Chapter - I

Introduction

*It is not by augmenting the capital of the country but by rendering a greater part of that capital active and productive than would otherwise be so that the most judicious operations of banking can increase the industry of the country.* - Adam Smith.

1.1 Evolution of Banking System:

The banking history is interesting and reflects evolution in trade and commerce. It also throws light on living style, political and cultural aspects of civilized mankind. The strongest faith of people has always been religion and God. The seat of religion and place of worship were considered safe place for money and valuables. Ancient homes didn’t have the benefit of a steel safe, therefore, most wealthy people held accounts at their temples. Numerous people, like priests or temple workers were both devout and honest, always occupied the temples, adding a sense of security. There are records from Greece, Rome, Egypt and Ancient Babylon that suggest temples loaned money out, in addition to keeping it safe. The fact that most temples were also the financial centers of their cities and this is the major reason that they were ransacked during wars. The practice of depositing personal valuables at these places which were also functioning as the treasuries in ancient Babylon against a receipt was perhaps the earliest form of “Banking”. Gradually as the personal possession got evaluated in term of money, in form of coins made of precious metal like gold and silver, these were being deposited in the temple treasuries. As these coins were commonly accepted form of wealth, ‘lending’ activity to those who needed it and were prepared to ‘borrow’ at an interest began. The person who conducted this ‘lending’ activity was known as the “Bank?” because of the bench he usually set. It is also observed that the term ‘bankrupt’ got evolved
then as the irate depositors broke the bench and table of the insolvent banker. With the expansion of trade the concept of banking gained greater ground. The handling of “banking” transcended from individual to groups to companies. Issuing currency was one of the major functions of the banks. The earliest from of money coins, were a certificate of value stamped on a metal, usually gold, silver, and bronze or any other metal, by an authority, usually the king. With the increasing belief and faith in such authority of their valuation and the necessities of wider trade a substitute to metal was found in paper. The vagaries of monarchial rule led to the issues of currency being vested with the banks since they enjoyed faith, controlled credit and trading. All forms of money were a unit of value and promised to pay the bearer of specified value. Due to failure on account of unwise loans, to rule and organize, a stable banking system arose. The word’s earliest bank currency notes were issued in Sweden by Stockhomes Banco in July 1661.1

History of Banking in India the story of Indian coinage itself is very vast and fascinating, and also throws tremendous light on the various aspects of life during different periods. The Rig Veda speaks only gold, silver copper and bronze and the later Vedic texts also mention tin, lead, iron and silver. Recently iron coins were found in very early levels at Attranji Kheri(U.P.) and Pandu Rajar Dhibi (Bengal). A money economy existed in India since the days of Buddha. In ancient India during the Maurya dynasty (321 to 185 BC), an instrument called adesha was in use, which was an order on a banker desiring him to pay the money of the note to a third person, which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in large towns gave letters of credit to one another. Trade guilds acted as bankers, both receiving deposits and issuing loans. The larger temples served as bankers and in the south the village communities economically advanced loans to peasants. There were many professional bankers and moneylenders like the sethi, the
word literally means “chief”. It has survived in the North India as seth. Small purchases were regularly paid for in cowry shells (varataka), which remained the chief currency of the poor in many parts of India. Indigenous banking grew up in the form of rural money lending with certain individuals using their private funds for this purpose. The scriptures singled out the vaishyas as the principal bankers. The earliest form of Indian Bill of Exchange was called “Hundi”. Exports and import were regulated by barter system. Kautilya’s Arthasastra mentions about a currency known as panas and even fines paid to courts were made by panas. E. B. Havell in his work.

The History of Aryas Rule in India says that Muhammad Tughlaq issued copper coin as counters and by an imperial decree made them pass at the value of gold and silver. The people paid their tribute in copper instead of gold, and they bought all the necessaries and luxuries they desired in the same coin, however, the Sultan’s tokens were not accepted in counties in which his decree did not run. Soon the whole external trades of Hindustan come to a standstill. When as last the copper tanks had become more worthless than clods, the Sultan in a rage repealed his edict and proclaimed that the treasury would exchange gold coin for his copper ones. As a result of this thousands of men from various quarters who possessed thousand of these copper coins bough them to the treasury and they received in exchange gold tanks. The origin of the word “rupee” is found in the Sanskrit rupya “shaped; stamped, impressed; coin” and also from the Sanskrit word “rupa” meaning silver. The standardisation of currency unit as Rupee in largely due to Sher Shah in 1542. The English traders that came to India in the 17th century could not make much use of the of indigenous bankers, owing to their ignorance of the language as well the inexperience indigenous people of the European trade. Therefore, the English Agency Houses in Calcutta and Bombay began to conduct banking business, besides their commercial business, based on unlimited liability. The Europeans with aptitude of commercial pursuit, who resigned from civil and military
services, organized these agency houses. A type of business organization recognizable as managing agency took form in a period from 1834 to 1847. The primary concern of these agency houses was trade, but they branched out into banking as aside line to facilitate the operations of their main business. The English agency houses, that began to serve as bankers to the East India Company had no capital of their own, and depended on deposits for their funds. They financed movements of crops, issued paper money and established joint stock banks. Earliest of these was Hindustan Bank, established by one of the agency houses in Calcutta in 1770. Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790; both are now defunct.  

1.2 Colonial era

During the period of British rule merchants established the Union Bank of Calcutta in 1829, first as a private joint stock association, then partnership. Its proprietors were the owners of the earlier Commercial Bank and the Calcutta Bank, who by mutual consent created Union Bank to replace these two banks. In 1840 it established an agency at Singapore, and closed the one at Mirzapore that it had opened in the previous year. Also in 1840 the Bank revealed that it had been the subject of a fraud by the bank’s accountant. Union Bank was incorporated in 1845 but failed in 1848, having been insolvent for some time and having used new money from depositors to pay its dividends.  

The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India; it was not the first though. That honour belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla.

Foreign banks too started to appear, particularly in Calcutta, in the 1860s. The Comptoir d’Escompte de Paris opened a branch in Calcutta in
1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French possession, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking centre.⁴

The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It failed in 1958. The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India.

Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social, industrial and other infrastructure had improved. Indians had established small banks, most of which sewed particular ethnic and religious communities.⁵

The presidency banks dominated banking in India there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally undercapitalized and lacked the experience and maturity to compete with the presidency and exchange banks. This segmentation let Lord Curzon to observe, “In respect of banking it seems we are behind the times. We are like some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments.”

The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.⁶

The fervor of Swadeshi movement lead to establishing of many private banks in Dakshina Kannada and Udupi district which were unified
earlier and known by the name South Canara South Kanara) district. Four nationalised banks started in this district and also a leading private sector bank. Hence undivided Dakshina Kannada district is known as “Cradle of Indian Banking”.7

During the First World War (1914—1918) through the end of the Second World War (1939— 1945), and two years thereafter until the independence of India were challenging for Indian banking. The years of the First World War were turbulent, and it took its toll with banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities. At least 94 banks in India failed between 1913 and 1918 as indicated in the following table:8

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of banks failed</th>
<th>Authorized Capital</th>
<th>Paid-up Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>12</td>
<td>274</td>
<td>35</td>
</tr>
<tr>
<td>1914</td>
<td>42</td>
<td>710</td>
<td>109</td>
</tr>
<tr>
<td>1915</td>
<td>11</td>
<td>56</td>
<td>5</td>
</tr>
<tr>
<td>1916</td>
<td>13</td>
<td>231</td>
<td>4</td>
</tr>
<tr>
<td>1917</td>
<td>9</td>
<td>76</td>
<td>25</td>
</tr>
<tr>
<td>1918</td>
<td>7</td>
<td>209</td>
<td>1</td>
</tr>
</tbody>
</table>

1.3 Post-Independence

The partition of India in 1947 adversely impacted the economies of Punjab and West Bengal, paralyzing banking activities for months. India’s independence marked the end of a regime of the Laissez-faire for the Indian banking. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The major steps to regulate banking included:9
• The Reserve Bank of India, India’s central banking authority, was established in April 1935, but was nationalized on 1 January 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 (RBI, 2005b).

• In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) “to regulate, control, and inspect the banks in India”.

• The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.10

1.4 Establishment of Reserve Bank of India (1935)

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The establishment of this central bank of the country ended the quasi-central banking role of the Imperial Bank. The latter ceased to be bankers to the Government of India and instead became agent of the Reserve Bank for the transaction of government business at centre at which the central bank was not established.

Even after the formation as well as nationalization of RBL the growth of economy & banks was very slow and banks still experienced periodic failure. Therefore in order to streamline the functioning and activities of the 1100 commercial banks present then, the Government of India came up with in March 1949, a special legislation, called the Banking Companies Act, 1949.11

1.5 The Banking Regulation Act

The Banking Act 1949 was a special legislation, applicable exclusively to the banking companies. This Act was later renamed as the Banking Regulation Act from March 1966. The Act vested in the Reserve Bank of India the responsibility relating to licensing of banks, branch expansion, and liquidity of their assets, management and methods of
working, amalgamation, reconstruction and liquidation. Thus giving RBI authority along with responsibility & igniting the first part of banking transformation in India.

The second path braking & transformation effort took place in 1955 with the establishment of the Indian Banking Sector’ State Bank of India.12

1.6 Formation of “The State Bank of India”

In 1951, when the First Five Year Plan was launched, the development of rural India was given the highest priority. The commercial banks of the country including the Imperial Bank of India had till then confined their operations to the urban sector and were not equipped to respond to the emergent needs of economic regeneration of the rural areas. In order, therefore, to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the imperial Bank of India, and integrating with it, the former state-owned or state- associate banks. An act was accordingly passed in Parliament in May 1955 and the State Bank of India was constituted on 1 July 1955.

However it was soon realized that State Bank alone is not sufficient for the development of the economy & more government sponsored banks are required & accordingly the plan .for nationalization was passed ml 968. Thus forming the third turning point in the history of Indian Banking in India.13

1.7 Nationalization in the 1960s

Despite the provisions, control and regulations of the Reserve Bank of India, banks in India except the State Bank of India (SBI), continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, the then Prime Minister of India, expressed the intention of the
Government of India in the annual conference of the All India Congress Meeting in a paper entitled “Stray thoughts on Bank Nationalization.” The meeting received the paper with enthusiasm.

Thereafter, her move was swift and sudden. The Government of India issued an ordinance (‘Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969’) and nationalized the 14 largest commercial banks with effect from the midnight of 19 July 1969. These banks contained 85 percent of bank deposits in the country. Jayaprakash Narayan, a national leader of India, described the step as a “masterstroke of political sagacity.” Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalisation was to give the government more control of credit delivery. With the second dose of nationalisation, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.¹⁴

1.8 Liberalization in the 1990s

In the early 1990s, the then government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, UTI Bank (since renamed Axis Bank), ICICI Bank and HDFC Bank. This move, along with the rapid
growth in the economy of India, revitalised the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for foreign direct investment, where all foreign investors in banks may be given voting rights which could exceed the present cap of 10% at present. It has gone up to 74% with some restrictions.

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (borrow at 4%; lend at 6%; go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People demanded more from their banks and received more.

1.9 Narasimham Committee:

In 1992/93, non-performing assets (NPAs) of 27 public-sector banks amounted to 24 percent of total credit, only 15 public-sector banks achieved a net profit, and half of the public-sector banks faced negative net worth. The major factors that contributed to deteriorating bank performance included.15
a. Too stringent regulatory requirements (i.e., a cash reserve requirement [CRR] and statutory liquidity requirement [SLR])
b. Low interest rates charged on government bonds (as compared with those on commercial advances)
c. Directed and concessional lending
d. Administered interest rates
e. Lack of competition.

These factors had totally reduced incentive of the bank to operate properly. While government involvement in the financial sector was
justified at the initial stage of economic development, the prolonged presence of excessively large public-sector banks was resulting in inefficient resource allocation and concentration of power in a few banks.

Understanding the fact that a sound banking system is a must for development of every economy, the then government thus initiated the ‘Banking Sector Reforms’.

The first step towards these reforms was taken in 1989 by setting up of Narasimham Committee.

The Committee was set up under the chairmanship of M. Narasimham. They submitted their recommendations in the 1990s in reports widely known as the Narasimham Committee-I (1991) report and the Narasimham Committee-II (1998) Report. It was the recommendations of the two Narasimham Committees that actually turned around the destiny of Indian Banking.

The year 1991 which is also called as the year of ‘Banking Sector Reforms’ opened the gates to the private sector & to foreign banks which in turn significantly increased the level of competition. Seven new private banks entered the market between 1994 and 2000. In addition, over 20 foreign banks started operations in India since 1994. By March 2004, the new private sector banks and the foreign banks had a combined share of almost 20% of total assets. In addition to above recommendation the other major contributors to the revamping of the banking sector was the progressive lowering of SLR & CRR, introduction of Basel Norms, deregulation of interest rate, redefining of priority sectors, Golden Handshake Scheme & merger of the week banks with the stronger banks.
2. Current period

2.1 Structure of Banking in India:

All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are Scheduled Banks. These banks comprise Scheduled Commercial Banks and Scheduled Co-operative Banks. Scheduled Commercial Banks in India are categorized into five different groups according to their ownership and/or nature of operation. These bank groups are:16

- State Bank of India and its Associates
- Nationalised Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks.

In the bank group-wise classification, IDBI Bank Ltd. is included in Nationalised Banks. Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Cooperative Banks.

By 2010, banking in India was generally fairly mature in terms of supply, product range and reach—even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government.

With the growth in the Indian economy expected to be strong for quite some time—especially in its services sector—the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and asset sales.

