CHAPTER- V

AN OUTLINE OF INDIAN BANKING SYSTEM
V. AN OUTLINE OF INDIAN BANKING SYSTEM

Evolution of Banking Industry in Modern India - A Synoptic View

The earliest bank established in India was the Government Bank of Bombay (1720) in Bombay. The journey of Indian Banking System from 1720 to current times can be broadly divided into the three distinct phases which are following:

• Phase-I, Foundation to Nationalisation (1969)
• Phase-II, Nationalisation of Indian Banks to 1991 (prior to Indian banking sector Reforms).

Phase-I

After the Government Bank of Bombay the Bank of Hindostan (1770) in Calcutta and the Carnatic Bank (1788), in Madras were set up. Interestingly the Bank of Hindostan was the first to introduce paper money in India. The East India Company established Bank of Bengal (1809), Bank of Bombay (1868) and Bank of Madras (1843; formed as a joint stock company, through

27 Hand book of State Bank of India Archives & Museum 13th May 2007,
the reorganisation and amalgamation of four banks viz., Madras Bank, Carnatic Bank, Bank of Madras and the Asiatic Bank). It is worth mentioning here Bank of Madras brought about major innovations in the then banking such as use of joint stock system, conferring of limited liability on shareholders, acceptance of deposits from the general public, etc. These banks known as Presidency Banks were functioning as autonomous bodies. The Bank of Bombay, the last bank to be set up under the British Raj pursuant to the Charter of the then British East India Company. These three banks were amalgamated in 1920 and thereby Imperial Bank of India was formed which started as private shareholders banks, mostly Europeans shareholders, gradually which acquired the three-fold role: of a commercial bank, of a banker’s bank and of a banker to the government. It is interesting to note here that merger of banks and consolidation in the banking system in India, is not as recent a phenomenon as is often thought to be, and dates back to at least 1843 – and the process, of course, still continues. 28

During the second half of nineteenth century a number of Indian Joint Stock Banks emerged. In 1865 Allahabad Bank was established which was the first bank formed exclusively by Indians, Punjab National Bank Ltd. came in to existence in 1895 with its headquarter at Lahore. Between the year 1906 and 1913, Bank of India (1906), Canara Bank (1906), Indian Bank (1907), Bank

of Baroda (1908), Central Bank of India (1911) and Bank of Mysore (1913) were established.

The banking crisis of 1913, however, had revealed several weaknesses in the Indian banking system, such as the low proportion of liquid assets of the banks and connected lending practices, resulting in large-scale bank failures. The recommendations of the Indian Central Banking Enquiry Committee (1929-31), which looked into the issue of bank failures, paved the way for a legislation for banking regulation in the country. Subsequently the Reserve Bank of India was set up on the basis of the recommendations of the Hilton Young Commission. The Reserve Bank of India Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank, which commenced operations on April 1, 1935.29

Though the RBI, as part of its monetary management mandate, had, from the very beginning, been vested with the powers, under the RBI Act, 1934, to regulate the volume and cost of bank credit in the economy through the instruments of general credit control, it was not until 1949 that a comprehensive enactment, applicable only to the banking sector, came into existence. Prior to 1949, the banking companies, in common with other companies, were governed by the Indian Companies Act, 1913, which itself was a comprehensive re-enactment of the earlier company law of 1850. A

special legislation, called the Banking Companies Act, 1949, applicable exclusively to the banking companies, was passed; this Act was renamed as the Banking Regulation Act from March 1966. The Act vested in the Reserve Bank the responsibility relating to licensing of banks, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation. Important changes in several provisions of the Act were made from time to time, designed to enlarge or amplify the responsibilities of the RBI or to impart flexibility to the relative provisions, commensurate with the imperatives of the banking sector developments.\(^{30}\)

**Phase II**

Government took major steps in Indian Banking Sector Reform after independence. 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.\(^{31}\) In 1955, the government nationalised Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India under the SBI Act of

\(^{30}\) ibid

1955 to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries (later named Associates).  

On 19th July, 1969, major process of nationalisation was carried out. Under the leadership of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks with deposits of over Rs 50 crores were nationalized.

The names of the banks which were nationalized in the year 1969 are following:

- Central Bank of India
- Bank of Maharashtra
- Dena Bank
- Punjab National Bank
- Syndicate Bank
- Canara Bank
- Indian Bank
- Indian Overseas Bank

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32 ibid
Second phase of nationalisation Indian Banking Sector Reform was carried out in 1980 with six more banks. The banks were Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab and Sind Bank and Vijaya Bank. This step brought major segment of the banking industry in India under Government ownership.

