CHAPTER II
ENVIRONMENT ANALYSIS OF BANKING INDUSTRY

Meaning of Environment Analysis

Environment analysis means scanning information about an organization’s internal and external environment to plan the organization’s future course of action. Environmental understanding helps to avoid shocks, recognize threats and opportunities, and improve long-term and short-term planning. The information compiled from environmental analysis assists top management to effectively plan for future actions. Organizations analyze the environment in order to understand the external forces so that it could help to develop effective responses to secure or improve their positions in the future. There existed a positive relation between environmental analysis and profits of an organization.

Top management looked at information in two ways: viewing and searching information. This information needed to be evaluated and disseminated to strategists within the organization and to help top management to make decisions that could create strategic advantage for the organization to succeed in a changing environment. There were research evidences that showed that environmental analysis was linked with improved organizational performance. Hence, it remained insufficient to assure performance, without aligning information with strategy. The main debate in strategy and environment was concerned with the primary importance of the environmental analysis in strategy formulation and implementation.
Reserve Bank of India

The Reserve Bank of India is fully owned by the Government of India. Initially it was viewed to bring the greater coordination of the monetary, economic, and financial policies. During fifties objectives of Reserve Bank of India underwent changes. It was recognized that Reserve Bank of India needs to take on direct and much more active role, in developing machinery for financial development in order to ensure flow of finance in the country. Reserve Bank emerged as a regulatory and a growth promoting institution. In the beginning limited to the agricultural sector, the Bank later covered small-scale industries as well. The affairs of Reserve Bank of India are governed by the central board of directors. The board is appointed by the Government of India according to the Reserve Bank of India Act.

The preface of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

“to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage”

The Reserve Bank’s freedom may be viewed broadly to the areas like management including personnel matters, financial aspects, and to conduct polices. Managerial freedom refers to the procedures for appointment, term of office and dismissal procedures of top central bank officials and the governing board. It also includes the extent and nature of representation of the Government in the governing body of the central bank.
Financial freedom relates to the freedom to decide the extent of Government expenditures directly or indirectly financed by the central bank’s credits. Finally, policy freedom is related to the flexibility given in the formulation and execution of monetary policy, under a given authorization.

Reserve Bank of India has over the years been responding to changing economic circumstances. The Reserve Bank of India performs the function of financial supervisor under the guidance of Board for Financial Supervision. This board undertake consolidated supervision of the financial sector comprising of Commercial Banks, Financial Institutions, and Non-Banking Finance Companies. The key functions played by this board were restructuring of the system of Bank, introduction of off-site scrutiny, strengthening the role of legislative auditors, and strengthening the internal defences of supervised institutions. Currently this board focus on supervision of financial institutions and legal issues in Banks.

Reserve Bank of India acts as a guard for Commercial Banks. Commercial Banks are required to keep a certain proportion of cash reserves with the Reserve Bank and Bank provide them various facilities like advancing loans, underwriting securities etc. Reserve Bank of India controls the volume of reserves of Commercial Banks and thereby determines the deposits and credit creating ability of the Banks. Whenever Commercial Banks need funds they get it from the Reserve Bank of India. Apart from playing the role of Banker to the Banks, Reserve Bank of India also play promotional role. The aim is to establish and assist the establishments of a number of financial intuitions for filling up of various financial institutional gaps in the rural and semi-urban areas.
Other roles played by Reserve Bank of India are: Reserve Bank stabilizes the external value of the national currency. The Reserve Bank keeps gold and foreign currencies and manages foreign currency in accordance with the controls imposed by the government. Reserve Bank of India facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India. Reserve Bank has taken the responsibility of meeting directly or indirectly all legitimate demands of Commercial Banks under emergency conditions and to a certain extent Reserve Bank influence the credit policy of Scheduled Banks. The Reserve Bank has instrument of control in the form of the bank rate, which it publishes from time to time.

A list of the Reserve Bank of India Committees from 1990- 2008 was prepared to get an impression about developments with respect to Banking Industry (Appendix- III). The recommendations resulted into remarkable changes in products and policies of Banking Organizations.

**Indian Bank’s Association (IBA)**

Indian Bank’s Association is a leading service organization of Banking Industry in India. It aims to integrate Banking and finance system catering to all financial requirements of customer’s. It was formed in 1946 with 22 members. Today Indian Bank’s Association has more than 159 members comprising of Public Sector Banks, Private Sector Banks, Foreign Banks (having offices in India), and Urban Co-operative Banks.
The main objectives of Indian Bank’s Association are: promoting and developing sound and progressive Banking principles and practices in order to assist Banks to develop and implement new ideas and innovative Banking services, operations and procedures; organizing co-ordination and co-operation on procedural, legal, technical, administrative or professional problems and practices of Banks; circulating statistical data, information, views and opinions on the Banking System; conducting Management Development Programs for Banks; promoting education and knowledge of the law and practices of Banking Industry; to help in projecting good public image of Banking Industry; and to promote harmonious relationships by devising ways and means for involving Banking personnel’s in the growth and development of Banking Industry.