In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%.
This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be veiled by them.

In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the banks’ loan recovery efforts have driven defaulting borrowers to suicide.

The Indian banking industry has increased its total assets from US $250 billion in March 2000 to $1.3 trillion in 2010. It is growing at an Annual growth rate of 19 percent, contributing nearly 6 percent of GDP & expected to employ nearly 7.4 million people. The NPAs, in percentage terms, have declined steadily from 15.70 per cent at end March 1997 to 2.25 per cent at end March 2011.

The banking sector in India emerged largely unscathed from the global financial crisis of 2007-08. Though there was a slowdown in the net growth due to tight monetary policy, rising inflation weakening of trade & commerce but still the Return on Assets were steady & so was the absolute net profits thus giving an idea of efficiency of the banking industry.

One of the major reasons for this robust growth and transformation of the Indian Banking System is the strong leadership & regulation by Reserve Bank of India. This Regulatory system of India has been rated better than China, Brazil, Russia, and UK; at par with Japan, Singapore and Hong Kong & above par or at par with USA by FICCI.

2.2 Contribution of Public Sector Banks and Growth in Banking Sector:

Public sector banks account for bulk of the branches in India (83.98 percent in 2011) & deposits accounts for 77.86% of the total deposits.
• Out of the Ten largest banks in India 7 are from Public Sector
• Share of debit card is steady increasing for both nationalized banks & SBI group & declining for private & foreign banks.\(^\text{17}\)
Thus it is still the government led banks which are dominating the banking structure in India.

<table>
<thead>
<tr>
<th>Important Indicators</th>
<th>March 2012</th>
<th>March 2013</th>
<th>September 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 No. of Commercial Banks</td>
<td>173</td>
<td>157</td>
<td>151</td>
</tr>
<tr>
<td>i) All Scheduled Commercial Banks</td>
<td>169</td>
<td>153</td>
<td>147</td>
</tr>
<tr>
<td>of which, Regional Rural Banks</td>
<td>82</td>
<td>64</td>
<td>58</td>
</tr>
<tr>
<td>ii) Non-Scheduled Commercial Banks</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2 No. of Reporting Offices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Rural</td>
<td>35,364</td>
<td>38,451</td>
<td>40,320</td>
</tr>
<tr>
<td>ii) Semi-urban</td>
<td>25,076</td>
<td>27,822</td>
<td>29,118</td>
</tr>
<tr>
<td>iii) Urban</td>
<td>16,541</td>
<td>20,127</td>
<td>20,786</td>
</tr>
<tr>
<td>iv) Metropolitan</td>
<td>17,078</td>
<td>18,247</td>
<td>18,770</td>
</tr>
<tr>
<td>TOTAL</td>
<td>96,059</td>
<td>104,647</td>
<td>108,994</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>All Scheduled Commercial Banks- Annual Growth Rates (Per Cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Aggregate Deposits</td>
</tr>
<tr>
<td>(ii) Gross Bank Credit</td>
</tr>
</tbody>
</table>

3A. Population Groups- Annual Growth Rates (%)

<table>
<thead>
<tr>
<th>Rural</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Aggregate Deposits</td>
<td>16.40</td>
</tr>
<tr>
<td>(ii) Gross Bank Credit</td>
<td>29.10</td>
</tr>
<tr>
<td>Semi-urban</td>
<td></td>
</tr>
<tr>
<td>(i) Aggregate Deposits</td>
<td>17.60</td>
</tr>
<tr>
<td>(ii) Gross Bank Credit</td>
<td>19.30</td>
</tr>
<tr>
<td>Urban</td>
<td></td>
</tr>
<tr>
<td>(i) Aggregate Deposits</td>
<td>14.70</td>
</tr>
<tr>
<td>(ii) Gross Bank Credit</td>
<td>14.00</td>
</tr>
<tr>
<td>Metropolitan</td>
<td></td>
</tr>
<tr>
<td>(i) Aggregate Deposits</td>
<td>12.10</td>
</tr>
<tr>
<td>(ii) Gross Bank Credit</td>
<td>16.60</td>
</tr>
</tbody>
</table>

(Figures in bracket represent adjusted growth rates for large accounts shifted from metropolitan to rural branches)

The above statistics clearly shows the commendable growth that the banking sector has achieved but still there is a long road ahead for this sector which is full of challenges & as well As opportunities.

2.3 Migration to Basel Ill regime

The proposed Basel III guidelines seek to improve the ability of banks to withstand periods of economic and financial stress by prescribing more stringent capital and liquidity requirements for them. Basel III which requires Indian banks (except foreign banks) to raise Rs. 600000 crore in external capital over next seven years has been welcomed by RBI as it feels
that it will strengthen the bank’s ability to face any financial crisis & make it at par with the global banks.

The RBI report on Bank Trends 2011 says the aggregate level Indian banks will not have any problem in adjusting to the new capital rules both in terms of quantum and quality and banks are comfortably placed in terms of compliance with the new capital norms.\(^\text{18}\)

### 2.4 Deregulation of Saving deposit Interest Rate

The recent deregulation of savings bank deposit interest rates announced on October 25, 2011 is already seeing banks like Yes bank & Kotak Bank aggressively increasing their interest rates & thus giving rise to stiff competition among banks & an opportunity for higher earnings to customers.

### 2.5 Financial inclusion

In India still more than 50 % of the population does not have access to any kind of banking services. The main reason for this financial exclusion in India is the lack of a regular or substantial income, excessive documentation for loans & opening of accounts, lack of proximity of the financial institutions, high transportation cost & loss of daily wage.

Reserve bank of India is making several efforts to encourage banks to contribute to financial inclusion by easing the account opening & loan disbursement policy, by making it mandatory for the banks to open 25% branches in rural area & 40% credit to priority sector.\(^\text{19}\)

The banks have also responded well towards these efforts as already 28.23 million no-frills accounts have been opened & the numbers of rural branches have crossed 31,000 in number.

However there is still a lot of effort to be put in by the entire Banking Sector in order to make this “Buzz Word” a reality for “Rural India”

### 3. Adoption of banking technology

The IT revolution has had a great impact on the Indian banking system. The use of computers has led to the introduction of online banking
in India. The use of computers in the banking sector in India has increased many folds after the economic liberalization of 1991 as the country’s banking sector has been exposed to the world’s market. Indian banks were finding it difficult to compete with the international banks in terms of customer service, without the use of information technology. The RBI set up a number of committees to define and co-ordinate banking technology. These have included:

- In 1984 was formed the Committee on Mechanization in the Banking Industry (1984) whose chairman was Dr. C Rangarajan, Deputy Governor, Reserve Bank of India. The major recommendations of this committee were introducing MICR technology in all the banks in the metropolises in India. This provided for the use of standardized cheque forms and encoders.

- In 1988, the RBI set up the Committee on Computerization in Banks (1988) headed by Dr C Rangarajan. It emphasized that settlement operation must be computerized in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It further stated that there should be National Clearing of inter-city cheques at Kolkata, Mumbai, Delhi, Chennai and MICR should be made operational. It

- Also focused on computerization of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerization began from 1993 with the settlement between ISA and bank employees’ associations.

- In 1994, the Committee on Technology Issues relating to Payment systems, Cheque Clearing and Securities Settlement in the Banking Industry (1994) was set up under Chairman W S Saraf. It emphasized Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier, it also said that MICR clearing should be set up in all branches of all those banks with more than 100 branches.

Total numbers of ATMs installed in India by various banks as on end June 2012 is 99,218. The New Private Sector Banks in India are having the largest numbers of ATMs, which is followed by off-site ATMs belonging to SBI and its subsidiaries and then by Nationalized banks and Foreign banks. While on site is highest for the nationalized banks of India. Branches and ATMs of Scheduled Commercial Banks as on end March 2005

<table>
<thead>
<tr>
<th>Bank type</th>
<th>Number of branches</th>
<th>On-site ATMs</th>
<th>Off-site ATMs</th>
<th>Total ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalised banks</td>
<td>33,627</td>
<td>3,205</td>
<td>1,567</td>
<td>4,772</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>13,661</td>
<td>1,548</td>
<td>3,672</td>
<td>5,220</td>
</tr>
<tr>
<td>Old private sector banks</td>
<td>4,511</td>
<td>600</td>
<td>441</td>
<td>1,241</td>
</tr>
<tr>
<td>New private sector banks</td>
<td>1,885</td>
<td>1,883</td>
<td>3,729</td>
<td>5,612</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>242</td>
<td>218</td>
<td>582</td>
<td>800</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>53,726</strong></td>
<td><strong>7,654</strong></td>
<td><strong>9,409</strong></td>
<td><strong>17,645</strong></td>
</tr>
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</table>

Now, Government has decided to open per Branch ATM.

**Expansion of Banking Infrastructure**

As per Census 2011, 58.7% households are availing banking services in the country. There are 102,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37,953 (37%) bank branches are in the rural areas and 27,219 (26%) in semi-urban areas, constituting 63% Of the total number of branches in semi-urban and rural areas Of the country. However, a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system. To extend the reach of banking to those outside the formal banking system, Government and Reserve Bank of India (RBI) are taking various initiatives from time to time some of which are enumerated below:²¹

- Opening of Bank Branches: Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to
open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. Out of 3,925 such identified villages/habitations, branches have been opened in 3,402 villages/habitations (including 2,121 Ultra Small Branches) by end of April, 2013.

- Each household to have at least one bank account: Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.

- Business Correspondent Model: With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BC5). Business correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable. BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion. Banks had been permitted to engage individuals/entities as BC like retired bank employees, retired teachers, retired government employees, ex-servicemen, individual owners of Karana/medical/fair price shops, individual Public Call Office (PCO) operators, agents of Small Savings Schemes of Government of India, insurance companies, etc. Further, since September 2010, RBI had permitted banks to engage “for profit” companies registered under the Indian Companies Act, 1956, excluding Non-Banking Financial Companies (NBFCs), as BC5 in addition to individuals/entities permitted earlier. According to the data maintained by RBI, as in December, 2012, there were
over 152,000 BCs deployed by Banks. During 2012-13, over 183.8 million transactions valued at ₹65 billion (US$2.8 billion) had been undertaken by BC5 till December 2012.

- **Swabhimaan Campaign:** Under “Swabhimaan” - the Financial Inclusion Campaign launched in February 2011, banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs). Further, in terms of Finance Minister’s Budget Speech 2012-13, the “Swabhimaan” campaign has been extended to habitations with population of more than 1,000 in North Eastern and Hilly States and to habitations which have crossed population of 1,600 as per census 2001. About 40,000 such habitations have been identified to be covered under the extended “Swabhimaan” campaign.

- **Selling up of Ultra Small Branches (USBs):** Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion. A USB would comprise of a small area of 100 sq ft (9.3 m2) - 200 sq ft (19 m2) where the officer designated by the bank would be available with a laptop on pre-determined days. While the cash would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up on the banking transactions. The periodicity and duration of visits can be progressively enhanced depending upon business potential in the area. A total of over 50,000 USBs have been set up in the country by March, 2013.

- **Banking Facilities in Unbanked Blocks:** All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either
through Brick Mortar Branch or Business Correspondents or Mobile van. As a next step it has been advised to cover all those blocks with BCA and Ultra Small Branch which have so far been covered by mobile van only.

- **USSD Based Mobile Banking:** National Payments Corporation of India (NPCI) worked upon a ‘Common USSD Platform for all banks and telcos who wish to offer the facility of Mobile Banking using Unstructured Supplementary Service Data (USSD) based Mobile Banking. The Department helped NPCI to get a common USSD Code *99# for all telcos. More than 20 banks have joined the National Uniform USSD Platform (NUUP) of NPCI and the product has been launched by NPCI with BSNL and MTNL. Other telcos are likely to join in the near future. USSD based Mobile Banking offers basic Banking facilities like Money Transfer, Bill Payments, Balance Enquiries, Merchant Payments etc. on a simple GSM based Mobile phone, without the need to download application on a phone as required at present in the IMPS based Mobile Banking.

**Steps taken by Reserve Bank of India (RBI) to strengthen the Banking Infrastructure**

- RBI has permitted domestic Scheduled Commercial Banks (excluding RRB5) to open branches in tier 2 to tier 6 cities (with population up to 99,999 as per census 2001) without the need to take permission from RBI in each case, subject to reporting.

- RBI has also permitted SCBs (excluding RRBs) to open branches in rural, semi-urban and urban centers in North Eastern States and Sikkim without having the need to take permission from RBI in each case, subject to reporting.

- Regional Rural Banks (RRBs) are also allowed to open branches in Tier 2 to Tier 6 centers (with population up to 99,999 as per Census 2001) without the need to take permission from RBI in each case, subject to reporting, provided they fulfill the following conditions, as per the latest inspection report:
o CRAR of at least 9%;
o Net NPA less than 5%;
o No default in CRR I SLR for the last year;
o Net profit in the last financial year;
o CBS compliant.

• Domestic SCBs have been advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25% of the total number of branches Proposed to be opened during the year in unbanked Tier 5 and Tier 6 centers i.e. (population up to 9,999) centers which do not have a brick and mortar structure of any SCB for customer based banking transactions.

• RRB5 have also been advised to allocate at least 25% of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centers).

• New private sector banks are required to ensure that at least 25% of their total branches are in semi-urban and rural centers on an ongoing basis.