Following is the brief chronology of the steps taken by the Government of India to regulate banking institutions in the country since independence to 1980s:

• 1949 : Enactment of Banking Regulation Act.
• 1955 : Nationalisation of State Bank of India.
• 1959 : Nationalisation of SBI subsidiaries.
• 1961 : Deposit Insurance introduced in India as a depositor protection measure.
• 1969: Nationalisation of 14 major banks.
• 1971: Creation of Credit Guarantee Corporation.
• 1975: Creation of regional rural banks.
• 1980: Nationalisation of seven banks with deposits over 200 crore.

Although the Indian Commercial banks-especially the nationalized banks acquired a prominent place in ushering in the economic prosperity to the country, they were, also plagued by the problems of poor performance and low profitability. Some of the problems suffered by the Indian banking system in the pre-reform era were. Interest rates were artificially kept low and the country’s central bank, i.e. Reserve Bank of India, prescribed rates for both lending as well as for deposits. The main character of this system was the cross subsidization of interest rates on lending to different sectors. The result of such a cross subsidization was the seepage of credit from sectors having low interest rates to sectors having high interest rates. Consequently, banks could not control the end use of the credit effectively. While channeling the flow of credit to productive sectors was desirable, it also resulted in lending on a non-viable basis. Pre-emption of bank funds in the form of Statutory Liquidity Ration and Cash Reserve Ratio became a major tool of policy. Finally in 1991, prior to the liberalization they reached a very high level of 63.5 percent of total bank credit. Out of the remaining 16.5 percent, little was left to the discretion of banks as there were further preemptions in the form of Priority sector, export credit and other formal and
informal preemptions. Thus only a very small portion of total credit was actually determined by the banks. There was external payments crisis rupee devalued in two stages, cumulative devaluation about 18 percent in USD terms. To put it in a nutshell, many of the nationalized banks suffered from low profitability and under capitalization. The quality of customer service was not up to the international standards. The economic and qualitative performance of banks left much to be desired. (Rao Bharathi 2001)

Phase II

In this phase with the initiation of banking sector reforms there has introduction of many products and facilities in banking industry. The first wave of financial liberalization took place in the second half of the 1980s, mainly taking the form of interest rate deregulation. Prior to this period, almost all interest rates were administered and influenced by budgetary concerns and the degree of concessionality of directed loans. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked on the liberalisation of banking practices. Following the 1991 report of the Narasimham Committee, more comprehensive reforms took place that same year. The reforms consisted of (a) a shift of banking sector supervision from intrusive micro-level intervention over credit decisions toward prudential regulations and supervision; (b) a reduction of the CRR
and SLR; (c) interest rate and entry deregulation; and (d) adoption of prudential norms.

It was mandatory on the part of commercial banks to get license from RBI to open new branches until 1992. RBI has withdrawn the practice of branch licensing and given greater freedom to banks to rationalize their existing branch network to relocate branches and establishing extension counters provided they attain the revised capital adequacy norms and prudential accounting system (Datta, 2009). In 1993, the Reserve Bank of India permitted private entry into the banking sector. As a result of the reforms, the number of banks increased rapidly. In 1991, there were 27 public-sector banks and 26 domestic private banks with 60,000 branches, 24 foreign banks with 140 branches and 20 foreign banks with a representative office. Between January 1993 and March 1998, 24 new private banks (nine domestic and 15 foreign) entered the market; the total number of scheduled commercial banks, excluding specialized banks such as the Regional Rural Banks rose from 75 in 1991/92 to 99 in 1997/98.33 The Committee on Financial Systems (GOI, 1998) suggested the road map for second-generation reform to keep pace with liberalization of financial sector in

33 paper titled ASSESSMENT OF INDIA’S BANKING SECTOR REFORMS FROM THE PERSPECTIVE OF THE GOVERNANCE OF THE BANKING SYSTEM presented by Sayuri Shirai1 Associate Professor of Keio University and Visiting Scholar to the ADB Institute at the ESCAP-ADB Joint Workshop on “Mobilizing Domestic Finance for Development: Reassessment of Bank Finance and Debt Markets in Asia and the Pacific”, Bangkok, 22-23 November 2001
other parts of the world. The other remarkable developments to enhance competition in banking sector reforms are:

1) Measures to broaden the ownership base of PSBs have also taken.
2) The system has also observed greater levels of transparency and standards of disclosure.
3) It introduced ratification of the legal structure to strengthen banks position in the areas of loan and default loan.
4) Operational flexibility and functional autonomy of PSBs will definitely improve due to partial privatization. Government diluted the holding stake of equity to 51%. It has further proposed to reduce holding to minimum 33% on case-by-case basis. (Datta, 2009)

The entry of new private banks and foreign banks gradually infused competitiveness by introducing new products and better technology. A kind of revolution unleashed. Foreign banks started operating with their ATM stations. Customers at last started getting its due--- efforts were made to provide quality service to customers to satisfy them. Phone banking and net banking were introduced. The entire system became more convenient and fast. Perhaps for the first time in Indian banking industry *time* is given more importance than *money*.34

Work Process in Banks through Ages

Customer Transacting with Bank Teller Signifying Human Interaction

Customer Withdrawing Money from an ATM Machine Signifying Man-Machine Interaction
Bank Counters in Early Days – Manual Operation in the Era of ‘Class Banking’

Bank Counters Now – Technology based ‘Mass Banking’
Queue at Bank Branches as Before

Use of Queue Management System at Bank Branches at Present
Current Scenario of Indian Banking System

The formal banking system in India can be broadly divided into three categories, viz. the central bank of the country which is known as the Reserve Bank of India, the commercial banks and cooperative banks. The Reserve Bank of India is the highest monetary and banking authority in the country and has been empowered with the responsibility to control the banking system in Indian soil. As it keeps the reserves of all commercial banks it is generally known as the “Reserve Bank”.35

Commercial banks mainly mobilize savings in urban areas and make them available to large and small industrial and trading units primarily for working capital requirements. After 1969 commercial banks are generally classified into nationalized or public sector banks and private sector banks. The state bank of India and its associate banks along with another 19 banks comprise of the public sector banks.

The private sector banks include a small number of Indian scheduled banks which have not been nationalized and branches of foreign banks operating in India – commonly known as foreign exchange banks.36

35 Datt R & K.P.M. Sundaram Indian Economy (New Delhi : S.Chand, 2006) p.839-840
36 Ibid
The Regional Rural Banks (RRBs) were created under the provisions of an Ordinance promulgated on the 26th September 1975, the RRBs Act, 1976, and are regulated by the RBI but supervised by the National Bank for Agriculture and Rural Development (NABARD). The Regional Rural Banks (RRBs) came into existence with the specific goal of providing credit and deposit facilities particularly to the small and marginal farmers, agricultural labours and artisans and small entrepreneurs. The regional rural banks have the responsibility to make the rural economy vibrant by way of developing agriculture, trade, commerce and industry in the rural areas. The RRBs are essentially commercial banks but their area of operation is restricted to a district.

Primary Co-operative Credit Societies (or Banks) were originally set up in villages to promote frugality and the practice of savings of the farmers and to meet their credit needs for cultivation. The current organisational structure of cooperative credit in India can be discussed on the basis of short term and long term credit structure. The short term Credit Structure consists of 31 State Cooperative Banks, 366 District Central Cooperative Banks and 112,309 Primary Agricultural Cooperative Societies. The Long Term Credit Structure consists of 20 State Cooperative Agriculture and Rural Development Banks having 887 branches and 768 Primary Cooperative Agriculture and Rural Development Banks.

38 Datt R & K.P.M. Sundaram Indian Economy (New Delhi : S.Chand, 2006) p.839-84
* Since May 1997 there does not exist any non-scheduled commercial bank

Source: http://www.rbi.org.in/commonman/English/Scripts/BanksInIndia.aspx#IB
Development Banks. 39 Originally based in the rural sector, the co-operative credit movement has now extended to urban areas also and there are many urban co-operative banks coming under State co-operative bank. 40

Currently the number of banks that comprise of SBI and its Associate Banks are six, there are nineteen Nationalised Banks, other Public Sector-Indian Banks namely IDBI Bank Limited, twenty two Private-Indian Banks, twenty nine Private-Foreign Banks, eighty two Regional Rural Banks (RRB's) and thirty-one State Co-operative Banks, fifty-three Scheduled Urban Cooperative Banks, 1610 Non-Scheduled Urban Cooperative Banks and 366 District Cooperative Banks. 41