Indian Bank’s Association tries to achieve excellent service quality and customer care through its focused efforts to make each customers experience a pleasant one. Towards this end Indian Bank’s Association stressed on to build staff potential by each Bank to address customer challenges and asked Banks to design a performance management system, which focuses on rewarding the staff for delivering flawless customer service. In 2000, Indian Bank’s Association reviewed the charters of different Banks and brought out a ‘Model Citizen Charter’ explaining to the customer’s what they could expect from the Bank’s as a matter of right. Apart from this Indian Bank’s Association brought ‘bankers fair practices’ in 2004 which was adopted by all Banks voluntarily. It also came out with ‘fair practice code for credit card operation’ and ‘model code for collection of dues and repossession of security’ with special concern to customer’s voice about Banking practices.
Ministry of Finance

Ministry of Finance in India governs the entire fiscal system of the Government of India. The three departments headed by the Ministry of Finance in India include: economic affairs, expenditure, and revenue. Thus, it mainly centralizes around the economic and financial issues pertaining in India.

Ministry of Finance Government of India, Banking Division is managing Government policies related to the working of Banks and the term lending to financial institutions. This Division is headed by Secretary (Banking and Insurance) and operates through three sub-divisions: Industrial Finance; Banking Operations; and Banking and Insurance. Each sub-division is headed by a Joint Secretary. The Banking Operations sub-division deals with legislative proposals described to Banks, non-banking financial companies, and other related matters like appointments of Chief Executives and Government nominee Directors and non-official directors on the boards of Public Sector Banks.

In addition policy matters relating to Private Banks, Foreign Banks, and improvement of customer’s service in Banks and redressal of customers grievances are also dealt with this Banking Operations sub-division of Ministry of Finance. This sub-division also deals with vigilance matters and appoints Chief Vigilance Officers (CVO’s) in the Public Sector Banks to enable the Public Sector Banks to meet the credit requirements for the productive sectors of the economy in proportion to the economic growth of the country. The Government is committed to infuse capital funds in Public Sector Banks as well.
Nature of Banking Industry

Bank’s safeguard money and valuables and provide loans, credit, and payment services, such as checking accounts, money-orders, and cashier’s checks. Banks also offer investment and insurance products which they were once prohibited. There exists variety of models for cooperation and integration among finance industries some of these traditional distinctions between Banks, Insurance Companies, and Securities Firms has diminished. In spite of these changes, Banks continued to maintain and perform their primary role of accepting deposits and lending funds from these deposits. Banks securely save the money of depositors, provide checking services, and lend the funds raised from depositors to consumers. Bank’s today are in a wide range of sizes, from large Global Banks to Regional and Community Banks. These Global Banks are involved in international lending and foreign currency trading, in addition to the more typical Banking services.

Working Environment

Employee’s in a typical branch work weekdays, whereas in few Banks sometimes Banks were opened until late evenings or were open on Saturday morning’s and in few even on Sundays. Supervisory and managerial employee’s, usually work substantially longer hours. Some Banks are expanding the working hours in their branches which are located at non-
traditional locations, such as shopping malls, which remain open on most evenings and weekends.

Branch office jobs, particularly front-end positions, required continuous communication with customers. Some employees needed to work for longer hours in a confined space. Loan officers might need to travel to meet clients, or work evenings for their clients. Loan officers also check loan applications, and solicit new business for Banks. Financial Service Sales Representatives might also have to visit clients in the evenings and on weekends to go through the client’s financial needs. To improve customer service and provide greater access to Bank personnel’s, Banks have staffed Customer Service Representatives. The remaining Bank employees, working at the headquarters or other administrative offices usually worked in comfortable surroundings and worked for a standard workweek. In general, Banks are considered relatively safer place to work with respect to injuries and illness. Banks also encourage higher education and training for their employee’s as Banks require creative and talented people to compete in the market place so as to reach to more number of customers.

The basic premise here is to Study the relevant data and derive some information related to the Strategic Environment pertaining to Indian Banking Industry, which may be used in due course in a broader context if not in specific context. Environmental factors influencing Banking Industry are:
Economic Factors

Indian economy has registered impressive growth of over 9 percent for successive three financial years and experienced restraint in 2008-09. This restraint was caused due to the downturn in the global economy. The year 2008-09 was the most deficient year after 1972. To fight against this slowdown Government of India and Reserve Bank of India took many fiscal as well as monetary actions. It was expected that Indian economy could again register a robust growth rate in the year 2009-10. As per the revised estimates released by the Central Statistical Organisation (CSO), Indian economy grew by 7.6 percent in 2008-09 and 9.3 percent growth in the 2007-08.

