CHAPTER IV
INDIAN BANKING SECTOR

4.1 INTRODUCTION

In previous chapter, methodology for carrying out present study was discussed under the dimensions of the; scope on the study, need for present research, summary of past research, research design and its limitations. It also related the conceptualization and function of the constructs in the model with the operationalization. The current chapter will provide a brief outlook of Profile of Indian Banking System and present practices of emotional intelligence & training the in banking sector.

Banking institutions throughout the world are facing a fast paced dynamic environment where efficiency and competitiveness hold the key to survival. The process of establishing a competitive advantage is at the heart of competitive marketing strategy (Devlin and Ennew, 1997). With intense competition from both domestic and international players, rapid innovation and introduction of new financial instruments, changing consumer demands and explosive growth in information technology, the way in which a commercial banking firm conducts business and reaches out to its customers has significantly changed. Widespread mergers and acquisitions in the banking sector point to this quest for attaining competitive advantage in a crowded marketplace. In order to survive and adapt to the changing environment, banking firms are putting more stress on understanding the drivers of success, like better utilization of its resources (like technology, infrastructure and employees), process of delivering quality service to its customers and performance benchmarking. Leading commercial banks throughout the world are aggressively strengthening their strategic marketing and operational capabilities as a source of competitive advantage. Concepts like service profit chain (Heskett et al., 1994) and operational capability-service quality-performance triad (Roth and Jackson, 1995) have turned out to be buzzwords for any retail banking service firm, which wants to retain its competitive edge over others.

While traditional bank performance parameters like transactions, deposit and income are significant indicators, the criterion of efficiency has become a sine qua no to achieving firm competitiveness in the banking sector like never before. It is becoming increasingly relevant from a marketing perspective to not only outperform competitors on deposit or income, but also to be cost competitive. A bank is considered to be cost competitive, if it spends equal amount of money on resources as others but generates higher levels of performance or if it spends less amount of money on resources to generate same level of performance as others in the industry. The need to be cost competitive is at the heart of effective competition in today’s financial markets, because cost competitiveness imparts the ingredients to long-term commercial success. Therefore, efficiency of banks is critical as a basis for effective competition from marketing perspective. Extant literature on marketing efficiency of firms mentions several financial variables as inputs, like marketing expense (Gross, 1984), investment (Drucker, 1986), number of employees (Drucker, 1985), man-hours (Anderson and Weitz, 1986).
4.2 THE INDIAN BANKING SECTOR

The need to be cost competitive and the performance challenges are apparent throughout the world. The situation is no different for the banking sector in India, one of the world’s largest emerging economies. Significant changes have been taking place in the Indian commercial banking sector as a part of the financial sector reforms initiatives undertaken by the Government of India and the Reserve Bank of India since the early 1990s. As the country’s banking system, which is still dominated by the public sector banks, is exposed to structural reforms, performance and efficiency issues are gradually emerging as the touchstone of success (Saha and Ravisankar, 2000). There is an emerging need for comprehensive framework for measuring performance of Indian banks and understanding their strategies, both from the point of view of the corporate and retail customers as also the regulators.

India is an important market as far as banking is concerned. It is also interesting to study, not only due to its sheer size, but also because of the sweeping changes the sector has witnessed in the last decade. The process of financial sector reform as a part of the broader programme of structured economic reform started in 1992. With initiation by the Narasimham Committee report, and later in 1994 by constituting the board of Financial Supervision, the government took several important steps to strengthen the functioning of the financial sector. Some of the important steps were reduction in the level of cash reserve ratio and statutory liquidity ratio and creation of a more competitive environment in the financial sector through reform measures like relaxation of entry – exit norms, reduction in public ownership in banking industry and letting banking access capital market for meeting their fund requirement (Reserve Bank Of India, 1999a). In spite of all these reformatory measures, which were aimed at providing at level playing field to the Nationalized banks of the country, the government in October 1999 had to constitute the Verma Committee to identify the weak public sector banks and develop a restructuring policy for them with the motive to equip them to sustain in this new liberalized regime (Verma Committee, 1999). Therefore, we feel it is important to find out how the Indian banks, belonging to both public and private sector, would be able to compete with the multinational banks. The frame work of strategic grouping would be necessary for a bank to identify its position visa-a-vis competitors and to enable poor performing banks willing to switch over to better groups. A bank needs to understand the inherent dimensions, which make that group more efficient. It also has to comprehend what sort of structural changes in its long-term business policy are required.

