MANAGEMENT (AUM):**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Fund</th>
<th>AUM (Rs./Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HDFC</td>
<td>178373</td>
</tr>
<tr>
<td>2</td>
<td>ICICI Prudential</td>
<td>172151</td>
</tr>
<tr>
<td>3</td>
<td>Reliance</td>
<td>156948</td>
</tr>
<tr>
<td>4</td>
<td>Birla Sun Life</td>
<td>136561</td>
</tr>
<tr>
<td>5</td>
<td>UTI</td>
<td>106129</td>
</tr>
<tr>
<td>6</td>
<td>SBI</td>
<td>100055</td>
</tr>
<tr>
<td></td>
<td>Bank Name</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>------------------</td>
<td>---</td>
</tr>
<tr>
<td>7</td>
<td>Franklin</td>
<td>70780</td>
</tr>
<tr>
<td>8</td>
<td>Kotak Mahindra</td>
<td>54902</td>
</tr>
<tr>
<td>9</td>
<td>IDFC</td>
<td>54715</td>
</tr>
<tr>
<td>10</td>
<td>DSP</td>
<td>38099</td>
</tr>
<tr>
<td>11</td>
<td>Axis</td>
<td>34489</td>
</tr>
<tr>
<td>12</td>
<td>Tata</td>
<td>31556</td>
</tr>
<tr>
<td>13</td>
<td>L &amp; T</td>
<td>25059</td>
</tr>
<tr>
<td>14</td>
<td>Deutsche</td>
<td>24786</td>
</tr>
<tr>
<td>15</td>
<td>Sundram</td>
<td>21877</td>
</tr>
<tr>
<td>16</td>
<td>Religare</td>
<td>19869</td>
</tr>
<tr>
<td>17</td>
<td>J M Financial</td>
<td>15868</td>
</tr>
<tr>
<td>18</td>
<td>LIC</td>
<td>12384</td>
</tr>
<tr>
<td>19</td>
<td>Baroda Pioneer</td>
<td>92225</td>
</tr>
<tr>
<td>20</td>
<td>HSBC</td>
<td>7696</td>
</tr>
<tr>
<td>21</td>
<td>IDBI</td>
<td>7507</td>
</tr>
<tr>
<td>22</td>
<td>J P Morgan</td>
<td>7501</td>
</tr>
<tr>
<td>23</td>
<td>Canara</td>
<td>7439</td>
</tr>
<tr>
<td>24</td>
<td>Goldman</td>
<td>6852</td>
</tr>
<tr>
<td>25</td>
<td>PRINCIPAL</td>
<td>5816</td>
</tr>
<tr>
<td>26</td>
<td>BNP Paribas</td>
<td>5008</td>
</tr>
<tr>
<td>27</td>
<td>India bulls</td>
<td>4917</td>
</tr>
<tr>
<td>28</td>
<td>Motilal Oswal</td>
<td>4552</td>
</tr>
<tr>
<td>29</td>
<td>Taurus</td>
<td>3503</td>
</tr>
<tr>
<td>30</td>
<td>Mirae</td>
<td>2802</td>
</tr>
<tr>
<td>31</td>
<td>Union KBC</td>
<td>2732</td>
</tr>
<tr>
<td>32</td>
<td>BOI</td>
<td>2356</td>
</tr>
<tr>
<td>33</td>
<td>DHFL</td>
<td>2163</td>
</tr>
<tr>
<td>34</td>
<td>Edelwise</td>
<td>1632</td>
</tr>
<tr>
<td>35</td>
<td>Peerless</td>
<td>1024</td>
</tr>
<tr>
<td>36</td>
<td>Quatum</td>
<td>632</td>
</tr>
</tbody>
</table>
The table shows that AUM were 13,14,532 crores and have increased by 1.86 percent to 133948 over three years. Out of 44 MF, 41 MF data are given. The top 6 and balance 35 companies share in total fund comprise of 63.44% and 35% respectively.

Table No – 21

Total Market Share of top six companies

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Fund</th>
<th>Rs/Crore</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HDFC</td>
<td>178373</td>
<td>13.31%</td>
</tr>
<tr>
<td>2</td>
<td>ICICI Prudential</td>
<td>172151</td>
<td>12.85%</td>
</tr>
<tr>
<td>3</td>
<td>Reliance</td>
<td>156948</td>
<td>11.71%</td>
</tr>
<tr>
<td>4</td>
<td>Birla Sun Life</td>
<td>136561</td>
<td>10.19%</td>
</tr>
<tr>
<td>5</td>
<td>UTI</td>
<td>106129</td>
<td>7.92%</td>
</tr>
<tr>
<td>6</td>
<td>SBI</td>
<td>100055</td>
<td>7.46%</td>
</tr>
<tr>
<td><strong>Total Fund</strong></td>
<td><strong>1339484</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

(3.5.10 (B) PERCENTAGE SHARE OF COMPANIES)

The percentage share of top six companies and balance 35 companies are as follows
The market share of SBI & IDBI can be seen as below.