Banks lending to industries, personal loans and service sectors witnessed a slow down while, Banks lending to agriculture and allied activities moved upward during 2008-09. The income as well as the expenditures of Scheduled Commercial Banks viewed a slow down leading to decrease in the net profit. The Return on Assets (ROA) as an indicator of efficiency with which Banks deployed their assets remained to 1 percent in 2009. The Return on Equity (ROE) as an indicator of efficiency with which the Banks used capital increased to 13.2 percent in 2009 from 12.5 percent in 2008, indicating increased efficiency with which Banks used capital.
Growth of income of Scheduled Commercial Banks during 2008-09 decelerated to 25.7 percent from 34.3 in 2007-08, but was higher than the growth rate of 24.4 percent in 2006-07. Expenditure of Scheduled Commercial Banks was 24.1 percent in 2006-07, which increased to 33.9 percent in 2007-08 and again decelerated to 26 percent in 2008-09. The operating profit of Scheduled Commercial Banks increased sharply by 33.2 percent during 2008-09 from 26.8 percent in 2007-08 and 21.3 percent in 2006-07 (Table II. 1). The net profit of Scheduled Commercial Banks also showed a significant increase of 36.9 percent during 2007-08 as compared to 26.9 percent in 2006-07, but it decelerated to 23.5 percent during 2008-09 (Table II. 1)

### TABLE II. 1

**VARIATION IN INCOME-EXPENDITURE OF SCHEDULED COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th></th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>24.4</td>
<td>34.3</td>
<td>25.7</td>
</tr>
<tr>
<td>Expenses</td>
<td>24.1</td>
<td>33.9</td>
<td>26.0</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>21.3</td>
<td>26.8</td>
<td>33.2</td>
</tr>
<tr>
<td>Net Profit</td>
<td>26.9</td>
<td>36.9</td>
<td>23.5</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India 8, 9

The Bank Group-wise analysis is presented in Table II. 2. It revealed that the operating profits of Public Sector Banks increased sharply but that of Private Sector Banks and Foreign Sector Banks witnessed a slowdown. Table II. 3 showed net profits of Public Sector Banks was higher as compared to Private and Foreign Sector Banks.
### TABLE II. 2
OPERATING PROFIT - BANK GROUP-WISE (amount in Rs. crore)

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Operating Profit</th>
<th>2006-07</th>
<th>Percentage Variations</th>
<th>2007-08</th>
<th>Percentage Variations</th>
<th>2008-09</th>
<th>Percentage Variations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Commercial Banks</td>
<td></td>
<td>65,977</td>
<td>21.3</td>
<td>83,665</td>
<td>26.8</td>
<td>1,11,349</td>
<td>33.2</td>
</tr>
<tr>
<td>Public Sector Banks Nationalized Banks</td>
<td></td>
<td>42,655</td>
<td>12.3</td>
<td>50,441</td>
<td>18.3</td>
<td>66,972</td>
<td>33.1</td>
</tr>
<tr>
<td>State Bank Group</td>
<td></td>
<td>27,456</td>
<td>24.0</td>
<td>31,663</td>
<td>15.3</td>
<td>42,184</td>
<td>33.6</td>
</tr>
<tr>
<td>Other Public Sector Bank</td>
<td></td>
<td>14,292</td>
<td>-4.9</td>
<td>17,444</td>
<td>22.1</td>
<td>23,410</td>
<td>34.2</td>
</tr>
<tr>
<td>Old Private Sector Banks</td>
<td></td>
<td>907</td>
<td>13.2</td>
<td>1,333</td>
<td>47.0</td>
<td>1,378</td>
<td>6.0</td>
</tr>
<tr>
<td>New Private Sector Bank</td>
<td></td>
<td>3021</td>
<td>33.8</td>
<td>3,605</td>
<td>19.3</td>
<td>4,799</td>
<td>33.2</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td></td>
<td>10,682</td>
<td>42.2</td>
<td>15,632</td>
<td>46.3</td>
<td>19,480</td>
<td>24.6</td>
</tr>
<tr>
<td>Old Private Sector Banks</td>
<td></td>
<td>3021</td>
<td>33.8</td>
<td>3,605</td>
<td>19.3</td>
<td>4,799</td>
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</tr>
<tr>
<td>New Private Sector Bank</td>
<td></td>
<td>10,682</td>
<td>42.2</td>
<td>15,632</td>
<td>46.3</td>
<td>19,480</td>
<td>24.6</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td></td>
<td>9,619</td>
<td>44.5</td>
<td>13,988</td>
<td>45.4</td>
<td>20,098</td>
<td>43.1</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India\(^{10,11}\)