Conclusion:

The Indian banking industry has evolved and transformed itself from a socialist licensed raj business to a liberalized, modernized & technology oriented white elephant of India. Banking industry is the backbone for any economy & is the key indicator to see & analyze the level of development of a country. The banking sector of India has an annual growth rate of 23 percent, contributing nearly 6 percent of GDP & employing nearly 7.4 million people & has outperformed most banking indices in the world with highest total returns to shareholders at 36.76%. The Indian banks even braved the subprime crises that rocked the global financial sector in 2008.

The Indian banks ability to protect asset health through prudent lending helped them emerge from this crisis unscathed. The Indian banking sector has a large market still unexplored with the Indian households being
one of the highest savers in the world accounting for 69% of India gross national saving of which only 47% is accessed by the banks. On the other hand there are many challenges as well which the Indian banking industry has to face in the road ahead like that of financial inclusion, deregulation of interest rates on saving deposits, slow industrial growth, a large government deficit, increased stress on some sectors (such as, State utilities, airlines, and microfinance) & the implementation of Basel Ill. Nevertheless seeing the credentials of the Indian Banks one can safely conclude that the industry might have many stumbling blocks in the ‘Road Ahead’ but when ever encountered with such blocks in the past it has used them as a stepping stone & has always ‘Transformed’ itself (for the better) and ‘Evolved’ as a winner.

**Trends that are shaping the Banking Landscape**

The year 2010 is yet another year of challenge for the financial industry with an ongoing recession, rising delinquencies, mounting security fears and heavier regulations. The future of global banking is evolving quickly, alongside the numerous rescue plans introduced by national governments and central banks. As the global financial crisis continues to play out, many major global banks are making valiant efforts to be back in business with government support; their impaired assets weighing heavily on their balance sheets.23

Having avoided the total meltdown of the global financial system, monetary and financial authorities are now attempting to impose new regulations in order to stave off future crises. The upshot is that the freewheeling lending practices of the past few years are going to be replaced by tighter regulations, greater transparency, deleveraging; and risk aversion is likely to be more of a structural phenomenon. This means that for most banking sectors worldwide, loan-to-deposit and loan-to-asset ratios are likely to decline, with lower loan growth over the coming few years.
There is a major clamoring from the public and national authorities for increased oversight and regulation for the financial sector, given the gravity of the current economic downturn and the perception that it originated from irresponsible lending practices.

Banks in Europe and US are seeing fundamental changes caused by the crisis - re-regulation, shift in ownership structure due to state involvement and rising investor scrutiny. Governments around the globe intervened to inject more than $200 billion in fresh capital, not to mention the much larger asset and debt guarantees.

Banking is witnessing a major shift in its trend and its landscape is changing like never before from a ‘brick and mortar’ structure to a ‘click and mouse’ model. Also, many other changes are on the anvil. What we would see in the coming years is a complete transformation of the traditional banking euphemistically called the ‘3-6-3’ Banking to ‘round-the-clock’ banking. The state would assume a greater role in the regulation of banks worldwide. In this backdrop, a few emerging trends in the new world for banks would be:

1. Increased regulatory oversight from central bankers and transparency in lending practices around the globe.
2. Creation of a global authority that could oversee banking, lending and investment sectors and perhaps act quickly to commit the central banks as a cohesive force during emergencies.
3. Technology shaping the banking landscape.
4. A discerning customer.
5. Increase in capital buffer.
6. Focus on corporate governance.
7. Consolidation in the industry
10. A new workforce.
Regulatory oversight by the state
In the US, Europe and elsewhere, banks are under intense scrutiny, and major regulatory changes are under consideration along with increased oversight. American banking, until recently, had enjoyed complete deregulation; as a result, vast national banking institutions grew rapidly by acquiring regional banking firms, entering new fields, increasing assets and expanding globally.

The devastating effects of the global crisis which had its roots in the US have made governments create new oversight regulators to regulate the entire financial services industry, which would protect consumers from deceptive lending offers, predatory lending and inappropriate mortgage offers. After years of liberalization and privatization, the state is assuming a greater role including that of the owner, especially in the US. Governments are turning out to be ‘investors of the last resort’ to bankers and this is one of the trends for the future.

Regulatory oversight by the state would make future financial crisis less likely and the system would become more resilient; we might see a renaissance of the traditional business models.
Global policing

As international activities of banks’ increase, regulation will take more of a global guise in the future. Given the increasing levels of country-to-country lending, there is likely to be a call for a stronger and more effective regulatory body to correlate the activities of large international financial institutions. Basel H would see further enhancements for standardizing capital requirements of banks.

Banks that dallied in exotic products will gravitate back towards traditional lending practices and maintaining stronger deposit bases. Emerging markets like Brazil, Russia, India and China (ERIC countries) offer considerable promise; more particularly where they have under-developed banking sectors and large populations with middleclass potential. KYC and AML norms will play a more significant role while opening new accounts and banks would become more responsible and accountable to the government and public. The global banking sector will emerge from the current crisis in a different form, but with continued growth potential over a long-term horizon. 24

Technology reshaping banking

There is a true banking revolution in the offing. The quintessence nature of technology closely harmonizes with banking. Mobile banking, tele banking, banking kiosks and Internet banking are the current trends that have evolved as products of technology. Banking services have now reached inaccessible terrain and the rural hinterland, thus making banking within the reach of the common man. The enabler of all these changes has been technology that supports rapid, accurate decision-making and greater operational flexibility and efficiency. Customers and businesses are becoming more reliant on online management of their bank accounts; banking is all set to become a value added IT service. 25

The banking sector, however, is faced with the challenge of catering to a changing and demanding demographic profile, heightened customer
expectations and technological advancements. Banks have also to shore up the efficiency of their operations, which will be possible through the use of high-end technology and process reengineering to increase speed and efficiency and reduce transaction costs.

Another challenge that banks face is the continuous investment in technology which has become a business imperative, though much of the investment confers no long-term sustainable advantage in an era of dynamic innovations, where technology becomes vastly redundant

**Remote capture technology**

Remote capture technology, the new kid on the block, would dictate the next phase of banking. The financial industry is only beginning to see the implications of remote capture technology - which allows businesses to make deposits directly into their accounts without leaving the office. It is said that one remote capture machine from a small bank is more convenient than a larger bank with 100 nearby branches. The issue of branch convenience would become a non-issue. Remote capture technology would offer immense benefits to the customers in terms of time and reach.

- Businesses save the time of an employee driving to a branch to make deposits.
- Banks benefit with a committed customer and a boost in core deposits.

Technology would also make banks refocus their strategies to retain customers; they will have to focus from the number of accounts or relationships a customer has, to the number of services that a customer uses. Customers with a high number of service links are more likely to stay with a bank than those with a number of accounts; that, in time, may languish.\(^{26}\)

**Providing total financial solutions**

In recent times, there is a lot of debate whether banking should restrict itself to the traditional ‘utility’ function that of financial intermediation — taking deposits and lending and providing payment and settlement services and hive off the more risky trading activity. The ‘back to
basics’ function of banking is attracting the attention of many experts in banking.

However, banks are poised to become large sized malls offering the entire gamut of financial services, be it banking, or credit cards or mutual funds, insurance or wealth management. They have to offer all financial services to the customer at one point and have to be seen as a provider of total financial solutions.

Further, with changing demographics, the challenge is to capture the next-gen customers who are high on technology and short on time. They require access to multiple delivery channels like ATM, Internet banking, tele banking and e-banking, and the flexibility to operate their accounts from anywhere. It is only through adopting the state of the art technology that banks can deliver flexible distribution channels.

Banks have to rise to the challenge of globalization and tap the opportunities in the financial markets. Banks today are facing intense competition and to maintain their market share, they have to become more customer-centric and provide total financial solutions to the customer; in short, provide universal banking.\(^{27}\)

**Discerning customers**

Customers today are more fragmented than ever before, and banks which are quick to respond, benefit and gain momentum from the changing demographics. Rebuilding client trust will remain a top priority for bankers.

The 2009 Capgemini Wealth Report found that more than a quarter of High Networth Individual (HNI) clients withdrew assets from their firms due to a loss of trust and confidence. There were several high profile client-advisor fallouts in the past months, because of the non-transparency in dealing with clientele and poor awareness of the exotic markets. Customers have taken banks to courts and were unwilling to pay in the face of huge losses caused by the downturn.\(^{28}\)
HNJ clients are likely to remain extremely skeptical of bankers and advisors in the midst of financial turmoil. Bankers who can instill confidence and trust are likely to remain top performers. While some HNIs prefer to deal with their advisors face to face, the ‘new money’ group, often in their mid thirties and forties, are increasingly turning to online self service. Banks that provide comprehensive and user friendly online services will continue to stand out, while others will find themselves left out.

Customers will only be interested in service providers who can meet their very specific needs. In short, customers would be more discerning and demanding from banks than ever before. Banks will need special strategies to cater to far more discerning customers. Innovative approaches to business design, customer service, workforce management and IT will be critical to banks’ future success.

We are gradually moving into a customer-centric market that is going to be dominated by global mega banks, densely populated with specialized financial services providers. Fierce competition, global regulation and technology will reshape banking structures. Customers will demand more advocacy, personal security and control in their banking relationships. Innovation in products, processes, relationships and business models will be primary for sustainable growth.

Alternate modes of payments

Alternate modes of payments like mobile banking, Internet banking and tele-banking would replace the traditional mode of banking. New players and new ways of doing business would drastically alter the face of banking. Not just in the area of payments, has there been a drastic change; credit business has undergone vast changes with the globalised banking as well as the availability of new internal means of financing as corporate bonds, commercial paper as also diverse methods of financing like credit syndication and takeout financing, which were unheard of a decade ago.
With the opening up of the economy, companies are able to access global markets through External Commercial Borrowings (ECBs), Global Depository Receipts (GDRs) and American Depository Receipts (ADR5). In the next decade, we may see the trend further changing; banks will have to vie for their share of the pie to be in business and scan the horizon for new ways of doing business profitably.\textsuperscript{29}

**Capitalization of banks**

Capital looks adequate in good times and lending gets expanded, but when times are bad, it creates a self-afirt perpetuating downward spiral. Off-balance sheet lending in special purpose vehicles (SPVs) has also made it difficult to gauge the capital adequacy of banks. How much capital would banks require? What would be the amount of capital that would be sufficient to sustain a particular level of lending? What should be the broad contours for capital sufficiency in banks?

Further, increased provisioning would increase the comfort level of banks at times of crises. Pro-cyclicality has been at the heart of the problem. Addressing pro-cyclicality would mean building up a good buffer capital and provisioning on real time basis. The current crisis has rendered Basel II inadequate to deal with the problems of exotic derivatives and products of financial engineering.\textsuperscript{30}

Will a full reworking of Basel II norms be required to fully reflect the ever-changing landscape in banking? Would banks be required to look up to their regulators and central banks when they launch new financial products? Wi-Fi they need to set aside a considerable portion of their capital to meet the new risks? All these and more would have to be discussed by the central banks. While a full reworking of the Basel II criteria appears unlikely, there may well be a move towards greater transparency, closer monitoring of risky positions, and regulatory measures against the pro-cyclical nature of capital positions.
Another concern is with regard to excessive leverage, that is, overly large balance sheets relative to shareholders’ equity. With pressures on capital mounting, how much should banks deleverage? This would depend ultimately on how much leverage shareholders are willing to tolerate in the future and the levels that would be profitable in the new business environment, given the increased cost of capital. Some regulators are considering measures to control the bank’s leverage. But we should also consider that a leverage ratio is completely insensitive to risk and does not provide any transparency on a bank’s true level of risk.

Corporate governance

Corporate governance has tremendous relevance and significance in today’s context to restore confidence in the banking system. Good corporate governance is required for protection of shareholders’ rights, enhancing shareholders’ value, board issues including its composition and role, disclosure requirements, integrity of accounting practices, and enhancing control systems, in particular internal control systems.

Banking as a sector has been unique and the interests of other stakeholders appear more important than in the case of non-banking and non-finance organizations. In the case of banking, the risk involved for depositors and the possibility of contagion, assumes greater importance than of consumers of manufactured products. Further, the involvement of government is discernibly higher in banks due to importance of stability of financial system and the larger interests of the public.

Consolidation

Another trend seen today is the need for mega banks to be internationally competitive. Consolidation provides an inorganic way of attaining ‘size’ through mergers and acquisitions. If Indian banks are to compete globally, they have to not only attain the critical mass and optimum size, but also generate revenue and fund their capital requirements.
The biggest banks in the world are complex financial organizations that offer a wide variety of services to international markets and control billions of dollars in cash and assets. With further globalization, consolidation, deregulation and diversification of the financial industry, the banking sector is set to become even more complex. Supported by the latest technology, banks are working to identify new business niche, develop customized services, and implement innovative strategies to capture new market opportunities.

Scale is crucial for a bank’s profitability and to become national or global in scope and reach. Scale becomes all the more crucial due to erosion in margins; increase in earnings and growth can be achieved only through consolidation.

In the past decade, there has been an increasing convergence between the activities of investment and commercial banks, because of the deregulation of the financial sector. Today, investment and commercial banking institutions compete directly in money market operations, private placements, project finance, bonds underwriting and financial advisory work. Banks have become an important entity in the global business community.

Banks need to renew their strategies and start focusing on organic and inorganic ways to improve growth. Acquiring other banks is a passport to instant growth. Innovation is needed for organic growth: new products, new marketing capabilities and better customer service skills, etc. The trend is towards universal banks that currently offer every kind of service to every kind of customer. Outsourcing and off-shoring will play an important role in determining the form banks take in the future.

In India, banking is a national industry, except for some banks that have ventured outside. Even there, their presence is limited to a few countries. Banks in India need an international strategy where they can compete with the best, use the competitive advantages they might have in
each country, and deploy their resources to their advantage to increase their presence and profitability.