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Rs/Crore</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SBI</td>
<td>100055</td>
<td>7.46%</td>
</tr>
<tr>
<td>2</td>
<td>IDBI</td>
<td>7507</td>
<td>0.56%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1339484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source Mutual Fund Association Report)

The market share of SBI in the overall mutual fund is 7.46% while that of IDBI is 0.56%. However the combined share of both is 8.02% and the combined asset under management is Rs. 107562 crore.

In this SBI has a share of Rs. 100055 crore accounting for 93.02% and IDBI have Rs. 7507 crore accounting for 6.98%. Thus there is vast difference in the size of SBI mutual fund and IDBI mutual fund started in India under public sector while IDBI started mutual fund very late.

3.5.10 (C) COMPARISION ANALYSIS
The present topic we have made a comparison of SBI mutual fund & IDBI mutual fund to draw some meaningful conclusions. The comparative analysis is as follows:

1. Fund History:
It is observed that SBI mutual fund is oldest mutual fund and first mutual fund to start when public sector banks enter into business of mutual fund. Thus SBI mutual fund is about three decades old. On other hand IDBI mutual fund was initiated recently in year 2010. Thus IDBI mutual fund is in early stage of development while SBI mutual fund is well developed giant fund in market leader in terms of its market share.

2. Asset under Management:
There is a vast difference in size of mutual funds of SBI & IDBI. The total AUM of SBI MF is Rs. 100055 crores in 2015 while total AUM of IDBI mutual fund is only Rs. 7507 crore. Thus SBI is 13.32 times bigger than IDBI in terms of AUM.

3. Market Share & Rank:
The rank of SBI mutual fund is 6th in overall mutual fund companies while the rank of IDBI is 21st in the overall mutual funds in the country. However this rank is purely based on AUM and not on other financial performance. The overall market share of SBI is 7.42 % while that of IDBI is 0.56 %. Thus SBI comes in top six mutual funds in India. This can be attributed to existence of SBI MF for past nearly 30 years. SBI has tie up with one of largest fund management in world (i.e. AMUNDI France).

4. Number of Funds/Schemes:
SBI mutual funds offer six different products viz Equity Schemes, Debt income schemes, liquid schemes, Hybrid schemes, Fixed Maturity plans & exchange traded schemes. On the other hand IDBI offers only three schemes namely Equity, Debt & Gold schemes. Thus the numbers of schemes of SBI are much higher than IDBI in terms of customer coverage and meeting the needs of the customers.

The distribution of different schemes of SBI & IDBI mutual fund can be seen as below.
Thus SBI offers a large diversified mutual fund schemes to the investors. The number is 52 schemes while IDBI offers only 18 schemes of mutual fund.

SBI provides various sector funds such as contra funds, FMCG funds, IT funds, Pharma funds and Banking & Insurance services fund while IDBI offers only Gold exchange traded schemes.

SBI offers six exchange traded funds while IDBI offers limited exchange traded funds. Thus the portfolio of SBI mutual fund is highly diversified than IDBI mutual fund portfolio.

**3.6 PROFITABILITY RATIOS (SBI V/S IDBI)**
3.6.1 INTRODUCTION

The basic objective of all business organization is the maximization of profit. Profit is the outcome of the business activities undertaken by banks. It is the result of internal as well as external factors.

Internal factors include management policies, strategies, decision making, planning, organizing, employee’s performance and lots of other factors. Marketing is carried out to increase performance, sales and profit.

External factors comprises of factors such as political factors, economical factors, social factors and technological factors.

Thus profit is the result of various decisions and activities undertaken by banks.

In the present chapter profitability ratios of State Bank of India and IDBI are analysed first separately and then combined analysis is made to make a comparison and draw conclusion regarding the profitability ratio.
3.6.2 STATE BANK OF INDIA (SBI)

3.6.2. (A) TOTAL INCOME/EXPENDITURE/NET PROFIT:

The details regarding total income, total expenditure, net profit of State Bank of India from the period 2006-2015 can be seen from the following table.