The Governance of Public Sector Banks

The Original System

The public sector banks are governed by their respective founding statutes and by those provisions of the Banking Regulation Act which have been made specifically applicable to them. (Leeladhar, 2007) Besides, they function under the overall guidance of Ministry of Finance, Reserve Bank of

39 Prasad Bhagwati 2005 Co-operative Banking in a Competitive Business Environment
Cab Calling October-December
40 Datt R & K.P.M. Sundaram Indian Economy (New Delhi; S.Chand, 2006) p.839-840
41 http://www.rbi.org.in/commonman/English/Scripts/BanksInIndia.aspx#IB
India and the Board of Directors of the Bank. The regulatory framework for the banking industry under the Banking Regulation Act was circumscribed by the special provisions of the Bank Nationalisation Act both of which had elements of corporate governance incorporated with regard to composition of Board of Directors in terms of representation of directors, etc. While technically there was competition between banks and non-banks and among banks, substantively, competition was conditioned by policy as well as regulatory environment, common ownership by the Government and agreement between the Government of India as an owner and the workers represented by the Unions. Subsequent efforts during the reform period in terms of hesitancy in permitting industrial houses as well as foreign owned banks should be viewed in this historical context.

As regards the policy environment, it must be recognised that almost the whole of financial intermediation was on account of public sector, with PSBs being the most important source of mobilisation of financial savings. Resources for DFIs were also made available either by banks or mostly created money and governmental support. The major thrust was on expansion of banks’ branches, provision of banking services and mobilisation of deposits. The interest rate regime was administered with interest rates fixed both on deposits and lending. At the same time, there was large pre-emption of banks’ resources under the cash reserve ratio or in the form of statutory liquidity ratio. The delivery of credit was also by and large
directed through an allocative mechanism or as an adjunct to the licencing regime. In the process, the private sector banks tended to be confined to the local areas and were unable to expand in such an environment. Banks, mainly public sector banks became the most dominant vehicle of the financial intermediation in the country. To a large extent, entry was restricted and exit was impossible and there was little or no scope for functions of risk assessment and pricing of risks. The Government thus combined in itself the role of owner, regulator and sovereign.

The legal as well as policy framework emphasised co-ordination in the interest of national development as per Plan priorities with the result, the issue of corporate governance became subsumed in the overall development framework. To the extent each bank, even after nationalisation, maintained its distinct identity, governance structure as incorporated in the concerned legislations provided for a formal structure of relationship between the Reserve Bank, Government, Board of Directors and Management. The role of the Reserve Bank as a regulator became essentially one of being an extended arm of the Government so far as highest priority was accorded to ensuring coordinated actions in regard to activities particularly of PSBs. Both Government and the Reserve Bank are represented on the Board of Directors of the PSBs. There has been significant cross representation in terms of owner or lender and in other relationships between banks and all other major financial entities. In other words, cross holdings and inter-
relationships were more a rule than an exception in the financial sector, since the basic objective was coordination for ensuring planned development, with the result, the concepts of conflicts of interests among players, checks and balances etc., were subordinated to the social goals of the joint family headed by the Government.

Reform Measures

The major challenge of the reform has been to introduce elements of market incentive as a dominant factor gradually replacing the administratively coordinated planned actions for development. Such a paradigm shift has several dimensions, the corporate governance being one of the important elements. The evolution of corporate governance in banks, particularly, in PSBs, thus reflects changes in monetary policy, regulatory environment, and structural transformations and to some extent, on the character of the self-regulatory organisations functioning in the financial sector. (Reddy, 2002)

Monetary Policy Environment

During the reform period, the policy environment enhanced competition and provided greater opportunity for exercise of what may be called genuine corporate element in each bank to replace the elements of coordinated
actions of all entities as a “joint family” to fulfill predetermined Plan
priorities. The measures taken so far can be summarised as follows:

First, greater competition has been infused in the banking system by
permitting entry of private sector banks (9 licences since 1993), and liberal
licensing of more branches by foreign banks and the entry of new foreign
banks.

Second, the reforms accorded greater flexibility to the banking system to
manage both the pricing and quantity of resources.

Third, the Reserve Bank has moved away from micro-regulation to macro­
management.

Fourth, to strengthen the banking system to cope up with the changing
environment, prudential standards have been imposed in a progressive
manner.