**Change In accounting practices - IFRS**

Another major trend in banking would be the shift to new accounting norms. Convergence to International Financial Reporting Standards (IFRS) is likely to pose significant challenges for banks. Certain large Indian banks, which had the benefit of going through the process of international GAAP (Generally Accepted Accounting Principles) such as US GAAP, have recognized the challenges of convergence and are planning roadmap to achieve a smooth convergence.

Indian banks will have to move to IFRS by April 2011, for which a roadmap for implementation would have to be drawn right away, IFRS would be significant for banks in India, particularly in areas relating to loan loss provisioning, financial instruments and derivative accounting. It is also likely to have a significant impact on the financial position and financial performance, on key parameters like capital adequacy ratios and the outcomes of valuation metrics that analysts use to measure and evaluate performance.

The Reserve Bank of India (RET) has stated that financial statements of banks need to be IFRS-compliant for period beginning on or after April 1, 2011. Successful implementation of IFRS in India would depend upon the appropriate level of investment in systems and processes and consistency in market practices for areas where judgment is critical.

**Risk management**

Risk management acquires added significance in the light of the risks and events that shook the world in the last couple of years and is the foremost global priority today. Banks have to put in place systems and procedures for risk measurement and risk management. Sound risk management policies will ensure that banks stay not only ahead in the competition, but also ensure safety and security of their capital.
Basel II norms will be transformed, with higher capital requirements and capital buffers that flex over the economic cycle to give better counter-cyclical protection. For international banks, a global standard needs to be prescribed in terms of economic capital, taking into account their asset portfolio across countries and off-balance sheet exposures. Provisioning norms would be tightened and more the riskier and complex the product, more will. Be the provisioning. Leverage of banks would assume added significance and would be a new benchmark in ascertaining the net worth of banks. Banks with higher leverage would be prescribed higher capital norms than those with a lower leverage.

When the frontier of traditional banking expands, banks will have to manage not only the credit risk, market risk and operational risk but also effectively manage their liquidity risk and reputation risk. Indian banks will have to move to more advanced approaches of Basel TI norms. RBI has drawn up a roadmap to migrate to more advanced approaches from April 2010 to March 2014.\textsuperscript{31}

**A new workforce**

The need for productivity and efficiency will create new labor and workforce practices. And there will also be intense competition to attract and retain talent. Indian banking will face a unique problem, in that the banking sector would need new and fresh blood to be infused. The next 3-5 years would see a complete revamping of the top and middle management levels.\textsuperscript{32}

The global financial crisis has shaken the foundation of financial institutions to their core. Banks must decide on their strategy; nothing less than a world-class approach to the management of capital, risk, regulation and governance will suffice. Banks in India will have to offer a wide range of financial services including commercial banking, insurance, broking, personal finance, housing, asset management and investment banking to go ahead in the race. The extensive geographic reach and composition of
bank’s business and the progress of technology are likely to support these entities in strengthening their market position. Lastly, effective supervision and regulation is required to help nurture financial institutions, help preserve financial stability and keep the banking sector safe and healthy to aid growth and macroeconomic stability and support the needs of the real economy Going forward, Indian banking if it has to become truly international should adopt global best practices and expand beyond the traditional frontiers internally and externally.

Statement by Dr. Raghuram Rajan on taking office on September 4, 2013

Good Evening. I took charge this afternoon as the 23 Governor of the Reserve Bank of India. These are not easy times, and the economy faces challenges. At the same time, India is a fundamentally sound economy with a bright future. Our task today is to build a bridge to the future, over the stormy waves produced by global financial markets. I have every confidence we will succeed in doing that. Today I want to articulate some first steps, concrete actions we will take, as well as some intentions to take actions based on plans we will formulate.

Before I turn to specifics, let me repeat what I said on the day I was appointed. The Reserve Bank is a great institution with a tradition of integrity, independence, and professionalism. I congratulate Dr. Subbarao on his leadership in guiding the Bank through very difficult times, and I look forward to working with the many dedicated employees of the RBI to further some of the important initiatives he started. I have been touched by the warmth with which the RBI staff welcomed me.

To the existing traditions of the RBI, which will be the bedrock of our work, we will emphasize two other traditions that become important in these times: transparency and predictability. At a time when financial market are volatile, and there is some domestic political uncertainty because of impending elections, the Reserve Bank of India should be a beacon of
stability as to its objectives. That is not for say we will never surprise markets with actions. A central bank should never say “Never”! But the public should have a clear framework as to where we are going, and understand how our policy actions fit into that framework. Key to all this is communication, and I want to underscore communication with this statement on my first day in office.

**Monetary Policy**

We will be making the first monetary policy statement of my term on September 20. I have postponed the originally set date a bit so that between now and then, I have enough time to consider all major developments in the required detail. I will leave a detailed explanation of our policy stance till then, but let me emphasize that the RBI takes its mandate from the RBI Act of 1934, which says the Reserve Bank for India was constituted “to regulate the issue of Bank notes and the 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 primary role of the central bank, as the Act suggests, is monetary stability, that is, to sustain confidence in the value of the country’s money. Ultimately, this means low and stable expectations of inflation, whether that inflation stems from domestic sources or from changes in the value of the currency, from supply constraints or demand pressures. I have asked Deputy Governor Urjit Patel, together with a panel he will constitute of outside experts and RBI staff, to come up with suggestions in three months on what needs to be done to revise and strengthen our monetary policy framework. A number of past committees, including the FSLRC, have opined on this, and their views will also be considered carefully.

**Inclusive Development**

I talked about the primary role of the RBI as preserving the purchasing power of the rupee, but we have two other important mandates; inclusive growth and development, as well as financial stability.
As the central bank of a developing country, we have additional tools to generate growth — we can accelerate financial development and inclusion. Rural areas, especially our villages, as well as small and medium industries across the country, have been important engines of growth even as large company growth has slowed. But access to finance is still hard for the poor, and for rural and small and medium industries. We need faster, broad based, inclusive growth leading to a rapid fall in poverty.

The Indian public would benefit from more competition between banks, and banks would benefit from more freedom in decision making. The RBI will shortly issue the necessary circular to completely free bank branching for domestic scheduled commercial banks in every part of the country. No longer will a well-run scheduled domestic commercial bank have to approach the RBI for permission to open a branch. We will, of course, require banks to fulfill certain inclusion criteria in underserved areas in proportion to their expansion in urban areas, and we will restrain improperly managed banks from expanding until they convince supervisors of their stability. But branching will be free for all scheduled domestic commercial banks except the poorly managed.

There has been a fair amount of public attention devoted to new bank licenses. The RBI will give out new bank licenses as soon as consistent with the highest standards of transparency and diligence. We are in the process of constituting an external committee. Dr. Bimal Jalan, an illustrious former governor, has agreed to chair it, and the committee will be composed of individuals with impeccable reputation. This committee will screen license applicants after an initial compilation of applications by the RBI staff. The external committee will make recommendations to the RBI governor and deputy governors, and we will propose the final slate to the Committee & the RBI Central Board. I hope to announce the licenses within, or soon after, the term of DG Anand Sinha, who has been shepherding the process. His term expires in January 2014.
We will not stop with these licenses. The RBI has put an excellent document on its website exploring the possibility of differentiated licenses for small banks and wholesale banks, the possibility of continuous or “on-tap” licensing, and the possibility of converting large urban co-operative banks into commercial banks. We will pursue these creative ideas of the RBI staff and come up with a detailed road map of the necessary reforms and regulations for freeing entry and making the licensing process more frequent after we get comments from stakeholders.

India has a number of foreign owned banks, many of whom have been with us a long time and helped fuel our growth. They have been in the forefront of innovation, both in terms of improving productivity, as well as in terms of creating new products. We would like them to participate more in our growth, but in exchange we would like more regulatory and supervisory control over local operations so that we are not blindsided by international developments. The RBI will encourage qualifying foreign banks to move to a wholly owned subsidiary structure, where they will enjoy near national treatment. We are in the process of sorting out a few remaining issues so this move can be made.

Finally, our banks have a number of obligations that pre-empt lending, and in fact, allow what Dr Rakesh Mohan, an illustrious former deputy-governor, called “lazy banking”. One of the mandates for the RBI in the Act is to ensure the flow of credit to the productive sectors of the economy. In this context, we need to reduce the requirement for banks to invest in government securities in a calibrated way, to what is strictly needed from a prudential perspective.

This cannot be done overnight, of course. As government finances improve, the scope for such reduction will increase. Furthermore, as the penetration of other financial institutions such as pension funds and insurance companies’ increases, we can reduce the need for regular commercial banks to invest in government securities.
We also subject our banks to a variety of priority sector lending requirements. I believe there is a role for such a mandate in a developing country — it is useful to nudge banks into areas they would otherwise not venture into. But that mandate should adjust to the needs of the economy, and should be executed in the most efficient way possible. Let us remember that the goal is greater financial access in all parts of the country, rather than meeting bureaucratic norms. I am asking Dr Nachiket Mor to head a committee that will assess every aspect of our approach to financial inclusion to suggest the way forward. In these ways, we will further the development mission of the RBI.

Financial Markets

Some see financial markets as competition to banks. They are that, but they are also complementary. Too many risks in the Indian economy gravitate towards commercial banks even when they should be absorbed by arm’s length financial markets. But for our financial markets to play their necessary roles of providing risk absorbing long term finance, and of generating information about investment opportunities, they have to have depth. We cannot create depth by banning position taking, or mandating trading based only on well-defined “legitimate” needs. Money is fungible so such bans get subverted, but at some level, all investment is an act of faith and of risk taking. Better those investors take positions domestically and provide depth and profits to our economy than they take our markets to foreign shores.

Together with the government and regulators such as SEBI, we will steadily but surely liberalize our markets, as well as restrictions on investment and position taking. Given the current market turmoil, our actions will have to be at a measured pace, but as a symbolic down payment, we will do the following:

(1) Presently, exporters are permitted to re-book cancelled forward exchange contracts to the extent of 25 per cent of the value of cancelled
contracts. This facility is not available for importers. To enable exporters/importers greater flexibility in their risk management, we will:

(i) Enhance the limit available to exporters to 50 per cent; and

(H) Allow a similar facility to importers to the extent of 25 per cent.

(2) Further to develop the money and G-sec markets, we will introduce cash settled 10 year interest rate future contracts;

(3) We will also examine the introduction of interest rate futures on overnight interest rates.

**Rupee internationalization and Capital Inflows**

This might be a strange time to talk about rupee internationalization, but we have to think beyond the next few months. As our trade expands, we will push for more settlement in rupees. This will also mean that we will have to open up our financial markets more for those who receive rupees to invest it back in. We intend to continue the path of steady liberalization.

The RBI wants to help our banks bring in safe money to fund our current account deficit. The Reserve Bank of India has been receiving requests from banks to consider a special concessional window for swapping FCNR deposits that will be mobilized following the recent relaxations permitted by the Reserve Bank of India. We will offer such a window to the banks to swap the fresh FCNR (B) dollar funds, mobilized for a minimum tenor of three years and over, at a fixed rate of 3.5 per cent per annum for the tenor of the deposit.

Further, based again on requests received from banks, we have decided that the current overseas borrowing limit of 50 per cent of the unimpaired Tier I capital will be raised to 100 per cent and that the borrowings mobilized under this provision can be swapped with Reserve Bank of India at the option of the bank at a concessional rate of 100 basis points below the ongoing swap rate prevailing in the market.
The above schemes will be open up to November 30, 2013, which coincides with when the relaxations on NRI deposits expire. The Reserve Bank reserves the right to close the scheme earlier with due notice.

**Financial Infrastructure**

Finance thrives when financial infrastructure is strong. The RBI working hard to improve the financial infrastructure of the country — it tremendous advances, for example, in strengthening the payment and systems in the country. Similarly, it has been working on improving sharing through agencies such as credit bureaus and rating agencies. I carry on such work, which will be extremely important to enhance the speed of flows as well as the quality and quantity of lending in the country. Has been made settlement information propose to safety and

On the retail side, I particularly want to emphasize the use of the unique ID, Aadhaar, in building individual credit histories. This will be the foundation of a revolution in retail credit.

For small and medium firms, we intend to facilitate Electronic Bill Exchanges, whereby MSME bills against large companies can be electronically and auctioned so that MSMEs are paid promptly. This was in the report of my Committee on Financial Sector reforms in 2008, and sees it carried out.

Finance is not just about lending, it is about recovering loans also. We have to improve the efficiency of the recovery system, especially at a time of economic uncertainty like the present. Recovery should be focused on efficiency and fairness — preserving the value of underlying valuable assets and jobs where possible, even while redeploying unviable assets to new uses and compensating employees fairly. All this should be done while ensuring that contractual priorities are met. The system has to be tolerant of genuine difficulty while coming down hard on mismanagement or fraud.
Promoters do not have a divine right to stay in charge regardless of how badly they mismanage an enterprise, nor do they have the right to use the banking system to recapitalize their failed ventures.

Most immediately, we need to accelerate the working of Debt Recovery Tribunals and Asset Reconstruction Companies. Deputy Governor Anand Sinha and I will be examining the necessary steps.

I have asked Deputy Governor Dr. Chakrabarty to take a close look at rising NPAs and the restructuring/recovery process, and we too will be taking next steps shortly. RBI proposes to collect credit data and examine large common exposures across banks. This will enable the creation of a central repository on large credits, which we will share with the banks. This will enable banks themselves to be aware of building leverage and common exposures.