### TABLE II. 3
NET PROFIT - BANK GROUP WISE (amount in Rs. crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Commercial Banks</td>
<td></td>
<td>31,203</td>
<td>26.9</td>
<td>42,726</td>
<td>36.9</td>
<td>52,771</td>
<td>23.5</td>
</tr>
<tr>
<td>Public Sector Banks Nationalized Banks</td>
<td></td>
<td>20,152</td>
<td>21.8</td>
<td>26,592</td>
<td>32.0</td>
<td>34,394</td>
<td>29.3</td>
</tr>
<tr>
<td>State Bank Group</td>
<td></td>
<td>12,950</td>
<td>29.2</td>
<td>16,856</td>
<td>30.2</td>
<td>21,639</td>
<td>28.4</td>
</tr>
<tr>
<td>Other Public Sector Bank</td>
<td></td>
<td>6,572</td>
<td>10.3</td>
<td>9,006</td>
<td>37.0</td>
<td>11,896</td>
<td>32.1</td>
</tr>
<tr>
<td>Old Private Sector Banks</td>
<td></td>
<td>630</td>
<td>12.4</td>
<td>729</td>
<td>15.7</td>
<td>859</td>
<td>17.7</td>
</tr>
<tr>
<td>New Private Sector Bank</td>
<td></td>
<td>1,122</td>
<td>29.6</td>
<td>1,978</td>
<td>76.3</td>
<td>2,409</td>
<td>21.8</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td></td>
<td>5,343</td>
<td>30.0</td>
<td>7,544</td>
<td>41.2</td>
<td>8,459</td>
<td>12.1</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India\(^{12,13}\)
The growth rate of consolidated balance sheet of Scheduled Banks decelerated to 21.2 percent in 2008-09 from 25 percent in 2007-08. The assets of Scheduled Commercial Banks however continued to grow. Public Sector Banks credit growth increased to 28.6 percent by January 2009 from 19.8 per cent in January 2008 whereas credit growth of Private Banks dipped from 24.2 percent in January 2008 to 11.8 per cent in January 2009. While that of Foreign Banks credit growth rate slipped from 30.7 per cent in 2008 to 16.9 per cent in January 2009 due to the economic downturn experiences of their global partners\textsuperscript{14}.

A sound and efficient Banking System has been emphasized for the financial stability. Thus, stress has been placed on strengthening the capital requirement. The Capital to Risk-weighted Ratio (CRAR) of Scheduled Commercial Banks measured the capacity of the Banking System to absorb unexpected losses. The Capital to Risk-weighted Ratio improved to 13.2 percent in 2009 from 13 percent in 2008 and further from 12.3 percent in 2007\textsuperscript{15,16}. In absolute terms, number of Bank’s branches were highest in rural areas, this reflected the policy thrust of the Reserve Bank of India towards rural sector. The State Bank of India Group and other Nationalized Banks have maximum share of branches in rural areas. Foreign Banks branches are mostly concentrated in the urban and metropolitan areas with insignificant presence in rural and semi-urban areas (Chart II. 1).

Therefore, Indian Banking Industry has exhibited flexibility against the backdrop of global turmoil and slowdown in the growth of balance sheet, income, and profitability. It is true that Reserve Bank of India has supervised the Indian Banking Industry effectively and ensured adequate capital base for the Bank’s.
Technological Factors

Development in technology has encouraged the bankers to change the concept of ‘Branch Banking’ to ‘Anywhere Banking’. Information Technology (IT) usage remained a key lever in the journey of Indian Banking Sector towards a competent, effective, responsive and user-friendly financial system. Technology brought devices like automatic voice recorders and currency accounting machines. Banks are also issuing smartcards or debit cards also called as ‘electronic purse’.
Technological changes had forced bankers to adopt customer-based approach instead of product-based approach. The Foreign Banks operating in India made the beginning with respect to technology innovation and new Private Sector Banks aggressively started proposing technology based services. However, Public Sector Banks has also moved towards technology execution to prevent loss of market share.

Even though the achievements of technological changes in Banking Industry in India were impressive but there is a need to take greater advantages from new technologies and information based system to maximize the coverage. Pricewaterhouse Coopers report\textsuperscript{18} suggested that Banks should take up automation that would be a combination of centralized networks, operations and a Core Banking applications that included Business Intelligence (BI), Business Process Re-engineering (BPR), and Customer Relationship Management (CRM) that catered to operational and analytical business needs.

The multi-channel Banking has acquired further dimensions to include third party payments such as utility bills through different channels including Automated Teller Machines and mobile banking. Bank’s internal groups examined the issues, relating to rural credit and micro-finance opportunities in the sector with several possible options like smart card-based kisan credit cards, smart card solutions for self-help groups, Automated Teller Machines with local language and voice facility and call-center amenities with added services given by various Banks. Introduction of Kisan Credit Cards (KCCs) for providing credit to farmers had increased in the number a multi-fold since its inception in the late 1990’s and the total percentage share of these cards reached above forty percent\textsuperscript{19}. 