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income earned</td>
<td>35794</td>
<td>70993</td>
<td>152397</td>
</tr>
<tr>
<td>Other Income</td>
<td>7388</td>
<td>14968</td>
<td>22575</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>43183</strong></td>
<td><strong>85962</strong></td>
<td><strong>174972</strong></td>
</tr>
<tr>
<td>Interest Expenditure</td>
<td>20159</td>
<td>47322</td>
<td>97381</td>
</tr>
<tr>
<td>Employee cost</td>
<td>8123</td>
<td>12754</td>
<td>23537</td>
</tr>
<tr>
<td>Selling</td>
<td>9765</td>
<td>15786</td>
<td>39836</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>38776</strong></td>
<td><strong>76796</strong></td>
<td><strong>161871</strong></td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td><strong>4406</strong></td>
<td><strong>9166</strong></td>
<td><strong>13101</strong></td>
</tr>
</tbody>
</table>

Note: (Figures are rounded. Total may not tally as some items are not shown in the analysis)

It can be seen from the above table the total income of the bank rose from Rs. 43183 crore in 2006 to Rs. 174972 crores in 2015. Thus the total income increased by about 4.0 times during this period.

The income received includes income from interest income and income from other sources. The income from interest sources rose from Rs. 35794 crores in 2006 to Rs. 70993 crore in 2010 and Rs. 152397 crores in 2015.

On the other hand income from other sources rose from Rs. 7388 crore in 2006 to Rs. 14968 crore in 2010 and Rs. 22575 crore in 2015. The interest income rose by 4.25 times
while the non interest income rose by 3.05 times. This interest income continues to be the major source of income of the bank.

The percentage of interest income and non-interest income can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest</th>
<th>Non interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>82.88</td>
<td>17.12</td>
<td>100</td>
</tr>
<tr>
<td>2010</td>
<td>82.58</td>
<td>17.42</td>
<td>100</td>
</tr>
<tr>
<td>2015</td>
<td>87.09</td>
<td>12.91</td>
<td>100</td>
</tr>
</tbody>
</table>

It can be seen that the share of income from interest which was 82.88% in 2006 rose to 87.09 percent in 2015 while that of non interest income declined from 17.12% in 2006 to 12.91% in 2015.

This trend was observed only after 2010. Till 2010 the percentage share was not much different.

The total cost incurred by the bank rose from Rs.38776 crore in 2006 to Rs. 161871 crore in 2015.

Thus there is rapid rise in expenditure over the period of time. It rose by 4.1 times.

It can be observed that the rise in income and expenditure was almost by the same ratio. It shows growing market competition in the financial markets.

The expenditure on interest which was Rs. 20159 crore in 2006 rose to Rs. 97381 crore in 2015. The expenditure on employee cost rose from Rs. 8123 crore in 2006 to Rs. 23537 crore in 2015. Thus there is rapid rise in employee cost over period of time.
The selling and administration cost rose from Rs. 9765 crore in 2006 to Rs. 39836 crore in 2015.

The percentage share of expenses on interest payment, employee cost, selling and administration cost can be seen from the following table.

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>51.98</td>
<td>60.15</td>
</tr>
<tr>
<td>Employee</td>
<td>20.94</td>
<td>14.54</td>
</tr>
<tr>
<td>Selling &amp; Administration</td>
<td>25.18</td>
<td>24.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

(Total rounded)

It can be seen that the interest share which was 51.98% in 2006 rose to 60.15% in 2015. Thus there is rapid rise in expenditure, time, and cost both in absolute terms as well as percentage terms.

The employee cost which accounted for 20.94% in 2006 declined to 14.54 % in 2015. Similarly the selling and administration cost declined marginally from 25.18% in 2006 to 24.60 in 2015.

The decline in employee cost can be attributed to cost control measures adopted by bank and the use of technology to improve banking performance. The high selling and administration cost is an indicator of high marketing activities undertaken by bank.

The net profit of the bank which was Rs. 4406 crore in 2006 rose to Rs. 9166 crore in 2010 and Rs. 13101 crore in 2015. The net profit rose by 3.97 times over the period of time.
3.6.3. INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

3.6.3 (A) TOTAL INCOME/EXPENDITURE/NET PROFIT:

The details regarding total income, total expenditure, net profit of the bank over the period can be seen as below.