Regulatory Environment

Periodical inspection of banks has been the main instrument of supervision,
though recently there has been a move towards supplementary ‘on-site
inspections’ with ‘off-site surveillance’. The system of ‘Annual Financial
Inspection’ was introduced in 1992, in place of the earlier system of Annual Financial Review/Financial Inspections.

A high powered Board for Financial Supervision (BFS), comprising the Governor of the Reserve Bank as Chairman, one of the Deputy Governors as Vice-Chairman and four Directors of the Central Board of the Reserve Bank as members was constituted in 1994, with the mandate to exercise the powers of supervision and inspection in relation to the banking companies, financial institutions and non-banking companies.

A supervisory strategy comprising on-site inspection, off-site monitoring and control systems internal to the banks, based on the CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems and controls) methodology for banks have been instituted.

**Structural Environment**

The Government proposed, in the Union Budget for the financial year 2000-01 to reduce its holding in nationalised banks to a minimum of 33 per cent, while maintaining the public sector character of these banks. The diversification of ownership of PSBs has made a qualitative difference to the functioning of PSBs since there is induction of private shareholding and attendant issues of shareholder’s value, as reflected by the market cap,
representation on board and interests of minority shareholders. There is representation of private shareholder when the banks raise capital from the market.

The governance of banks rests with the board of directors. In the light of deregulation in interest rates and the greater autonomy given to banks in their operations, the role of the board of directors has become more significant. During the years, Boards have been required to lay down policies in critical areas such as investments, loans, asset-liability management, and management and recovery of NPAs. As a part of this process, several Board level committees including the Management Committee are required to be appointed by banks.

In 1995, the Reserve Bank directed banks to set up Audit Committees of their Boards, with the responsibility of ensuring efficacy of the internal control and audit functions in the bank besides compliance with the inspection report of the Reserve Bank, internal and concurrent auditors.

Appointment of Chairman and Managing Directors and Executive Directors of all PSBs is done by Government. The Narasimham Committee II had recommended that the appointment of Chairman and Managing Director should be left to the Boards of banks and the Boards themselves should be elected by shareholders. Government has set up an Appointment Board.
chaired by Governor, Reserve Bank of India for these appointments. More recently, in case of appointment of Chief Executive Officer of the PSBs identified as weak, the Government has formed a Search Committee with two outside experts.

Self Regulatory Organisations

India has had the distinction of experimenting with Self Regulatory Organisations (SROs) in the financial system since the pre-independence days. At present, there are four SROs in the financial system - Indian Banks Association (IBA), Foreign Exchange Dealers Association of India (FEDAI), Primary Dealers Association of India (PDAI) and Fixed Income Money Market Dealers Association of India (FIMMDAI).

The IBA established in 1946 as a voluntary association of banks, strove towards strengthening the banking industry through consensus and coordination. Since nationalisation of banks, PSBs tended to dominate IBA and developed close links with Government and the Reserve Bank. Often, the reactive and consensus and coordinated approach bordered on cartelisation. To illustrate, IBA had worked out a schedule of benchmark service charges for the services rendered by member banks, which were not mandatory in nature, but were being adopted by all banks. The practice of fixing rates for services of banks was consistent with a regime of administered interest rates but not consistent with the principle of
competition. Hence, the IBA was directed by the Reserve Bank to desist from working out a schedule of benchmark service charges for the services rendered by member banks.

Responding to the imperatives caused by the changing scenario in the reform era, the IBA has, over the years, refocused its vision, redefined its role, and modified its operational modalities (Reddy, 2002). Summary of various report on corporate governance in PSBs is given in Annexure-I.

Recently the Government had appointment two Expert Committees under Prof. Raghuram Rajan, former Chief Economist of the IMF and Mr. Anwarul Hoda of the Planning Commission. These Committees have submitted wide ranging recommendations chiefly recommending privatisation of banks, further reduction of Government capital to less than 51%, allowing more FDI in banks, allowing more private banks, phasing out priority sector advances, merger of banks, etc. The Government has not rejected these reports rather these recommendations have been forward to the Banks to get their consent and to proceed further with their implementation. The Government is also proceeding with the amendment to Banking Regulations Act to delete Section 12 (2) which will remove the existing ceiling of 10% on the voting rights and provide full pro-rata voting rights to the foreign investors. 42

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42 UNITED FORUM OF BANK UNIONS (U.F.B.U.), Notice of Strike dated 29th August, 2008
Organisation of Public Sector Banks in India & Management of Their Human Resource

The nationalized banks generally have three tier organizational structure - Corporate, Zonal Offices and Branches. Besides if they carry out overseas operations they have overseas centers as well.