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Banks had transformed themselves into Universal Banks by adding new channels with lucrative pricing. Recent innovations in the form of total quality management, reengineering work processes, flexible systems have only one thing in common serving the customers well through improved operational efficiency. Consolidation in the Banking Industry followed by technological up-gradation acted as a key factor to boost the international competitiveness of the Indian Bank’s.

Adapting technology had brought down the cost of transactions visibly and at the same time aided in business continuity. A Study mentioned that the cost per transaction through a branch was Rs. 66, cost per transaction ; through Automated Teller Machines was Rs. 22, and cost per transaction through internet was Rs.10, ignoring the extreme variations owing to the investment cost and nature of transactions. This low cost benefit was opted by Commercial Banks as it helped them to reach to poor people, particularly those working in the rural areas and those who earn and spend cash. In order to handle their cash transactions Banks formulated two types of Information and Communication Technologies (ICT). People could either use Automated Teller Machines that could accept, store or dispense cash or they could use a biometric device, which were mobile in nature.

Infrastructure in India, has improved resulting into widespread use of Automated Teller Machines facility in villages as well. These machines consisted of additional features that included fingerprint use as a mean of authentication with a view that rural people were more comfortable with fingerprints than plastic cards.
The wide geographical coverage to access Banking related products and services with the help of mobile phone technology and the use of internet for banking transactions has gained superior usage. These modes of transactions required a safe and secure environment and provide a variety of options available for customers with different requirements. The numbers of mobile phone subscribers in India were about 261 million (March 2008). Towards this end, Reserve Bank of India issued guidelines for mobile banking transactions. Initially Banks offered the facility to their customers subject to a daily cap of Rs. 5,000 per customer for fund transfer and Rs. 10,000 per customer for transactions involving purchase of goods or services.

Usage of internet banking in India is mainly dominated, by Private and Foreign Banks. Still, the number of individuals utilizing internet services has increased considerably. In 2006, about 12 percent of the 38.5 million internet users in India used online banking and the figure for online banking increased to 16 million in 2007-08. The average cost of servicing a customer through internet banking is the tenth of the services extended through a branch. Thus, there is a direct contribution to the profitability for a Bank and therefore, internet banking became a potential low cost alternative. From customer’s viewpoint, internet banking is highly convenient as it help to avoid branch queues and makes customer free from depending on the inconsistent quality of services at the branch, which varied from person to person at the service desk. Internet Banking allowed customers to operate their accounts at their convenient hours instead of being dependent on the Banks working hours. Moreover, internet banking permitted customers to transact on a 24x7 basis from any part of the world.
Therefore, internet banking delivery channel has the potential to contribute directly towards the nation’s prosperity as it allowed more people to join the Banking stream without adding cost and it is tremendously convenient to customers. Reserve Bank of India started measures to create multi-lingual links on its website for thirteen Indian languages on all matters concerning Banking in June 2007.

In the recent years, the use of electronic payments has witnessed manifold increase reflecting increased adoption of technology. The electronic payment systems comprised of the large value payment systems like Real Time Gross Settlements (RTGS), National Electronic Funds Transfer (NEFT) and card based payment systems. The growth of volume of transactions directed through electronic payment has decelerated from 41.4 percent in 2007-08 to 24.8 percent in 2008-09. The numbers and usage of Automated Teller Machines had gone up substantially during the last few years. Automated Teller Machines were primarily used for cash withdrawal and balance enquiry. In 2008-09, the total number of Automated Teller Machines installed by the Banks grew by 25.4 percent. Automated Teller Machines of State Bank of India group registered a sharp growth of 34.5 percent. While the Automated Teller Machines installed by new Private Sector Banks and Foreign Banks was 3 times of their respective branches. In March 2008, the population per automated teller machines in India was more than 29,500 as against the range of 1,000-9,500 in some of the other emerging market economies. In June 2009, Reserve Bank of India permitted Scheduled Commercial Banks to install off-site Automated Teller Machines at places identified by them, without any need to take permission from the Reserve Bank of India. Cash withdrawal from Automated Teller Machines of the Bank’s was made free of charges, April 2009 onwards. This made Automated Teller Machines more popular among customers.
Banks had deployed Information Technology solutions to facilitate automation in transaction management, reporting and risk management. Most of the Banks across the segments had already implemented Core Banking Systems. In the 2007, 85.6 percent and in the 2008, 93.7 percent Public Sector Banks were fully computerised. Other programs such as internet based transactions, self-service kiosks, mobile banking were either underway or planned in near future by Public Sector Banks. Foreign Sector Banks and old and new Private Sector Banks in India, had progressed well in the areas of technology up-gradation in operations. Technology up-gradation helped to introduce new products and services to enable Banks to improve the quality of service and value added services.