While the resumption of stalled projects and stronger growth will alleviate some of the banking system difficulties, we will encourage banks to clean up their balance sheets, and commit to a capital raising programme where necessary. The bad loan problem is not alarming yet, but it will only fester and grow if left unaddressed.

We will also follow the ESLRC suggestion of setting up an enhanced resolution structure for financial firms. The working group on resolution regimes for financial institutions is looking at this and we will examine its recommendations and take action soon after.

**Households**

Everyone has a right to a safe investment vehicle, to the ability to transfer remittances to loved ones, to insurance, to obtain direct benefits from the government without costly intervening intermediaries, and to rise funding for viable investment opportunities. In addition, access to credit to smooth consumption needs or to tide over emergencies is desirable, especially for households in the lower income deciles, when it does not
impose unserviceable debt loads. The Reserve Bank will continue to play its part in making all this possible.

**In particular, I want to announce a number of specific actions:**

First, households have expressed a desire to be protected against CPI inflation. Together with the government, we will issue Inflation Indexed Savings Certificates linked to the CPI New Index to retail investors by end-November 2013.

Second, we will implement a national agro-based Indian Bill Payment System such that households will be able to use bank accounts to pay school fees utilities, medical bills, and make person to person transfers electronically. We want to make payments anywhere anytime a reality.

Third, only banks are currently allowed to deploy Point-of-Sale terminals, and these are largely set up by a few banks in urban areas. As announced in the Annual Monetary Policy statement, we will facilitate the setting up of white” P05 devices and mini ATMs by non-bank entities to cover the country so as to improve access to financial services in rural and remote areas.

Fourth, currently holders of pre-paid instruments issued by non-bank entities are not allowed to withdraw cash from the outstanding balances in their pre-paid cards or electronic wallets. Given the vast potential of such instruments in meeting payments and remittance needs in remote areas, we intend to conduct a pilot enabling cash payments using such instruments and Aadhaar based identification.

Finally, there is substantial potential for mobile based payments. We will set up a Technical Committee to examine the feasibility of using encrypted SMS-based funds transfer using an application that can run on any type of handset. We will also work to get banks and mobile companies to cooperate in roiling out mobile payments. Mobile payments can be a game changer both in the financial sector as well as to mobile companies.
This is part of my short term time table for the Reserve Bank. It involves considerable change, and change is risky. But as India develops, not changing is even riskier. We have to keep what is good about our system, of which there is a tremendous amount, even while acting differently where warranted. The RBI has always changed when needed, not following the latest fad, but doing what is necessary. I intend to work with my excellent colleagues at the Reserve Bank, the senior management of which is represented around this table, to achieve the change we need.

**The Genesis**

Long before the present state of Maharashtra came into existence on May 1960, the area which constitutes the state now was known by the name Maharashtra. As a progressive region, it was not lagging behind in the field of Banking. The Bank of Bombay established in 1840 was the 1” Commercial Bank in Maharashtra and its activities were confined to the City of Bombay (Mumbai). Some of the princely states, particularly around Satara District set up a few commercial banks for their respective states to facilitate growth of business and industry. Even if in the rural population constituted a substantial proportion of the total population, most of the banks including Urban Co-operative Banks catered to the needs of the population in cities, port towns and urban areas as they had higher income arising from trade & business as also from employment in commercial establishments. The rural population depended to a large extent on the local money lenders and co-operative banks! Rural credit societies.

With the outbreak of the 1st world war and the following great depression 54 banks failed in erstwhile Bombay province between 1914 and 1935. During this period most of the banks played a limited role in the stabilization and betterment of trade and industry in Maharashtra. They were not in a position to measure up to the challenges of improving the region’s condition.
Even though a need was felt in business, trade and industrial circle in the region, for a new banking institution to provide confidence and support to business, trade and enterprise, it took some time for the same to be articulated. With the dual objective of offering banking services to the rural Maharashtrians and extending a helping hand to the battling commercial establishments in the province, a group of visionaries mooted the idea of establishment of a bank. The persistent efforts of Shri V P Varde, considered a doyen of CM-operative Movement, Shri A R Bhat, Founder Secretary of Marattha Chamber of Commerce, ultimately succeeded in bringing together likeminded persons like Prof.V C Kate, (Working President of Marattha Chamber of Commerce) Shri D K Sathe (a leading merchant) Shri N C Pawat (an engineer and contractor) for the formation of Bank of Maharashtra. They were convinced that the savings of the people of the region could be utilized for helping local undertakings to promote business, trade and manufacturing.

**Formation of the Bank**

The Bank of Maharashtra Ltd. was formally registered under the Indian Companies Act on the auspicious day of 16th September 1935 at Pune with an authorized capital of ?10 lakh with the objective to serve the common man who were till then neglected by the banking system. The actual business of the hank commenced on 6.2.1936. The first Board of Directors was led by Prof V C Kale, Chairman and Shri D K Sarhe. Vice Chairman. The ‘Kesari’ — News Paper founded by Lokmanya Bal Gangadhar Tilak hailed the formation of the bank in its edition of 7.2.1936. The editorial in its edition of 11.2.1936 highlighted the importance of Bank of Maharashtra.34

The first chairman while emphasizing the intention of the bank to help large number of businessmen, industrialists and traders, also declared that the bank would not lend more than Rs 5000 to any single person or concern as a matter of prudence and risk mitigation and that the bank would
consciously keep away from speculative investment. The bank has adhered to these sound principles of prudence and risk management which had carried it through financial market turmoils for over seven decades and established the basis for growth and success.

**Vision**

“To be a vibrant forward looking techno-savvy, customer centric bank serving diverse section of the society, enhancing shareholders and employees value while moving towards global presence”

**Pre- Nationalization Phase.**

Within a short period of establishment the bank had developed its roots in the entire Maharashtra and continued to have the support and patronage of the common man. Right from its inception the focus of the bank has been to assist small business enterprises traders self employed and others comely known as the priority sector. Deposits of the bank crossed 100 lakh mark in 1995. the bank was listed on BSE in 1958 on July 1969 it was nationalized along with 13 other major banks at that time the bank had 153 branches spread across 8 states.

**The grown up Bank of Maharashtra:**

From a small beginning in 1935 in the sleepy city of pune the Bank spread its wings across the country. It had 1728 branches across 29 states and 2 union territories at end of FY13. All branches of the Bank are fully
Computerized and under core banking solution (CBS) facilitating Anywhere, Anytime banking.

The Bank has 74 specialized branches to serve diverse banking needs of its clients. These constitute Retail Asset Branches at 15 centers, Retail Asset Processing Cells at 18 centers, 15 SME finance branches, 5 Asset Recovery branches, 7 SHG Branches, 5 exclusive branches for incorporates, 3 Agri High Tech branches, 2 Industrial Finance branches, 2 Overseas Branches, I exclusive branch each for senior citizens and pensioners.

For round the clock banking service, the Bank has installed 692 ATMs. The customers can also pay their tax through these ATMs. For the rural populace the Bank has opened 1165 Ultra Small Branches (USBs) and 102 Mahabank Gram Seva Kendras (MGSKs).

**Business Growth**

The total Business of the Bank crossed 1.70 lakh crore in FY13. As against the total business of 133 crore on 18 July 1969 at the time of nationalization, the Bank has business level of 1, 70,734 crore as on 31st March 2013.

This comprised of Rs 94,337 crore deposits and Rs 76,397 crore - advances. The Bank maintains an envious CASA share of 40 per cent in total deposits.

**Social Banking**

The Bank has the legacy of playing its role in the growth and development of the priority sectors. Lending to Priority sector as of March 2013 was at 24,7i9 crore constituting 43.20 per cent of Adjusted Net Bank Credit (ANBC) as compared to the minimum stipulated 40 per cent.

Total advances to agriculture, as of March 2013, were Rs 7973 crore. The Bank has issued 3, 83,180 Kisan Credit Cards to the farmers with a credit limit of 3,019 crore.

The Bank had a lending to Micro and Small Enterprises amounting to 11,289 cr as of March 2013. The Bank under its Maha Entrepreneur scheme
is providing support to SMEs which are covered under Credit Guarantee Fund Scheme for MSME of Government of India. The Bank sanctioned loans of 764 crore to 9534 borrowers.

“Swabhiman – Financial Inclusion Plan”

Bank has been implementing IT enabled financial inclusion for providing branchless banking in unbanked villages. As on March 2013 the Bank has covered 1215 villages (Phase-i) under Swabhiman through 1133 Customer Service Providers (CSPs) and 569 villages having population below 2000 (Phase-II) enrolled 1,61,779 customers for opening of basic savings bank accounts. At the end of March 2013 the Bank had 19,54,047 basic savings bank accounts with deposit advances of 108 crore.

Corporate Social Responsibility

Bank of Maharashtra has been in the forefront of giving back to the society in various forms.

In 2012-13 the Bank contributed 251 lakh towards Chief Minister’s Relief Fund for drought relief to help the Government initiatives for agriculture and water projects. For encouraging students in their studies the Bank has instituted Mahabank Merit Scholarship from 2012. During the first year (2012-13), 509 meritorious students from across the country were awarded the scholarship.
Bank contributed Rs 5,000 each in 5 slGoverment aided primary schools for improving the basic facilities such as water purifier for drinking water, electric fans and construction of toilets for improving hygiene.

For benefit of farmers the Bank has established two Rural Development Centers at Hadapsar and Bhigwan. The centers undertake various developmental activities viz. Lab to Land Project, Development of Saline Soil, Soil Testing and offering advice on the use of fertilizers. Soil Testing Laboratory is set up at Rural Development Centre, Bhigwan.

The Bank has formed a Non-Government Organization Gramin Mahila Va Balak Vikas Mandal (GM YB YM) to enable from formation, nurturing, training and ensuring linkage of SHG5 to their credit linkage. The GMVBVM also helps SHGs in marketing products of SHGs through outlets established in Pune City under the name “SAVITRI”.

The Bank has opened six Financial Literacy & Credit Counseling centers (FLCC5). Bank has established seven Mahahank Self Employment Training Institutes (MSETI5) for providing training to rural youth and women enabling them to acquire skills for self-employment.

**Convener of SLBC**

The Bank is shouldering the responsibility of Convener of State Level Bankers’ Committee (SLBC) for Maharashtra. The SLBC could resolve many issues which helped the State to achieve Credit Plan allocations.

**Subsidiaries/ Joint ventures**

**Regional Rural Bank**

The Bank was sponsor to three regional rural banks in the of Maharashtra along with co-sponsors the Government of India and Government of Maharashtra. The three RRBs were amalgamated in two phases and the consolidated Maharashtra Gramin Bank (MGB) came into existence on 20 July 2009. Share of Government of India, Bank of Maharashtra and Government of Maharashtra in MGB is in the ratio 35:50:15. MGB has 351 branches and all branches are under CBS platform.
METCO

The Bank has floated subsidiary company the Maharashtra Executor & Trustee Company Ltd. METCO) which undertakes Drafting and Execution of wills Management of Private Trusts, Management of Public Charitable Trusts, Management of Investment and house properties as attorney, Guardianship of Minors’ properties and Tax consultancy.

Recent Awards & Accolades\(^{42}\)

- Best Bank In Customer Friendliness 2012 by The Sunday standard
- Best Public Sector Bank with Asset Quality 2012 by “Dun & Bradstreet
- The Greatest Corporate Leaders Award by India’s Greatest.com
- Change Agent & Leadership Award by IPE in World HRD Congress
- 50 Most caring companies of India by the World CSR Congress on World CSR Day
- PRCI Corporate Collateral Award by PRCI INDIA
- Third Best Bank under PSU by SFBC Kerala
- National Vigilance Excellence Award 2012 by “National Vigilance Study Circle
Source: Annual Report 2012
PROFILE OF THE ZONE
AS ON 31-03-2014
ZONE: AUR4NSABAD
I - GENERAL INFORMATION
(POSITION AS AT THE CLOSE OF THE YEAR)

1. Date of Establishment of the Zone : 1 April 1970
2. Full address : Bank of Maharashtra
   N-t, C-3, Town Centre, Cidco
   Aurangabad - 431003
3. Telephone No. : 2481231, 2483206, 2480834
   6645601-648
   Fax - 2483185
4. Present Zonal Head : Name- Shri. Rajkiran Bhoir
   Designation- Zonal Head
   Deputy General Manager
   Since when at the Zone-12 4.13
5. Earlier Posting : Place - Jabalpur
   Designation- Zonal Head
   by. General Manager
   Duration- 05/12/2011-10/04/2013
6. Earlier Zonal head : Name - Shri. AM. Riije
   Assistant General Manager
   Tenure-10/05/2010to 13.04.2013.
7. Present Posting : Head Office Pune.
8. Residential quarters : Executive Residential Quarters
   N-1, C-3, Town Centre, Cidco
   Aurangabad - 431003
9. Telephone : 2480834 / 6645638(Residence)

Source : Zonal office BOM Aurangabad

II Business :
1) The network of Branches in the zone
### Areawise

<table>
<thead>
<tr>
<th>Category</th>
<th>Mar-13</th>
<th>Mar-14</th>
<th>Category</th>
<th>Mar-13</th>
<th>Mar-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>13</td>
<td>30</td>
<td>VLB</td>
<td>7</td>
<td>7</td>
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<tr>
<td>Semi-Urban</td>
<td>12</td>
<td>13</td>
<td>Large</td>
<td>29</td>
<td>29</td>
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<tr>
<td>Urban</td>
<td>21</td>
<td>22</td>
<td>Medium</td>
<td>24</td>
<td>24</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Small</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>65</td>
<td>Total</td>
<td>63</td>
<td>65</td>
</tr>
</tbody>
</table>