The Indian Banking system has several outstanding accomplishments to its credit and the most striking part is its reach. A widespread banking network has been established in the past forty years. The banks in Indian are now spread out into the breadth and length of the nation. The close association of Indian banking system with the country’s development efforts is the most significant achievement. The development and diversification of India’s economy and the growth process acceleration are in no small measure due to the active role that Indian banks have played in financing economic activities in diverse sectors (Sukumaran, 1996). It should be acknowledged that the banking system in any country is an integral part of the financial segment of the economy. The banking system in India comprises of co-operative banks and commercial banks. Commercial banks dominate the banking scene in India and have a widespread of branches. The commercial bank sector consists of scheduled banks and non-scheduled banks (a
categorization by the Reserve Bank of India). The scheduled commercial banking divisions are characterized by the predominance of public sector element that includes State Bank of India and its associate banks, regional rural banks and other nationalized banks. The private banking sector consists of new private banks, old private banks and foreign banks operating in India. Cooperative banking divisions also render important service mainly in the area of rural credit.

Among Asian countries, Indian economy occupies an extremely important position as a mixed economy having share in varied sectors like textile's sector, the sports goods industry, the agriculture sector, the services sector and other industries. In service sector, Indian banking sector keeps the largest share and growing very fast. After the Liberalization Privatization Globalization (LPG) policy of 1991, the banking sector of India has been transformed from an indolent and slow moving sector to an active, competitive and productive industry. Although the banking sector is on the growth trajectory and providing vast opportunities of employment, however, emotional intelligence of employees and the psychological problems i.e. stress, strain, anxiety, have not been looked upon. The empirical observation reveals that overloading and extreme burden of work, strictly time pressure of completion of tasks, more than 12 hours of work duration; long travel, fear of termination of job contract etc. are very common problems among banking sector. As a result, the bank employees suffer from extremely high level of stress. Despite the researchers have produced many programs for prevention of stress and improving emotional balance among employees in developed countries, they are far lacking in developing country like India. In India, the numerous reforms’ programs are just limited to improve the financial performance, innovation of new products, improve the building infrastructure, promotion of modern practices etc., but they are yet to start any reform program, which is relevant to employees’ psychological problems. Banking sector is backbone of any economy, so this study focused on the new yet equally important concept of emotional intelligence among bank employees.

4.3 HISTORICAL BACKGROUND

In India banking has been present since the early days. The currency and coinage system has its roots in Indian history. The banking system in Indian developed in the early part of the 20th century mostly under regional and ethnic setups. Regions and Communities started banks to serve their necessities or needs. These banks functioned and served sectarian benefits or interests without any national outlook and followed thumb rules to lend money to traders and industries. The large numbers of semi urban and rural centers were devoid of banking facility in India. The objective of nationalization of banks were to make the administrative set up of the banks to follow to the norms specified by the government, to make credit easily available to sectors like small-scale industry, agriculture, and exports which had been neglected until now. It also allowed greater mobilization of savings through bank deposits/credits and widened the branch network especially in the semi urban and rural areas.

i. Nationalization of Banks

Nationalization of banking sector resulted in extensive and rapid expansion of banking activities in the country. There was almost a tenfold increase in the number of branches after about two
decades of nationalization with considerable spread in semi urban and rural areas. Commercial banks in India assumed a central role in financing agriculture another allied activities. There was large scale financing of exports, technical entrepreneurs, self-employed professionals, small artisans, small scale industries, and so on. This resulted in the creation of a new segment of well-being and prosperity in the country. These achievements were primarily due to policy and nationalization of development banking byte Center and State-owned banks.

At the cost of the efficiency, most of the objectives of nationalization of the banks were achieved and annual targets were set for mobilization, targets for the priority sector lending and for opening branches in semi urban and rural centers. Priority was not given to achieve providing earning or profitability and strengthening the capital base. The health or efficiency of banks is determined by a number of factors, the most significant being strong capital base, the nature of investments made, adequate provisioning, the skill and commitment of officials, the quality of asset management, the internal incentive mechanisms quantity and quality of information, and the nature & impact of governmental interference by the monetary authorities. Almost all of these parameters for healthy development of banking sector were neglected or forsaken.