Overall, Indian Banks score well with respect to technological adaption and the three key characteristic contributing towards the effective use of information technology in Banking Industry were:

- Factor Cost Advantage- information technology related labour costs in India remained cheaper as compared to other countries;
- Distribution Strategy- Indian Banks adopted a unique business model, acquiring customers rapidly with minimal technological investments; and
- Information Technology Governance- Indian Banks emphasized on information technology governance with the strong in-house Information Technology Division and a Chief Information Officer (CIO) directly reporting to the Chief Executive Officer (CEO) in most cases.
It is information that made the Banking Industry stable. The pressure of competition and the need to improve productivity has generated a need for better information. In order to manage Banking operations to meet the needs of managers operating at tactical and strategic level and to improve their quality of decisions and policymaking processes within the Banks. Banks needed to set up an efficient and comprehensive Management Information System (MIS) without which asset and liability management and risk management were not possible. However, adoption of technology by Banks provided them competitive advantage in their operations but at the same time Banks became dependent on outsourcing for most of their technological applications. Therefore, Banks needed to employ caution to put in place mechanisms for vendor management. As an insecure system, could expose Banks towards serious operational regulatory and reputational risks.

Banks have taken measures to safeguard the risk factors, emerging due to the use of technology. Towards this end, the Institute for Development and Research in Banking Technology (IDRBT) helped Banks to bring in technology and enabled them to work in secured environment while operating Real Time Gross Settlements System, Centralised Fund Management System (CFMS), corporate e-mail, and internet banking. It also acted as a ‘certifying authority’ for the Banking Sector in India by issuing Digital Certificates. Still there exists need to ensure much more accountable systems with regard to online payments with uniform standards all over the world.
Social Factors

Before nationalization of the Banks, their control was in the hands of the private parties and only big business houses and the effluent sections of the society gained benefits from the Banking in India. Thus, adoption of the social development model in the Banking Sector was necessary for speedy economic progress consistent with social justice in democratic political system. Bankers were directed to help economically weaker sections of the society and to provide needed finance to all the sectors of the economy with flexible and liberal attitude.

India’s demography had undergone transition and the demographic trends 1950 – 2050 studied, illustrates that India’s fertility rate is consistently falling from the peak 5.91 percent in the first decade after independence to 2.76 percent today and expected to fall further to 1.85 percent. Even the death rate also likewise showing consistent decline from its peak 25.5 in 1950-55 to 8.5 today and to the lowest of 7.9 in 2020-2025 33. This signifies towards steady number of customers for Banking Sector with longer income in the coming years. Indeed, India would be one of the youngest nations with its median age lying between 25 and 30 years over the next 15 years (2010 to 2025) 34. This signified that India would enjoy its prevalence of young age population for almost four decades. Thus, India’s demographic transition needed to be exploited by Banking Sectors viewing it as an opportunity.
Increase in the per capita income of the working class population of India, enabled individuals to purchase goods, which were far out of their reach earlier. It also encouraged people to buy goods for their personal use and for their family. Today societies have shifted towards nuclear family, resulting into the growing needs for home consumer durables like washing machine, television, bike, car etc. This showed how we as a society have moved from a socialist society to a consumerist society. Understanding these changes and to use them as an opportunity Banks provided various types of loans to farmers, working women, professionals, education loan to the students, housing loans, and consumer loans. Even customers lifestyle, their behaviour, and consumption patterns have changed which acted as an opportunity as well as a threat for Banking Industry. Deposits showed a subdued growth during this decade. In 2008-09 personal loans by Commercial Banks was 12.1 percent with respect to 10.8 in 2007-08 of which housing loan was 11.6 percent in 2007-08 and 7.4 percent in 2008-09. This deceleration was observed in housing loans especially due to economy slow down.

Literacy rate in India is low as compared to other developed countries. Illiterate people hesitate to transact with Banks. Therefore, this influenced negatively on Banking Industry. Nevertheless, there exists positive side of this as well that illiterate people trust more on Banks to deposit their money as they do not have market information they do not put money in stocks or mutual funds so they look Bank as their sole and safe alternative. For a common man Banks have emerged as the key players to provide variety of products and services like saving accounts, insurance, remittance and other facilities to the under privileged and the poor in rural, semi-urban and urban areas or socially disadvantage as well as the small and medium enterprise sector.
On the other hand Banks deal with big clients or big companies which required personalized banking as these customers do not believe in running and waiting in queues for getting their work done. To these customers bankers provided special provisions and at times benefits like individualised hosting to these types of customers.