### Source
Zonal office BOM Aurangabad

### Background

The zone consists of 65 branches (1 service Branch) out of which
- 30 Branches are in rural
- 13 in semi-urban
- 22 are in urban area.
### Business share of Bank of Maharashtra Vis-a-vis other banks

(Amount in Lakh of Rupees)

<table>
<thead>
<tr>
<th></th>
<th>March 2013</th>
<th>March 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District</strong></td>
<td>A'bad</td>
<td>Jalna</td>
</tr>
<tr>
<td><strong>Branches</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Commercial</td>
<td>379</td>
<td>166</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOM</td>
<td>39</td>
<td>21</td>
</tr>
<tr>
<td>Our share in %</td>
<td><strong>10.29</strong></td>
<td><strong>12.65</strong></td>
</tr>
<tr>
<td><strong>Deposities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Commercial</td>
<td>1049452</td>
<td>247533</td>
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<tr>
<td>Banks</td>
<td></td>
<td></td>
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<tr>
<td>BOM</td>
<td>140002</td>
<td>28717</td>
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<tr>
<td>Our share in %</td>
<td><strong>13.34</strong></td>
<td><strong>11.60</strong></td>
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<tr>
<td><strong>Advances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Commercial</td>
<td>1071613</td>
<td>271319</td>
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<tr>
<td>Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOM</td>
<td>71260</td>
<td>32728</td>
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<tr>
<td>Our share in %</td>
<td><strong>6.65</strong></td>
<td><strong>12.06</strong></td>
</tr>
<tr>
<td><strong>Total Business</strong></td>
<td></td>
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<tr>
<td>All Commercial</td>
<td>2121065</td>
<td>518852</td>
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<tr>
<td>Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOM</td>
<td>211262</td>
<td>61545</td>
</tr>
<tr>
<td>Our share in %</td>
<td><strong>9.96</strong></td>
<td><strong>11.85</strong></td>
</tr>
<tr>
<td><strong>CD Ratio</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Commercial</td>
<td>102.11</td>
<td>110.00</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOM</td>
<td><strong>50.90</strong></td>
<td><strong>114.00</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>60.62</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>133.41</strong></td>
</tr>
</tbody>
</table>

**Source**: Zonal office BOM Aurangabad

Thus from the above analysis, it is evident that our share percentage in deposit, Total Business is increased as compare to Mar-2013.
We are Lead Bankers for two district i.e. Aurangabad & Jalna and have crossed Government targets of crop loan with substantial margin.

Being Lead Banker of both the district, not only the branches of Bank of Maharashtra but also of the other banks are facing the pressure from political and other element to sanction loan under Government Sponsor Scheme. However we have streamlined the procedure and have taken appropriate stand at bLCC so as to reduce the pressure on the branches. We are also formed “Banker’s Club” with a view to exchange of views and to discuss the problems and to have solution for the same. Being Lead Banker of the two districts, we have implemented Financial Inclusion Plan in the both districts. We have also arranged horticulture training camp for progressive farmers in collaboration with Rural development Centre at Kannad and Jafirabad Taluka.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Mar 12</th>
<th>Mar 13</th>
<th>Target Mar 14</th>
<th>Mar 14</th>
<th>% Growht Y-O-Y Mar-13 to Mr-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Business</td>
<td>2232</td>
<td>2897</td>
<td>3750</td>
<td>3617</td>
<td>24.85</td>
</tr>
<tr>
<td>Total Deposit</td>
<td>1424</td>
<td>1745</td>
<td>2080</td>
<td>2083</td>
<td>19.37</td>
</tr>
<tr>
<td>Current Deposit</td>
<td>134</td>
<td>185</td>
<td>180</td>
<td>202</td>
<td>9.19</td>
</tr>
<tr>
<td>Saving Deposit</td>
<td>684</td>
<td>794</td>
<td>900</td>
<td>976</td>
<td>22.92</td>
</tr>
<tr>
<td>CASA Deposit</td>
<td>818</td>
<td>979</td>
<td>1080</td>
<td>1178</td>
<td>20.33</td>
</tr>
<tr>
<td>CASA %</td>
<td>57.45%</td>
<td>56.11%</td>
<td>xx</td>
<td>56.56</td>
<td>xx</td>
</tr>
<tr>
<td>Gross Advances</td>
<td>808</td>
<td>1152</td>
<td>1490</td>
<td>1534</td>
<td>33.16</td>
</tr>
<tr>
<td>Total Priority</td>
<td>667</td>
<td>851</td>
<td>1185</td>
<td>1259</td>
<td>47.87</td>
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<tr>
<td>Agriculture</td>
<td>64</td>
<td>506</td>
<td>780</td>
<td>764</td>
<td>51.21</td>
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<tr>
<td>SME</td>
<td>201</td>
<td>218</td>
<td>260</td>
<td>341</td>
<td>51.77</td>
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<tr>
<td>Non Interest Income</td>
<td>16.51</td>
<td>13.64</td>
<td>18.00</td>
<td>17.03</td>
<td>24.85</td>
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<tr>
<td>NPA (Pre-audit)</td>
<td>90.74</td>
<td>109.82</td>
<td>150.82</td>
<td>141.24</td>
<td>xx</td>
</tr>
<tr>
<td>Cash Recovery</td>
<td>18.04</td>
<td>14.79</td>
<td>24.60</td>
<td>34.12</td>
<td>130.70</td>
</tr>
</tbody>
</table>

Source: Zonal office BOM Aurangabad

The Aurangabad Zone has added a Total Business of Rs 720.00 Cr during financial year 2013-14.
The Industrial Relation in the Zone is very cordial and special campaigns for CASA have been jointly initiated by the management & unions and percentage CASA in Total deposit is 56.56%.

With constant persuasion with Government Officials, we are in position to grab some major accounts of Government of Maharashtra like Paithan-Apegaon Project, National Highway Authority of India (NHAI), Delhi Mumbai Industrial Corridor (DMIC), Marathwada Auto Cluster etc where sizeable amount in CASA is expected.

We have opened more than 2000 a/c of individual farmers of the DMIC Project affected area which will get land compensation of Rs 23lacs/Acre and funds are expected within 6 months.

We have open account of National highway Authority of India (NHAI) and with the close liaising with project Director we have been assured that there is likely inflow of Rs 480 cr. The project is sanction by Central Government and that project is of 3 years.

We have opened more than 1000 Royal Saving Accounts and 500 Maha Swasthya policies.

Aurangabad zone is basically a agricultural zone having 75% of its branches in rural and semi-urban area. During the Kharif season, we have taken special campaign to boost the agriculture advances and conducted camps at various villages.

We have taken special efforts and create special task force of 22 officers who have been assigned this work. Concept of nodal officers has been implemented successfully.

We have also send direct letters to the Kisan Seva Kendra showing our inclination to improve their credit limit due to which there is a rise of about Rs20 Cr in Indirect Agriculture.

Other Activities:

- Formation of Banker’s Club
- Two Parliamentary Committees were organized in successful manner.
• SME Town Hall meeting at Jalna conducted by RBI was organized in successful manner.
• Participation in various seminars, conferences on number of occasions as a part of image building exercise. The print media have given wide publicity for the same.

CLASSIFICATION OF ADVANCES AS ON 31.03.2014 (Pre Audit) (Rs. in Crores)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>No. of A/Cs</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sub Std</td>
<td>4012</td>
<td>67.11</td>
</tr>
<tr>
<td>2</td>
<td>Doubtful</td>
<td>7182</td>
<td>38.01</td>
</tr>
<tr>
<td>3</td>
<td>Loss</td>
<td>7694</td>
<td>36.10</td>
</tr>
<tr>
<td>4</td>
<td>Total NPA</td>
<td>18888</td>
<td>141.22</td>
</tr>
<tr>
<td>5</td>
<td>Std A/cs</td>
<td>90371</td>
<td>1392.78</td>
</tr>
<tr>
<td>6</td>
<td>Total Advances</td>
<td>111959</td>
<td>1534.00</td>
</tr>
</tbody>
</table>

**Source:** Zonal office BOM Aurangabad

As far as recovery is concerned, in MO scheme, our zone’s recovery performance is highest in bank and as against cash recovery target of Rs 24.60 Cr, we have achieved recovery of Rs 34.12 Cr. The overall percentage of recovery is 130.70% over the last year.

At the same time, during Mega Recovery Camp arranged on 22.12.2013, our recovery was highest in the bank. We have also carried 19 Lokadalats with recovery of Rs 0.73 Cr and 330 recovery camps with recovery of Rs 3.79 Cr so as to boost up the recovery performance.

In 2013, there are certain accounts sanctioned under LAP and during the investigation, it has been observed that certain serious irregularities have been observed. To overcome the situation, we have taken all the steps necessary to protect the interest of bank like -
• We have carried due diligence exercise in all the cases.
• In almost all the cases, documents were incomplete and correct mortgage formalities were not completed. The same exercise has been carried out on immediate basis to protect the interest of bank.
• We have done fresh valuation and vetting of these accounts and we have tried to bring 0/s balance of these 20 accounts below drawing power level. At the same time, we are constantly following up with the borrowers and as against sanction limit of Rs.93.86 Cr in these accounts present balance 0/s balance is Rs.71.78 Cr. Also, total recovery in NPA accounts as of 31.03.2013 out of these 20 accounts is Rs.27.00 Cr. The details are as under

| Interest Recovered in Accounts which are NPA/operations stopped @ 31.03.2014 | 11.23 Cr |
| Principle Reduction in Accounts which are NPA / operations stopped ‘9 31.03.2014 | 15.77 Cr |
| Total Recovery in these A/c prior to 31.03.2014 | 27.00 Cr |

Source: Zonal office BOM Aurangabad

• Out of these 20 accounts, 2 accounts have been already closed in March 2014 and we are hopeful that another 3 to 4 accounts will be closed in days to come. We have also taken special efforts to boost moral of the employees on this episode and hence Zone is in a position to achieve the targets of most of the major parameters.

Profitability

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Mar-12</th>
<th>Mar-13</th>
<th>Mar-14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
</tr>
<tr>
<td>Int. on advances</td>
<td>78.55</td>
<td>104.24</td>
<td>150.92</td>
</tr>
<tr>
<td>Int. others</td>
<td>0.02</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>Int. recd. from C.O.</td>
<td>47.30</td>
<td>74.00</td>
<td>67.46</td>
</tr>
<tr>
<td>Other Income</td>
<td>16.52</td>
<td>13.64</td>
<td>17.03</td>
</tr>
<tr>
<td>Total Income</td>
<td>142.39</td>
<td>191.91</td>
<td>235.46</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Int. Paid on deposits</td>
<td>71.47</td>
<td>95.01</td>
<td>109.66</td>
</tr>
<tr>
<td>Int. Others</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Int. Paid to C.O.</td>
<td>9.48</td>
<td>4.48</td>
<td>11.39</td>
</tr>
<tr>
<td>Staff Expenses (Inc. RMO)</td>
<td>1.79</td>
<td>1.78</td>
<td>1.74</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>8.70</td>
<td>10.85</td>
<td>12.36</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>91.45</td>
<td>112.12</td>
<td>131.96</td>
</tr>
<tr>
<td>Profit of the Zone</td>
<td>50.94</td>
<td>78.37</td>
<td>103.36</td>
</tr>
</tbody>
</table>

**Source:** Zonal office BOM Aurangabad

**PROFITABILITY**

Our Zone has earned a profit of 103.36 crores on Mar 2014. There is a rise of 31.43% over Mar 2013. The Zone has increased non interest income by 14.85% previous year.

The cost of deposit is as low as 6.02% 31.03.2014 and return on advances has improved to 10.21%.

In response to Head Office directives, more stress has been given to improve non interest income and our zone has been declared as BIMA ZONE.

The loss incurring branches in the Zone is 5 on March 2014

**ATM Installation Position As of 31.03.2014**

1. Total Branches 61 (excluding service Branch R A B, A R B, SHG Aurangabad)
2. ATM Installed 62

Only 2 branches are yet to be installed ATM:
Soyegaon
Ner

We are also in process to appoint own Business Correspondents so as to reduce footfall of customers and to reduce cost of staff expenses.

SWOT-ANALYSIS OF THE ZONE

Strength:

• The zone is basically having agricultural economy and 83% of area is rain fed. The zone is having more than 757° branches in Rural and Semi-urban area. The Zone is cohesive unit consisting of only two districts, viz Aurangabad and Jalna, both the districts are lead districts.

• The Delhi Mumbai Industrial Corridor Project is launched where the area near Aurangabad city will be covered and for which land acquisition is in progress.

• Aurangabad town is developing very fast. It has seen phenomenal industrial growth in the past decade and is expected to expand with sustained pace. The upcoming 5- star Industrial Estate at Shendra is sure to provide good potential to increase industrial finance.

• Bank posses good and clean image among the general public, Government officials and institutions.

• In a way the wide network in rural area is our strength. Even after fierce competition our share in these areas is not affected.

• No branch in our Zone is below average. This indicates the health of our Zone.

Weaknesses

• Barring a few selected pockets the main activity of the public in this area is restricted to traditional agriculture. Except for sugarcane and cotton no other cash crops are grown. Farmers are by and large illiterate, poor and lack initiative to view agriculture as industry. Most of the agricultural transactions are dealt in cash.
Irrigation facilities are comparatively lower. Aurangabad - 14% and Jalna 11% of total cultivated land.