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>5380</td>
<td>15272</td>
<td>28153</td>
</tr>
<tr>
<td>Other Income</td>
<td>1280</td>
<td>2341</td>
<td>4007</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>6661</strong></td>
<td><strong>17614</strong></td>
<td><strong>32161</strong></td>
</tr>
<tr>
<td>Interest Expenditure</td>
<td>5000</td>
<td>13005</td>
<td>22406</td>
</tr>
<tr>
<td>Employee Cost</td>
<td>318</td>
<td>756</td>
<td>1926</td>
</tr>
<tr>
<td>Selling &amp; Administration</td>
<td>637</td>
<td>2730</td>
<td>6818</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>6100</strong></td>
<td><strong>16583</strong></td>
<td><strong>31288</strong></td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td><strong>560</strong></td>
<td><strong>1031</strong></td>
<td><strong>873</strong></td>
</tr>
</tbody>
</table>

It is observed that the total income of IDBI bank which was Rs. 6661 crore in 2006 rose to Rs. 17614 crore in 2010 and Rs. 32161 crore in 2015. The total number rose by 4.82 times.
The interest income which was Rs. 5380 crore in 2006 rose to Rs. 15272 crore in 2010 and Rs. 28153 crore in 2015. Thus there is rapid rise in interest income over the period of time.

On the other hand income from other sources which was Rs. 1280 crore in 2006 rose to Rs. 2341 crore in 2010 and Rs. 4007 crore in 2015.

The percentage share of income from interest and other can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest</th>
<th>Non Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>80.76</td>
<td>19.24</td>
<td>100.00</td>
</tr>
<tr>
<td>2010</td>
<td>86.70</td>
<td>13.30</td>
<td>100.00</td>
</tr>
<tr>
<td>2015</td>
<td>87.53</td>
<td>12.47</td>
<td>100.00</td>
</tr>
</tbody>
</table>

It can be seen that the interest income is the maximum source of income of the bank. It accounted for 80.76% in 2006 and 86.70% in 2010 and 87.53% in 2015. There is an increase in the percentage share of interest income from 80.76% to 87.53% over the period of time.

On the other hand income from other sources shows a declining trend from 19.24% in 2006 to 13.30% in 2010 and 12.47% in 2015. The total cost of the bank which was Rs. 6100 crore in 2006 rose to Rs. 16583 crore in 2010 and Rs. 31288 crore in 2015. Expenditure includes the money paid by way of interest, employee cost, selling and administration expenses.
The expenditure towards interest which was Rs. 5000 crore in 2005 rose to Rs. 13005 crore in 2010 and Rs. 22406 crore in 2015. Thus there is rapid rise in expenditure in interest cost.

The expenses on employees which were Rs. 318 crore in 2006 rose to Rs. 756 crore in 2010 and Rs. 1926 crore in 2015. The selling and administration cost rose from Rs. 637 crore in 2005 to Rs. 2730 crore in 2010 and Rs. 6818 crore in 2015.

The percentage share of interest, employees cost, selling and administration expenses in the total cost can be seen as below.

<table>
<thead>
<tr>
<th>Items</th>
<th>2006</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>81.96</td>
<td>71.61</td>
</tr>
<tr>
<td>Employee Cost</td>
<td>5.21</td>
<td>6.15</td>
</tr>
<tr>
<td>Selling and Administration</td>
<td>10.44</td>
<td>21.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

It can be seen that the share of interest in the total expenditure declined from 81.96% in 2006 to 71.61% in 2015.

On the other hand there was rapid rise in selling and administration expenditure. It share rose from 10.44% in 2006 to 21.79% in 2015.

The share of employee cost which was 5.21% in 2005 rose to 6.15% in 2015.
The net profit of the bank which was Rs. 560 crore in 2005 rose to Rs. 1031 crore in 2010 and declined to Rs. 873 crore in 2015.

3.6.4 COMPARISION OF SBI V/S IDBI

1. TOTAL INCOME/EXPENDITURE/NET PROFIT:

A comparison of SBI and IDBI in terms of total income, total expenditure and net profit can be seen as below.

A) TOTAL INCOME:

The total income of these two banks over the period of time can be seen as below.

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI</th>
<th>IDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>43183</td>
<td>6661</td>
</tr>
<tr>
<td>2010</td>
<td>85962</td>
<td>17614</td>
</tr>
</tbody>
</table>
It can be seen that the total income of SBI rose from Rs. 43183 crore in 2006 to Rs. 174972 crore in 2015. On the other hand the total income of IDBI rose from Rs. 6661 crore in 2005 to Rs. 32161 crore in 2015.

While SBI income rose by 4.05 times IDBI income rose by 4.82 times. The percentage rise in income of SBI & IDBI is 30.51 and 38.28 percent respectively.
Thus IDBI shows a higher rate of increase in income over SBI. However SBI total income is much higher than IDBI.