The authorities and duties of the officers and employees are incorporated in the policies laid down by the bank with the approval of the Board. The top management, executives and other officials discharge their duties in furtherance of the business plan objectives framed by the Bank from time to time. The delegated powers are periodically reviewed by the Board and necessary revision is made, as and when required for effective functioning of the Bank. Banks also have various committees for managing the key affairs of the Bank.

There is a well-defined system in the Bank for decision making. The Bank functions under the overall supervision and control of Board of Directors of the Bank to formulate the policies pertaining to the Bank’s functioning. For implementation of such policies there is a well laid down hierarchical system. All officers and employees of the Bank have to follow the prescribed rules and procedures as laid down in ‘The Manual of Instructions’
and circulars issued from time to time. Decisions are taken according to the prescribed powers of delegation. The Bank has issued Manual of Instructions on different subjects, codified circulars, scheme for delegation of powers, guidelines on documentation and the periodical circulars used by the employees for discharging various functions.

After nationalization, there was radical change in recruitment policy of banks. For the first time, the doors of the banks were opened to everyone, irrespective of family status, caste, community, religion or gender. Recruitment was placed on a more systematic basis, with merit assessed by aptitude tests conducted by an external agency in a relatively impartial manner (Deekshit, 1991) which has now become a well grounded procedure and the following structure stands on the basis of that procedure only. In 1978, region-wise 15 Banking Services Recruitment Board (BSRB) were established to have a uniform standard and eligibility criteria for recruitment of public sector bank personnel including clerks. BSRBs were discontinued, as requirements of banks came down with computerisation a few years ago. Thereafter from the year 2008 public sector banks have again started recruitment as per their individual requirements.43

A GENERAL FRAMEWORK OF ORGANISATIONAL HIERARCHY OF PUBLIC SECTOR BANKS IN INDIA

BOARD OF DIRECTORS

CHAIRMAN & MANAGING DIRECTOR

EXECUTIVE DIRECTOR

TOP EXECUTIVE (GRADE VII)
(GENERAL MANAGER)

TOP EXECUTIVE (GRADE VI)
(DEPUTY GENERAL MANAGER)

SENIOR MANAGEMENT GRADE (GRADE V)
(ASSISTANT GENERAL MANAGER)

SENIOR MANAGEMENT GRADE (SCALE IV)
(CHIEF MANAGER)

MIDDLE MANAGEMENT GRADE (SCALE III)
(MANAGER)

MIDDLE MANAGEMENT GRADE (SCALE II)
(DEPUTY MANAGER)

JUNIOR MANAGEMENT GRADE (SCALE I)
(ASSISTANT MANAGER)

CLERICAL CADRE
(ASSISTANT, SENIOR ASSISTANT, SPECIAL ASSISTANT)

SUBORDINATE STAFF

Source: Field Survey
In 1970s prior to liberalisation in public sector banks HR as a department was not existent, public sector banks had only IR and Personnel department. Ninety percent of time of both the departments was spent in resolving legal issues, union negotiations and yearly transfers on ritual basis. Promotions were, by and large, time bound and used to follow a structured approach without scope for much flexibility. The banking system had very few options as well as mechanism to identify talent, leave aside managing the talent. In early 1990s, things had undergone change. In some of the bigger banks, HR departments had come into existence and processes and systems were much more employee friendly than the 70s. This period also saw the launch of the general economic reforms process and banks were also influenced by the same. During this period public sector banks started facing the real challenges which included all aspects of banking including HR practices. The new generation leadership started appreciating the importance of HR polices and practices. In today’s scenario, the top management of many public sector banks has started implementing the right HR practices. Some of the latest instances have been performance-based promotion policies, objective methodologies for transfer to various positions, specific training policies for all categories of staff, introduction of appreciation scheme for bank employees at all levels, among many others.⁴⁴

Very recently Govt. of India appointed Khandelwal Committee to review HR issues in Public Sector Banks. The Committee amongst other things has made the following recommendations:\[15:\]