It was brought to the notice of the Reserve Bank of India that visually challenged persons were facing problem in availing Banking facilities. Reserve Bank of India in June 2008 advised all Banks to ensure that all facilities such as cheque book including third party cheques, Automated Teller Machine facilities (at least one third of new Automated Teller Machine installed with Braille key pads and located strategically), net banking, locker, and credit cards to be provided to visually challenged persons without any discrimination

Banks related crimes are rising. These crimes included the typical ones such as Bank robbery, false statement to a Bank in order to obtain loan, false entry in a Banks book, Bank bribery, and Bank fraud. The other new types of crimes have also emerged like accessing to the whole or any part of information technology system without rights. These also included manipulation of Banking system, data alteration, or data destruction to make unauthorized identity theft with reference to Automate Teller Machines. Indian police has initiated by opening of special cyber cells across the country and started educating the personal against these crimes.
Political Factors

Before 1990, the lack of accountability and lack of profit motive in Nationalized Banks was credited to political interference. After the economic reforms of 1991, the Indian Banking Industry entered into the new horizon of competitiveness, efficiency, and productivity. Reserve Bank of India’s control system and its monetary policies acted as a major weapon in India’s financial market. However, sometimes looking into the political advantage of a particular party, Government declares some measures for their benefits like short-term agricultural loans to attract farmer’s votes affecting the profits of the Banks. Even according to Banking Banana Skins, survey 2010 political interference was considered as the greatest risk for Banking Industry.37

In the Budget provisions, Finance Minister increased the farm credit target for 2009-10 at Rs. 3, 25,000 crore compared to Rs. 2, 87,000 crore in 2008-09. The Union Budget 2009-10 extended the debt waiver scheme by six more months for farmers owing more than 2 hectare of land. The Union Budget 2008-09 allowed farmers 25 percent rebate on 75 percent of their overdue repayment within the stipulated period.38 Government also announced setting up of a task force to examine the issues of debt taken by a large number of farmers in some regions of Maharashtra from private moneylenders who were not covered under the loan waiver scheme.39 With Government bearing this burden, Banks would not be affected much. As Government assured to help, Banks to clear their most stubborn non-performing assets accounts on Banks Book. In addition, the emphasis on expanding network with Automated Teller Machines, opening of Banking centre in unbanked blocks were some of the positive moves taken by Government.
Political interference by the leftist political parties claimed that various regulations with respect to Foreign Banks would benefit only those Banks, which intend to make a quick jump by providing high-profile corporate services, instead of those who wish to intensify their rural operations. Left political parties also cautioned that foreign players could increase their holding size in a particular Bank that would lead to an imbalance of power.

Banks under the conventional system of recovery of loans had a considerable amount of money blocked in form of unproductive assets. Hence, to beat this difficulty parliament enacted Recovery of Debts to Banks and Financial Institutions Act, 1993 also refereed as Debt Recovery Act. This Act created a separate apparatus in the order of Debt Recovery Tribunals, which were handed over the responsibility of administering disputes pertaining to non-payment of debts. As this legislation was general in nature, another legislature by Parliament was enacted, referred as Securitization Act with an objective to give the Banks, more power over defaulting borrowers 40,41.

Unions

The post nationalization era in the Banking Industry in India, particularly in the Public Sector, witnessed consolidation of trade unions. All the nine unions had all-India presence in the Banking Industry. Five workers unions and four officers unions represented almost 100 percent of the workforce in the industry and joined hands to form a United Forum of Bank Unions (UFBU). United Forum of Bank Unions comprised of All India Bank Employees Association, (AIBEA), All India Bank Officers Confederation (AIBOC),
National Confederation of Bank Employees (NCBE), All India Bank Officers Association (AIBOA), Bank Employees Federation of India (BEFI), Indian National Bank Employees Congress (INBEC), Indian National Bank Officers Congress (INBOC), National Organization of Bank Workers (NOBW) and National Organization of Bank Officers (NOBO) \(^{42}\).

Representatives of unions were encouraged to give suggestions. However, in many cases undue interference of unions in decision-making has adversely affected, leading to the deterioration in discipline, efficiency, and performance effectiveness. With the growing strength of these organizations, the issues relating to employees interests were no longer determined by Bank’s managements alone. The massive introduction of technology into the industry made union policies defensive. Unions focused almost entirely on the immediate consequences of technological change on the workforce, especially the aspect of possible job losses.

Employees in Public Sector Banks were repulsive to move from one table to another of the same branch. Now the trade unions seem to be willing to allow mobility for employees within a district as mergers enforced them to move from one state to another. Other issues taken up by unions were like introduction of New Pension scheme and variable pay which were resolved with the help United Forum of Bank Unions. Banks unions are also involved in demanding salary hikes, job losses, disinvestments in Public Sector, and issues related to violation of labour laws, and allocation of funds for schemes for unorganised workers.
After attempting, the macro level environmental analysis of Indian Banking Industry a micro functional level Human Resource Environmental Analysis has been attempted with the help of SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats), it would help to further develop strategic viewpoint about the industry (Table II. 4).