This explains the difference in the size and structure of the two banks. SBI is much larger bank than IDBI.

B) SHARE OF INTEREST/OTHER INCOME:

The share of income from interest and other sources can be shown as below

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI Interest</th>
<th>SBI Others</th>
<th>IDBI Interest</th>
<th>IDBI Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>82.88</td>
<td>17.12</td>
<td>80.76</td>
<td>19.24</td>
</tr>
<tr>
<td>2010</td>
<td>82.58</td>
<td>17.42</td>
<td>86.70</td>
<td>13.70</td>
</tr>
<tr>
<td>2015</td>
<td>87.09</td>
<td>12.91</td>
<td>87.53</td>
<td>12.47</td>
</tr>
</tbody>
</table>

It is observed that share of interest in total income is rising over period of time. It has gone up from 82.88% to 87.09% for SBI and from 80.76% to 87.53% for IDBI. The
percentage share of interest income for both banks is 87.09% and 87.53% respectively while percentage share of non interest income for both banks is 12.91% and 12.47% respectively.

The share of non interest income is declining for both banks. It has declined from 17.12% to 12.91% for SBI and from 19.24% to 12.47% for IDBI.

C) TOTAL COST:

The total cost of both the banks can be seen as below.

<table>
<thead>
<tr>
<th>Table No - 32</th>
<th>Total cost of banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td><strong>SBI</strong></td>
</tr>
<tr>
<td>2006</td>
<td>38776</td>
</tr>
<tr>
<td>2010</td>
<td>76796</td>
</tr>
<tr>
<td>2015</td>
<td>161871</td>
</tr>
</tbody>
</table>

It can be seen that there is rapid rise in the total expenditure of SBI as well as IDBI. SBI total expenditure rose from Rs. 38776 crore in 2006 to Rs. 161871 crore in 2015. It rose by 4.17 times. On the other hand the total expenditure of IDBI rose from Rs. 6100 crore in 2006 to Rs. 31288 crore in 2015. It rose by 5.12 times. Thus there is higher rise in expenditure of IDBI than SBI.

D) TOTAL EXPENDITURE IN TERMS OF EXPENSES:

The breakup of the expenditure in terms of interest, employee’s expenses and selling and administration expenses can be seen from the following table.

<table>
<thead>
<tr>
<th>Table No - 33</th>
<th>Total expenditure in terms of expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>SBI</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Interest Expenses</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------</td>
</tr>
<tr>
<td>2006 – 2010</td>
<td>51.98</td>
</tr>
<tr>
<td>2010 – 2015</td>
<td>60.15</td>
</tr>
</tbody>
</table>

It can be seen that in the year 2006 SBI and IDBI had big difference in the interest expenses at 51.98% to 81.96% respectively. IDBI interest expenses were much higher compared to SBI. While in the same year 2006 SBI had high expense share of employee cost and selling and administration expenses. Employee cost was 20.94% while IDBI it was only 5.21% selling expenses for SBI were 25.18% while for IDBI it were only 6.15%.

The situation in 2015 changed. The interest cost of SBI rose from 51.98% to 60.15% while that of employee expenses declined from 20.94% to 14.54% and selling and administration expenses declined from 25.18% to 24.60%. In the case of IDBI the employee cost marginally rose from 5.21% to 6.15% and selling and administration expenses rose sharply from 6.15% to 21.79%.

Thus in the case of SBI there was decline in employee cost share while that of IDBI rose. Both the banks are spending a good percentage of expenditure on selling and administration expenses.

It shows that with the passage of time marketing has become important for both the banks and the cost of marketing has risen over the period.

**E) NET PROFIT:**

The net profit of SBI and IDBI over the period of times can be seen from the following table.
Table No - 34
Net Profit SBI v/s IDBI

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI</th>
<th>IDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4406</td>
<td>560</td>
</tr>
<tr>
<td>2010</td>
<td>9166</td>
<td>1030</td>
</tr>
<tr>
<td>2015</td>
<td>13101</td>
<td>873</td>
</tr>
</tbody>
</table>

The net profit of SBI has gone up from Rs. 4406 crore in 2006 to Rs. 13101 crore in 2015. Similarly the net profit of IDBI rise from Rs. 560 crore in 2006 to Rs. 1030 crore in 2010 but it declined to Rs. 873 crore in 2015.

However the net profit of SBI is much higher as compared to IDBI. This difference is due to the size and scale of operation. SBI is the largest and the oldest bank in the country while IDBI has started banking recently and it is comparatively small in scale and operation.