Branch managers are under constant pressures due to various political factions for loan sanctioning especially in Government sponsored schemes. Hunger strikes and bharnas are daily affairs, which demoralize them. Being as a Lead banker, there is also pressure for 100% achievement of targets, which in turn increases NPA level. We have streamlined the process this year so that not only our bank but other banks are benefited in process.

Even though we may find many industrial units in Aurangabad their financial requirements are generally met at Mumbal where their head offices are located.

Scope for high yielding advances is restricted to urban agglomerations only.

Sickness in the industries in this area is observed to be very high.

Opportunities

- Many upcoming middle and higher middle class colonies in Aurangabad city offer very good business opportunities to extend retail credit like housing loan and consumer loans with assured recovery.
- New industries coming up in Shendra I.E. offer good scope to increase advances and D.M.I.C., which will change the economics of Aurangabad.
- Acquiring salary accounts of institutions will help us in increasing our low cost deposits and extending our retail credit to such salaried persons.

Threats

- Substantial competition exists from other banks namely 5BL, SBH MGB COOP Banks and private banks.
• Since number of branches is more we are forced to take up substantial share in directed lending compared to other banks, which results in high level of NPA and lower return on advances.
• Higher rate of deposits particularly for short term offered by various co-operative/private banks has adverse impact on our deposit growth.

FUTURE PLANS FOR 2014-15

• Systematic and planned approach to increase low cost deposits with special stress on expanding Saving Bank Customers base. More stress to given on opening Royal Saving Accounts.
• Acquiring salary accounts of good institutions to help grow both number of SB accounts as well deposit.
• In order to increase return on advances and credit off take branches are instructed to increase their retail credit with assured repayment.
• Number of agricultural camps to be arranged for indirect agriculture like Horticulture so as to improve Yield on Advances.
• To improve the profit margin, more stress to be given on cross selling insurance products.
• Frequent visits and arranging recovery camps and direct contact with borrowers of the branches to control the existing NPAs and minimizing the slippages and recovery in Wright off accounts.
• We are sponsoring various cultural programmes thus creating our presence among public in general.
• Branches are advised to keep continuous interaction with valued clients and well wishers by arranging small functions in the branch like anniversary and customer meet.
• During visit to branch all the staff members are being encouraged to whole-heartedly participate in our mission of customer satisfaction/retention.
• For good industrial relations timely machinery meetings will be conducted and we will invite their suggestions and co-operations for all round business development.
• Enlarging liaison with various Govt Authorities for fetching Govt Business, reputed builders, schools, industrial units etc.
• To improve our ATM’s network and B.C. model which will help to reduce the footfall of customers and reduce staff expenses.

INSPECTION DEPARTMENT

BALANCING

All the branches have certified that all G/L heads tallied as of 31/12/2013.

CONCURRENT AUDIT

There are 8 branches under concurrent audit and reports are received up to Dec-13. As far as rectification of the irregularities pointed out in the concurrent audit is concerned branches have submitted rectification up to Dec-13

SURPRISE INSPECTION

Surprise inspection of Town Centre Br. Aurangabad, JNEC Br. Aurangabad, T.V.Centre Aurangabad, Aurangabad City Branch 6c Sawarkar Chowk branch conducted after 01.04.2012 and the Inspecting Official submitted the report, Branches submitted 100% rectification report and their reports are closed.

SUPPLEMENTARY CHECKING: 44

Out of total 65 branches 64 branches are checking daily supplementary with vouchers and Zonal Office is monitoring compliance on daily basis. Service Branch is exempted from checking of supplementary through EVVS.

STAFF ACCOUNTABILITY EXERCISE:

Staff accountability exercise of all the accounts of Degradation and Early Mortality up to Sep13 and orders far completing the exercise for Dec-
13 quarter issued to the officers in the field. 13 a/cs of June-13 to 04 a/cs of Sep-13 are yet to be examined.

**INCOME AND EXPENDITURE AUDIT:**

Total 10 branches in the Zone selected for audit and as per I-IC instructions audit is to be completed along with rectification on or before 25.12.2013.

Till today audit of all branches is completed. Total income leakage identified is Rs.21,68,360/- and out of which Rs.21,37,004/- is recovered and un-recovered income leakage of Rs.31,356/- is due to wrong identification by auditor.

**SPECIAL REPORTS**

During the year Station Road branch Aurangabad is identified for special Inspection. Gist of irregularities pointed out in the report informed to the branch for compliance.

Submission of Inspection Rectification Reports

There are 65 branches in the Zone and out of which 63 branches were inspected up to Dec-2012.

02 branches namely Garkheda & Khultabad recently opened not yet due for inspection.

From 01fl4.2013 to 31.12.2013, 36 branches have been inspected. Out of these inspection reports of the following 02 branches are overdue for closure.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Branch Name</th>
<th>Date of Inspn.</th>
<th>Expected closure date</th>
<th>% of Rectification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sillod</td>
<td>13.11.13</td>
<td>15.03.201</td>
<td>75%</td>
</tr>
<tr>
<td>2</td>
<td>University</td>
<td>23.11.2013</td>
<td>15.03.2014</td>
<td>83%</td>
</tr>
</tbody>
</table>

**Source:** Zonal Office BOM Aurangabad

The major problem for rectification is renewal of documents & noting of Equitable Mortgage Charge on property extract at City Survey Office.

**Improvement in Inspection Rating** 07 Branches

<table>
<thead>
<tr>
<th>RAB</th>
<th>Good</th>
<th>Very Good</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dhoregaon</td>
<td>Good</td>
<td>Very Good</td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
<td>-----------</td>
</tr>
<tr>
<td>Aurangabad City</td>
<td>Good</td>
<td>Very Good</td>
</tr>
<tr>
<td>Banoti</td>
<td>Good</td>
<td>Very Good</td>
</tr>
<tr>
<td>Retail Asset Br.</td>
<td>Good</td>
<td>Very Good</td>
</tr>
<tr>
<td>Turkabad</td>
<td>Good</td>
<td>Very Good</td>
</tr>
<tr>
<td>Upla Kalimath</td>
<td>Good</td>
<td>Very Good</td>
</tr>
</tbody>
</table>

Source: Zonal Office BOM Aurangabad

ZLRC Meetings

No of meetings expected to be held 06
No of meetings actually held 05
Minutes/ observations submitted 05

Major Branches
1 Kranti Chowk
2 Mill-Corner
3 Aurangabad City Br.

External Audit

No of branches under External audit 47
Of which VLB 07
Compliance received 47
Reports closed 47
Reports yet to be closed 00

Large Borrowal Accounts (Stock Audit d security verification)

Inspected after 01.04.2013 onwards 57
Compliance received 57
Pending for compliance 09

Computer Audit

All branches were audited & reports closed.

HR Issues and Challenges in Indian Banking Sector

After nearly two decades of banking reforms, which were implemented as a part of the financial sector reforms based on
recommendations made by the Narsimham Committee I and II, all commercial banks in India (except foreign banks) are at par in almost all areas of banking; for instance regulatory capital requirement, prudential, exposure norms, branch licensing norms, interest rate regulation and implementation of IT solutions. However, in the area of human resources management, public sector banks still have issues unlike the private and foreign banks. In a service industry like banking, the major challenge before public sector banks is to reform human resources policy with the objective of maintaining high level of motivation amongst employee as quality workforce is the prerequisite for a bank to be truly globally competitive bank.

Before dilating upon the critical aspect of HRM in banks, it ‘civic be pertinent to have a bird’s eye view on the present position of human resources development, which is common to all the banks, more particularly public sector banks.

**HRM scenario**

The motivation level in majority of bank employees is generally not what it ought to be. The frustration is mounting year after year, and has now pervaded to all rank and files. The reasons for dissatisfaction are many. For example, decline in promotion opportunities or stagnation, deteriorating work culture, decline in value system, job satisfaction, underemployment, relatively low remuneration, and lack of direction from the superiors etc.

Amongst few reasons mentioned, the important reason for lack of motivation is decline in growth opportunities. Majority of bank employees virtually have little to look forward to. Getting timely promotions cannot be a sole motivating factor, and there could be number of other factors which can keep employees’ motivation level high in an organization. In this connection, it is observed that in some cases even promotion is not sufficient to motivate employee and people do not work to their full capacity even if promoted. Flow ever, from a careful study of the the HRM
policies of banks and the manner these had been implemented in the past, it
appears that promotion has become the major factor motivating bank
employees. The low level of motivation in majority of bank employees is
not an outcome of a year or two. After nationalization of banks in 1969,
expansion was geographical, and to cope with it, banks had recruited large
number of staff in seventies and early eighties. Promotion opportunities in
banks, in the first 15-20 years of nationalization, were so fast that banking
services were preferred over other services, such as even engineering and
civil services.

The problem started when geographical expansion of branches
stopped, consolidation and disintermediation phases set in and Regional
Rural Bank and Service Area Schemes were introduced. All these changes
significantly brought down fresh recruitment in banks. From 1985 to 2005,
banks have not been allowed to recruit even 1 percent of their total strength.
However, in the past two/three years some banks have started recruiting
new talent to meet requirements arising from expansion and retirements.

**Underemployment, low involvement and emergence of LIE cadre**

As bank jobs were at a premium in the past i.e. 1970s and IYSOs,
banks were able to recruit large number of good quality staff at various
levels. Prior to nationalisation, only matriculate or intermediate level
educated persons were joining, but after nationalisation graduate/post-
graduates and even technically qualified persons joined banks in the clerical
and officer cadre. Later on, when opportunities ceased, a large number of
employees found themselves highly underemployed. Bank’s job, because of
its nature and the work environment, became more difficult, routine, with
little to look forward to. Consequently, many employees lost
interest/involvement in bank’s job. This dissatisfaction had given birth to
another evil in banks and that was emergence of the LIE Quest interested
employee) cadre. The result of it was, (i) employees’ started refusing
promotions, (which was otherwise not easily available), (ii) developed
socio-cultural or other interests outside the bank, (iii) formed ‘worldng couple’ and developed short contented spirit with little urge to develop. Over a period, the number in the LIE cadre has grown, which is now causing a grave concern to all banks in the public sector.

**High and low performers and disguised unemployment**

Before nationalization, recruitment in banks was highly selective, unorganized and on a local basis. Selections were made after a detailed scrutiny- like family background, integrity, market opinion, recommendation of- respectable person etc. After nationalization, number of changes took place in recruitment policy of banks. For instance, Banking Service Recruitment Boards were constituted, IBPS/NIBM selection tests were introduced, reservation policy for recruitment of backward and economically weak classes, recruitment policies for ex-servicemen/women/physically handicapped, cultural and sports persons and similar such policy changes were brought about, as per national priority and the Government’s directives. It was envisaged that low performers, after certain amount of training and experience would become efficient. In the beginning, this arrangement sufficed but in an increasingly complex financial milieu the skill sets and competencies requited were radically different. This mismatch between skill sets required and what was available slowly but inescapably started to lead to underperformance, loss of interest / involvement in some sections of employees.

**Cadre conflict**

Banks have been recruiting variety of people in different cadres. In addition to subordinate, clerical and officers cadres, there have been a number of other cadres in banks, which include promote and directly recruited officers, technical and non-technical officers/employees or specialists and non-specialists staff Obviously, career progression has not been uniform to all cadres. It has resulted in development of some amount of cadre conflict in banks for example, direct v/s promotee officers, supervising v/s award staff,
technical v/s nontechnical staff etc. Emergence of multiplicity of unions is partly outcome of cadre conflict. The restrictive practices have also developed mainly due to the cadre conflict and are now coming in way of building up strong team of dedicated employees committed towards excellent customer service and satisfaction.

**Reward and punishment system**

Carrot and stick is considered as the major tool in modern management system all over In banks however, it is observed that although carrot has been used but impact of stick, due to various reasons, has not been seen. In the name of cordial industrial relations, banks have often been found relying more on peace buying solutions. Due to stringent labour laws that are prevailing in the country, hard decisions are difficult and therefore, generally avoided.’ It should not be construed that punishment system does not exist in banks. It is certainly there; but in the extreme cases like frauds, forgery, procedural lapses etc. It is not often that under or non performance is tackled head on.

**PSBs have developed Strong Training System**

One big achievement in the area of HRM has been the development of strong training system in banks. As already mentioned, due to stringent labour laws still prevailing in India, it has been difficult for banks to tackle problems relating to the HRM. Emphasis on training has been uniformly high across all PSBs and rightly so.

**Changing wave In HR**

Indian workforce has undergone several changes in the outlook towards job security. A few decades back, the job that everyone wanted to get into was a government job which provided high levels of security and people ended up starting and ending their career with the same organization. Then came the phase of ff-shooting and with it an influx of jobs in the growing Indian economy. Employees who have never faced hard times are suddenly waking up to the reality that there is no more job security in life,
They are more open to the idea of a hire, fire and rehire culture. All these events have certainly had an impact on the acceptability of services/solutions like career transition. Banks should now be more comfortable to engage Career Transition services when the macro environment is more responsible for the need of such services. PSBs have already started taking advantage of career transition services and are able to recruit specialist cadre persons on a contractual basis. In future, we expect the Government will give more liberty to banks in recruiting people on contractual basis as this will enable banks to meet their requirements for specialized needs.