**TABLE II. 4**  
**HR SWOT ANALYSIS WITH RESPECT TO INDIAN BANKING INDUSTRY**

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>OPPORTUNITIES</th>
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</thead>
<tbody>
<tr>
<td>Educated Manpower</td>
<td>Liberalization of Banking Sector</td>
</tr>
<tr>
<td>Higher Compliance Amongst Employees</td>
<td>Preferred Industry for Employment</td>
</tr>
<tr>
<td>Experienced Employees</td>
<td>Availability of Multi-specialist staff</td>
</tr>
<tr>
<td>Training Infrastructure Availability</td>
<td>Technology for Improved Interpersonal and Communication Skills</td>
</tr>
<tr>
<td>Safe Working Environment</td>
<td>Workforce Diversity</td>
</tr>
<tr>
<td>Responsiveness to Needful Change</td>
<td></td>
</tr>
<tr>
<td>Strong Regulatory Institutional Framework</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>WEAKNESSES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Technology Skills</td>
<td>Movement of Skilled and Quality Staff</td>
</tr>
<tr>
<td>Repetitive Tasks Structure</td>
<td>Difficulty in Hiring Highly Qualified Youngsters</td>
</tr>
<tr>
<td>Inadequate Remuneration for Attracting Talent</td>
<td>Trend Towards Downsizing</td>
</tr>
<tr>
<td>Lacking Career Growth Path</td>
<td>Changing Workforce Demographics</td>
</tr>
<tr>
<td>Rigid Recruitment Policies</td>
<td>High Staff Cost Overheads</td>
</tr>
<tr>
<td>Hierarchal Structure</td>
<td>Changing Employees Expectations</td>
</tr>
<tr>
<td>Rigid Wage Negotiation Process</td>
<td>Entrenched Trade Unionism</td>
</tr>
<tr>
<td>Leadership Deficit at Senior Level</td>
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</table>
Key Concerns for Indian Banking Industry

The macro level analysis of Banking Industry and micro level analysis with respect to Human Resource functions helped to identify the key concerns related to the Banking Industry.

Competition in Banking Industry is very high as Banks are fighting for same share of customers. There are many Banks and non-financial institutions which gave rise to intensified competition. Amongst these, there existed relatively no differentiation in services and every Bank tried to copy each other’s services and technology which increased the level of competition. Competition from the non-Banking financial sector is increasing rapidly as there are substitutes like mutual funds, stocks (shares), government securities, debentures, gold, and real estate acting as a high threat of substitutes.

The continuous deregulation has made the Banking Market extremely competitive with greater autonomy, operational flexibility, decontrolled interest rate, and liberalized norms for foreign exchange. The deregulation of the industry coupled with decontrol in interest rates had led to the entry of a number of players in the Banking Industry. Alliances and takeovers had occurred on a transatlantic basis. The market share for financial services that Banks hold had declined, while securities firms, mutual funds, and finance companies has grown. Banking Sector needs to build up a strong and efficient financial system by emphasizing on risk based management.
In Banking Sector, customers have high bargaining power due to the presence of very large number of alternatives. Banks together with the specialized financial companies that provide finance to customers are available. Recently it was observed that depositors had withdrawn funds from Private and Foreign Banks and invested their money with Public Sector Banks as the cost of switching from one Bank to another was low and almost all Banks provided undifferentiated services. Today customer’s have more information and better understanding about the market, Banks have to be more competitive and customer friendly to serve them.

To retain customer’s and market share, Banks started contemplating on building strong relationship with customers. United Bank of India created a revolution in Banking Industry by opening up a boutique branch in Pune in November 2007, as its priority was to provide services to the high net worth customers. Thus, United Bank also recognized the needs of high net worth individuals different from the other customers. United Bank organized corporate golf tournament for customers, music concerts, and screening of Mani Ratnam directed film ‘Guru’ \(^{45}\). Bank’s top management has started carefully evaluating the impacts for their actions. Recently, before cutting jobs in Private and Foreign Banks, Human Resource managers tried to assess reactions beforehand and they came out with certain proactive steps. Banks persistently worked in the interest of the Society.

This chapter focussed on the environment analysis which is, undoubtedly, required for strategy formulation, and at the same is relevant as a backdrop for strategy implementation. For instance, the needful Human Resource Practices have to be continuously evolved and implemented against the ever-changing macro and micro environment of the Banking Organizations.
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25. Reserve Bank of India (2009), ibid. (17).