In the early eighties radical structural changes in terms of the nature of borrowers and lenders was being witnessed by the International Monetary Markets. There was an enormous increase in lending of securities & the growth of new financial facilities of rising funds directly from investors with the growth of techniques like interest rate swaps, financial and foreign exchange and interest rate options at global level excluding Indian banks till early nineties which were controlled and operated as per guidelines of the Reserve Bank of India and the Finance Ministry. Lack of initiatives by top officials and direct recruitment was not allowed rather an external Banking Recruitment Agency was set up for the purpose to cover the entire country. Clerical & last grade staff was predominant. Because of low remuneration there was less attraction in this sector as compared to private sector. There was then a profound transformation in financial system globally as the banks had to operate with a wide variety of financial assets and liabilities. The challenges to the established Public Sector Banks (PSBs) were many from both within and outside the banking system. Other financial intermediaries increasingly focused on core competencies and niche strategies. New financial products and innovations in market practices came into existence with an ease of barriers to entry and exit that resulted in the increased competition & greater number of participants in the various segments of the financial market.

The banking system is the most dominant segment of the financial sector accounting for about two thirds of the assets of the organized financial sector. As a part of the structural economic reforms, the reform of the banking sector took place. The reform measures followed the recommendations of the Committee on the Financial System (CFS) (1991) and the Narasimham Committee (1998). The Report of the Narasimham Committee (1998) provided a frame work for the second generation reforms. A broad categorization of these reforms could be (i) Strengthen the foundation of the banking sector, (ii) Streamlining procedures, upgrading technology and human resource development, and (iii) Changes in the system (Kapila, 2002). The India’s financial reforms took place in four major ways as: (1) Right of setting the policy conditions & removal of operational constraints, (2) Creation of a more competitive environment by relaxation of entry and exit norms, reduction in the public ownership in banking industry and access of banks to the capital market for meeting their fund requirement, (3) Freedom of market
intermediaries by strengthening the market institutions and (4) The safety aspects of the financial system. Banks offer a wide range of products & services to the retailers & wholesalers. With the help of technology a more open, competitive and globalized financial market was emerged.

### 4.4 IMPORTANT MILESTONES IN THE INDIAN BANKING INDUSTRY

The Indian Banking industry has its foundations in the 18th century, and has had a bumpy evolutionary growth path since then. The industry in recent times has recognized the importance of private and foreign players in a competitive scenario and has moved towards greater liberalization. Below is the brief of the journey of the Indian banking industry in India.

#### Prior to 1950/ Evolutionary Phase
- Enactment of the RBI Act, 1935
- High levels of deprivation in economy

#### 1968-1984/Expansion Phase
- 14 banks in 1969 and 6 banks in 1980 were nationalized termed as First Banking Revolution
- Rapid branch expansion
- Retail lending to risk prone areas at concessional interest rates

#### 1991 Onwards/Reformatory phase
- The Economic liberalization of 1990 was initiated to ensure an efficient, competitive and mature financial market
- RBI gave licenses to new private sector banks as a part of its liberalization process
- Various guidelines (e.g. Basel rules, FEMA, FERA, LAF) were introduced
- Banking Laws( Amendment) Bill, 2011 passed

#### Foundation Phase / 1948-1968
- Government adopted the system of planned economic development
- Complex Interest rates
- Establishment of Banking Regulation Act, 1949

#### 1985-1990/ Consolidation
- Lack of professionalism and transparency in the functioning of public sector
- Series of policy initiatives taken with the objectives of consolidation of banks

The Indian Financial system has expanded and acquired greater depth after the reforms initiated in early 1990s

*Fig 4.1: Milestones of the banking industry rbi.org (2011)*
4.5 STRUCTURE OF THE INDIAN BANKING INDUSTRY

![Diagram of Indian Banking Industry]

Fig 4.2: Structure of the Indian Banking industry rbi.org (2011)

4.6 CURRENT PLAYERS IN THE INDIAN BANKING INDUSTRY

- Indian banks consist mostly of Scheduled commercial bank (SCBs), which includes both Public Sector Banks, and the Private Sector Banks. In Public Sector Banks, the government must retain a 51% stake.

- Old Private sector banks are those banks which were not nationalized at the time of bank nationalization that took place during 1969 and 1980. Most of the old private-sector banks are closely held by certain communities and their operations are mostly restricted to the areas in and around their place of origin. E.g. Federal Bank, Dhanalaxmi Bank, ING Vysya Bank.

- New private sector banks include those that were established in the past twenty years such as Yes Bank, Axis bank and existing institutions that were converted into commercial banks, such as the former development institution ICICI and specialized lenders such as HDFC.