**Attitudinal change necessary, says SBI Parivartan Exercise**

Realizing the importance of human resources which will be the decisive factor in future SBI has launched several transformational initiatives. Chairman Shri. O.P.Bhatt launched ‘PARIVARTAN’ unparalleled, in scope and scale, mass communication programme which attempted to bring about change in employee attitudes who have for decades worked in a non competitive, monopolistic, Public Sector environment, it was a wakeup call. It recognizes that while changing technology or business processes are comparatively easy, changing people’s attitude is more demanding task. However, the initiative, from the beginning was grounded in reality. It did not claim that it would change mindsets of employees in two days; it modestly affirmed that it was just a first step in a long journey of Transformation where the Bank would like to transform into a customer friendly, business focused, modern bank from a conservative, control oriented Bank; from a hierarchical, bureaucratic Bank, to a friendly, inclusive Bank; from a laid back approach to a fight back approach; from selling only banking products to extensively cross selling; from old outmoded processes to customer oriented new process; from using technology to a limited extent to leveraging technology to increase volumes and cut down costs. It told all employees the simple story of how the Bank
has been losing market share, at an alarming rate over the years, making change and transformation almost imperative for survival in a market which is only going to get more open and competitive year after year.

The Parivartan exercise was rolled out in 2007 aiming at attitudinal change to over 1,38,000 clerks and officer in 100 days. The results have been very encouraging. The market share of the Bank in deposits which was 14.8% in March 2007, increased to 15.4% in March 2008 and further to 17.7% in March 2009. In advances also market share of the bank increased to 16.9% in November 2009 from 15.4% in March 2007. Besides, independent evaluation by external agencies also showed decidedly improved levels of customer service and attitudinal changes in staff interfacing with customers.

Not only increase in business share, the State Bank is now in the forefront of all areas of banking which is reflected in series of awards and recognition received in the past 2-3 years which include the Best Bank 2009 award by Business India Group, Most Trusted Brand 2009 by Economic Times and only India Bank in Fortune 500 Global list.

Looking at encouraging results of Parivartan exercise of 2007 which was for SBI employees, the Bank in 2008 carried out Parivartan exercise to each of the six Associate Banks. It was a Clerk to MD programme rolled out to over 55,000 employees.

A long term HR Intervention - Citizen SBI

In 2009, the Bank rolled out as a long term HR intervention called Citizen SBI. The project envisages deep rooted multilevel cultural and attitudinal changes in the organization over the next two years. The concept of ‘Enlightened Citizenship’ was first introduced by Swami Ranganathananda in his speech on Social Responsibilities of Public Administrators. According to the Swami, there are two levels at which we human being operate- the ‘Functional Level’ and the ‘Being Level’. At a Function Level each one of us is performing a role - clerk, officer, DGM,
DMD etc. At a Being Level we all have an essential shared purpose and are all free human beings.

If you go on paying attention to the Functional Level, after a few years you will see the world in steps — a world in which somebody is sitting at the top and somebody at the bottom. You cease to be equal. What is the implication of this inequality? A person who is unequal with his boss is unequal with his subordinate. This is a simple truth. A person who attempts to please boss, will expect a subordinate to please him. You are judging a person depending on whether he/she is someone who matters to you at your Functional Level. The purpose of Citizen SBI is to free us of this disabling inequality and help us discover our essential commonality of purpose as a citizen of the Bank.

Change management

Based on the Bank’s experience of Parivartan and Citizen SBI exercise, it can be said without reservation and hesitation that change in HRM policies of banks is necessary for transforming a bank to a globally competitive bank. There is need to observe five under noted steps:

1. Change must start from within and change must start from the top
2. Create a sense of urgency among fellow employees:
   1. That is what the SBI did through Parivartan exercise conveying to employees the message that declining market share needs to be arrested.
3. Communicate a message: For example, the Bank unveiled its new Vision Mission Statement which contains the distilled essence of the view of over 1,40,000 staff who participated in a unique exercise conceptualized and conducted by HRMs to define the Bank’s Mission, Vision and Values.
4. Create short terms wins
5. Consolidate gains and move ahead

Summing up

Whatever the Bank has done so far is just a beginning and not the end. All our efforts will need holistic support from the Government.
Possibly the time has come to give more autonomy to banks in HR areas like recruitment, incentivising, outsourcing, exit policy and more importantly in deciding remuneration package based on performance and profitability of individual banks.

**Challenges Facing Banking Industry in India**

The banking industry has already begun the process of redefining its boundaries, refining its products and services, providing alternate delivery channels and improving the flexibility of such delivery to cater to all the financial intermediation requirements of the customers. The success of the banking industry will lie broadly on how it responds to the following challenges:

- Technology up gradation
- Customer centric
- Response to competition
- Transparency/Accountability
- Skilled workforce

**Technology up gradation:** Technology brings in fundamental changes not just in product differentiation and delivery but also influences productivity, efficiency and profitability. Technology enables banks to provide better services to the customers where the branch is not necessarily the delivery point of banking services.

**Customer Centric:**

Customers are no longer investors or buyers of financial solutions. As service that requires high level of customer interface, understanding customer requirements and evolving customer-centric business strategies is the prime focus area for banks.

**Response to competition:**

Competition is inevitable as more number of banks aim for their share of the market pie. Most banks eye the corporate sector and the metro and the urban markets for business. Technology is today the differentiating factor.
But as more and more banks come under the Core Banking solutions umbrella, with little to distinguish between the products and services offered by various banks, service and cost alone will be the determining factors in ensuring the profitability and success of the bank.

**Transparency/Accountability:**

With the introduction of financial reforms, the Indian Banking Industry has been pushed into the open to achieve international standards of prudential accounting norms for classification of assets, income recognition and loss provisioning. The scope for ensuring openness and transparency in bank management has also been ushered in. Corporate governance will determine the way the Board of Directors manage their banks. This will mean that the management will be accountable to the Board and the Board to the stakeholders. Banks will have to adopt the best global practices of accounting norms and reporting. More transparent disclosure norms will ensure that banks resort to self-regulation rather than base their working on regulatory requirements.

**Skilled workforce:**

HR practices and training is engaging the immediate attention of banks these days. HRM strategies include managing change, building up a team of committed human capital and improving team work. Knowledge levels are very important and sufficient training should be afforded to the staff. The existing staff will have to upgrade their skills to keep pace with the sweeping changes that are taking place on the technology front in Indian banks. Only this will help in improving the quality of service to the customers as well as just’ the investments made in technology and the salaries paid. In this back ground the present paper attempts to explore the HR challenges facing the banking scenario and strategies to deal with them.

The human resources of an organization constitutes its entire workforce. Human resource management (HRM) is responsible for selecting and inducting competent people, training them facilitating and motivating
them to perform at high levels of efficiency, and providing mechanisms to ensure that they maintain their affiliation with the organization. Human resource management is also an art of developing people and their potentialities for their personal growth and for the growth of the organization. It is a process of bringing people and organizations together to ensure that individual and collective goals are closely aligned. People have always been considered as critical in an organizational set-up. Unlike other resources, such as technology, finance, and materials, which can be purchased human resource is a critical and sensitive element, and it needs to be handled with care. Often, organizations are concerned not only about employee productivity but also about employee commitment and harnessing their potentialities for maximum growth.

Since people constitute the cornerstone of any organization, HRM assumes central importance in most organizations. Any decision or process in an organization must be implemented through its people. In a competitive situation, it is the ingenuity, zeal, enthusiasm, and commitment of its people that makes all the difference for an organization.

**HR Issues/Challenges in Banking:**

According to the Hudson report (2008) the critical HR challenges are hiring right staff, retaining talent, cutting staff, staff development, salary inflation, external threats, etc. The other challenges are Changing working conditions, re-skilling, compensation, etc. Coping with the massive technology adoption programme — change management from employees’ as well as customers’ perspectives. Some of the management concerns are:

- Marketing HR services
- Human assets
- Man-power planning
- Talent management
- New approach to performance management
• How HR can act as the ‘corporate glue’ or ‘organizational conscience’
• Making the most of human capital
• Customers- who are they, and what do they want?
• Towards a framework for continuous development and learning
• Challenges facing HR today — attracting, retaining and motivating talent
• Implementing recruitment and resource-based strategies
• Where HR fits in the modern central bank
• Managing people and linking with technology in banking operations needs to be prioritized.

**TABLE: SWOT ANALYSIS OF INDIAN BANKS (IN HR CONTEXT)**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High skilled personnel in middle and low levels in the banks.</td>
<td>• Poor technology infrastructure</td>
</tr>
<tr>
<td>• Aggression towards the development of the existing standards.</td>
<td>• Presence of more number of smaller banks that would likely to be impacted adversely.</td>
</tr>
<tr>
<td>• Strong regulatory impact by central bank to all bank for implementation</td>
<td>• poor compensation system</td>
</tr>
<tr>
<td>• Presence of intellectual capital to face the change in implementation with good quality.</td>
<td>• Poor talent management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Availability of fresh talent to strengthen the bank operations.</td>
<td>• Inability to meet additional capital requirements.</td>
</tr>
<tr>
<td>• Increasing risk manage expertise.</td>
<td>• Huge investment in technologies.</td>
</tr>
<tr>
<td>• Need significant connection among business, credit &amp; risk management and information technology</td>
<td>• Entrance of foreign banks to capture talent H.R.</td>
</tr>
<tr>
<td></td>
<td>• Increasing the cost of human capital</td>
</tr>
</tbody>
</table>

SWOT analysis indicates number of strengths and opportunities to grow in the competitive direction.

However, the weakness and threats are also serious and need attention immediately. While there is presence of intellectual capital, there is also a threat of increasing the cost of human capital.

Talent management has been neglected over the years. The compensation systems need to be given a fresh look. Technology upgradation and interaction needs to be brought to international standards. The presence of competitions from public and private sphere proves to be a serious threat to performance in banks.

Talent acquisition and retention of skilled workforce is posing as a biggest challenge.

Some of the suggestions in realigning human resource in the organization may be as follows:

**Positioning a HR policy**

The quality of human asset present is the prevailing problem. Very little initiatives have been taken in the last few years. In this crucial but significant area. As the demands on the banking system are increasing and its priorities are refocused to create sustainability and profitability, it is time to restructure and position the HR policies in place. This may be achieved by starting with A HR vision, HR goals and aligning these goals with the banks goals and vision. Involvement of the senior level hr personnel in formulation will benefit that process.

**HR planning**

Human Resource planning is a process by which the management of an organization determines its future human resources requirements and how the existing human resource can be effectively utilize to fulfill these requirements. It is a system of matching the supply of existing people with opening or opportunities the organization expects over a given period of time. Baths have to suitably realign their existing human resources from
surplus to deficit pockets and readjust staffing pattern in a computerized environment. Surplus staff needs to be relocated or reassigned in their job duties. Mobility of the staff is recommended and this may be attained by negotiating with employees’ organizational efficiency and productivity. About 70% staff in each bath constitutes clerical and subordinates staff institute of many charges that the industry has faced over the years, essentially the role of this category of staff has remained unchanged. Job redesigning and role restructuring is recommended at this level in the banking system.

**Talent Management:**

Human Resource undoubtedly plays the most important part in the functioning of an organization. The term ‘resource’ or ‘human resource’ signifies potentials, abilities, capacities, and skills, which can be developed through continuous interaction in an organizational setting. The interactions, interrelationships, and activities performed all contribute in some way or other to the development of human potential. Organizational productivity, growth of companies, and economic development are to a large extent contingent upon the effective utilization of human capacities. Hence, it is essential for an organizational to take steps for effective utilization of these resources.

Banks have an excellent pool of competent personnel in all the cadres. Such personnel need to be identified, nurtured and motivated through a systematic organizational plan to enable them to accept challenging roles early in the career.

**Training and Development:**

Dynamic and growth-oriented organizations recognize training as an important aspect of the managerial function in a rapidly changing economic and social environment. Training is a continuous and incessant learning process in human resource managerial and interpersonal skills, increase motivation, and improve the effectiveness of people employed in an
organization. It also helps to achieve congruence between corporate and personal goals. As the strength of any organization lies in the strength of its people, training is undoubtedly the most important part of organizational renewal as an ongoing process. The Reserve Bank of India has established a number of epic level training centers to cater to the needs of its employees. The focus of the training programmes is on IT adaptation and IT skills. The private sector banks have also been very receptive and have augmented their training programme and culture. There is a need to address the various issues and concerns in the security need in order to sustain in the techno driven competitive advantage.

**Performance Assessment:**

To assess the contribution of training systems and learning infrastructure to the bottom line of the bank, the new generation banks are depending upon competency assessment, performance evaluation and skills rating. The traditional banks may also reorient themselves in the above direction.

**Transforming the mindset:**

These changes are creating challenges, as employees are made to adapt to changing conditions. There is resistance to change from employees and the Seller market mindset is yet to be changed coupled with Fear of uncertainty and Control orientation. Acceptance of technology is slow but the utilization is not maximized.

**Facing Competition:**

Leading players in the industry have embarked on a series of strategic and tactical initiatives to sustain leadership. The major initiatives include; Investing in state of the art technology as the backbone to ensure reliable service delivery, Leveraging the branch network and sales structure to mobilize low cost current and savings deposits, implementing organization wide initiatives involving people, process and technology to reduce the
fixed costs and the cost per transaction are some of the steps in this direction.

**Increasing efficiency:**

Deregulation has made the banking sector more competitive with greater autonomy operational flexibility and decontrolled interest rate and liberalized norms for foreign exchange. Increased competitiveness has made it necessary to look for efficiencies in the business. Hence, banks are facing pricing pressure squeeze on spending and pressure to give thrust on retail assets.

**Retaining customer loyalty:**

Customers are reacting to favorably to the value added inference. Customers have also become more demanding and their loyalties are diffused. Employees need to operate with a more customer centric in their operations.

**Conclusion:**

Banks in near future will have to address compensation issues, flexible work schedules, outsourcing and retaining talent. To face the challenge, bank requires enhanced skills, new knowledge and behavioral adjustments of human resources.
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