- Cooperative banks are small-sized units registered under the Co-operative Societies Act. That essentially lend to small borrowers and businesses. E.g. Punjab & Maharashtra Co-op. Bank Ltd., New India Co-op. Bank Ltd.
Regional Rural Banks are mainly focused on the agro sector. These banks are in every corner of the country and extend a helping hand in the growth of the country. E.g. National Bank for Agriculture and Rural Development (NABARD), Haryana State Cooperative Apex Bank Limited

Also, under the recently passed The Banking Laws (Amendment) Bill 2011, the government is likely to give the new banking licenses in the next year or so.

4.7 BANKING WORKING CONDITIONS

In 2002, the average work week for non-supervisory workers in banking was 35.9 hours. Managerial and Supervisory employees, however, usually work considerably longer hours. In 2002, twelve percent of employees worked part-time, mostly tellers. Banking working environments also vary according to nature & where the employee works. In a typical bank branch, employees also work on weekdays, Saturday mornings, and some evenings if the bank is open late. Working hours for employees in branches located in shopping malls and grocery stores, which are open weekends and most evenings. Bank in–house jobs, especially teller positions, require continual communication & interaction with customers, a high level of attention to security, and repetitive tasks. Tellers also must work and stand for long periods/hours in a confined space.

To provide greater access to bank personnel and improve customer service, centralized phone centers are being established by banks, mainly staffed by customer service executives. Employees of phone call centers spend most of their time answering phone calls & queries from customers and must be available to work morning, evening, night and weekend shifts. Administrative support staff may work in large processing facilities, in the bank’s headquarters, and/or in other administrative offices. Most support employee works a maximum/standard 40-hour per week; some may work overtime depending upon the need of work. Those bank support staff located in the processing facilities may work indifferent shifts.

Mortgage and commercial loan officers often work out of the branch offices, visiting clients, soliciting new business, and checking out loan applications. Loan officers may be required to work evenings if that is the only time at which a customer can meet or to travel if a customer is out of town. Financial service sales executives also may visit customers in the evenings and on weekends to go over the customers financial needs. The remaining bank personnel located mainly at the headquarters and/or other administrative offices usually work in comfortable atmosphere and put in a standard work-week.

4.8 EMOTIONAL INTELLIGENCE TRAINING IN THE INDIAN CORPORATE SECTOR

With the opening up of the Indian economy through globalization, liberalization, privatization and natural thrust towards information technology the tasks of Indian corporate employees has become more demanding. The challenges get multiplied when Indian corporate employees/executives have to work in diversified work cultures. The emotional intelligence
intervention is partly a response to the problems that corporate employees face today. There is a need to develop the highest standard of leadership skills, ever increasing demands of customers for high quality goods and services, the challenges of high team turnover, rapidly changing business settings and dynamic environmental conditions, economic demands or escalating costs. The organizations need people who have both technical knowledge & social and emotional abilities which will enable them to delight the customers. Emotional intelligence can contribute in developing those skills and abilities that are linked with this ambition/aspiration (Orme and Langhorn, 2003).

Cherniss (2000) outlines four main reasons why the workplace is a logical setting for evaluating and improving emotional intelligence competencies:
1. In most jobs, EI competencies are critical for success.
2. Many adults/individual enter the labor force without the skills/competencies necessary to succeed or excel at their work.
3. For providing emotional intelligence training, employers already have the established means and motivation.
4. Most adults/individuals spend the majority of their waking hours at workplace/job.

A strong interest in the professional functions/applications of EI is apparent in the way organizations have embraced emotional intelligence ideas. The American Society for Training and Development, for example, has published a volume describing guidelines/procedures for helping employees in organizations cultivate EI competencies which distinguish outstanding performers from average ones (Cherniss and Adler, 2000). However it has been observed that most of the organizations in India center their training programs on hard skills (e.g., industry knowledge, education, technical expertise) and the personality assessment (Punia, 2005). Topics including competencies like stress management, empathy, assertiveness skills and political / social acumen lack focus entraining and development programs. Whereas in reality, these are critical and decisive success factors that should not be dismissed as these have a direct bearing on the bottom-line of any organization.

There is a sheer dearth of empirical studies carried out in understanding workplace behavior across various industry sectors in India and banking sector stands out one of them. This chapter while capturing the current environment of business and challenges in the banking sector establishes the case for EI as a key parameter for attaining internal equilibrium as an antidote to vulnerabilities inflicted by the external environment. Secondly, it is internal balance and arrangement of resources that will enable a firm to capture growth and competitive edge, in which EI could be seen to play a significant role. This is further investigated in the subsequent chapter which establishes thoroughly through statistical analysis the value and efficacy of EI in establishing desired workplace behavior.