- To outsource all non-core jobs
- Direct Recruitment of Officers upto 50 %
- Qualification for recruitment: For Clerks: Graduation / For Sub staff: 10\textsuperscript{th} Std.
- Fresh Recruitments to be only in Rural and Semi Urban areas
- Appointment of exclusive Executive Director ( H R )
- Bankwise wage revision based on capacity to pay, profitability, productivity, etc.
- Introduction of Variable Pay as a major component of wages
- Introduction of cost to company concept.
- Review of all internal settlements on mobility and transfer of employees
- HR Professionals to be recruited at senior/junior levels.
- HR administration to be automated through web-based system

\[15\] UFBU CIRCULAR NO. 4 DATED 02.08.2010
Work Organisation Structure of a Bank Branch and its Operations in Brief:

The Branch Office is the lowest in the Organisational Set Up of the Banking Organization but it is the most important tier in the Organization where the main banking operations are carried out.

In a Branch, normally following services are extended to the members of the public and clients:

1) Acceptance of Deposits: The deposits are accepted in Current A/c., Savings A/c. (known in some Banks as Home Savings), various Term Deposits.
2) Advances through Term Loans, Overdraft, Cash Credit, Purchasing and discounting of Bills, etc.
3) Remittances: Issuing of Drafts, Mail Transfers, Telegraphic Transfers.
4) Collection Services i.e. collection of upcountry cheques and bills.
5) Collecting and remitting of proceeds of Cheques and Bills sent by outstation branches and other banks.
6) Obtaining proceeds of cheques for the credit of the account holders in local clearing.
7) Foreign Exchange transactions for the account holders.
8) Receipts and Payment of cash.
9) Ancillary services like Safe Deposit Lockers, etc. (Desai & Sairam, 1994)

A glossary of banking services is given in Annexure-II
In smaller branches the officers are directly accountable to the Branch Manager where as in the bigger ones they report to the Accountant or Deputy Manager Working directly under Branch Manager. On the other hand, the Clerical Supervisor is, in turn, accountable to officer concerned and acts as a buffer between the Officer and Clerical Staff. The smaller branches do not have any clerical supervisors; so the clerical staff report to the officers directly.

Figure No. 5.3

Organisational Chart at Branch level

Branch Manager
  ↓
Accountant / Deputy Manager
  ↓
Sr. Officer → Mi Officer → Jr. Officer
  ↓
Special Assistant (Supervisor)
  ↓
Clerical Staff
  ↓
Subordinate Staff

Source: (Basu, 1994)
The Public Sector Commercial Banks encourage job rotation among different departments. It also enables both clerks and officers to be conversant with the function of each and every section of Bank and this familiarity is a requisite for promotion.

So all the employees, except the manager at the branch level work generally on a yearly basis being transferred from one of the following departments to another where most of the activities are presently computerized or carried on with the help of computer.

Advance—here the employees have to regulate the extension and realization of advances in the forms of Bills, cash-credit, overdraft facilities and loans;

Deposit—Comprising three subsections (i) Term (Fixed Deposit) (ii) Savings (general accounts with interest) & (iii) Current (business accounts without interest)

Where the employees have to look into accounts opened in the bank and to attract or “allure” as many customers as possible,

Clearing—it negotiates the deposit of all cheques of the customers;

Cash—a complimentary to clearing which deals with receipt and payment of cash of the customers.
Accounts—Keeping track of all daily transactions, i.e. debit and credit of all accounts as well as the charges of service rendered by the bank which involves maintenance of journal, ledger book etc.

Personnel—it takes care of the needs and requirements of all bank employees.

General—Where main concern is to look after office fixtures, furniture, stationary and some times salary of the staff and

Bills—Which is related to the tasks involving other banks with regard to trader’s bills or invoices, both inland and foreign, and with draft is sometimes dealt by a separate department altogether, i.e. Remittance apart from the afore mentioned departments, many branches have set separate Locker section and Foreign Exchange section, a phenomenon not common in every branch of a bank Locker is a special privilege given to the clients where they can keep their precious and important belongings under the safe custody of the bank.

Foreign Exchange Department deals with transactions of foreign currencies.
Nature of Work in Various Departments is mentioned below

Advance Department – Mobility is required- officials have to visit outstation customers.

Deposit Section- Client oriented (soft spoken, friendly officer needed)

Foreign Exchange - Officers have to stay back late as they have to track daily rates of foreign currencies, which area usually decided in the evening

Savings Section- Handles the maximum number of the customer. Officers have to be extremely soft spoken and patient.

Banking Hours: Hours of Work:

Service/Business hours- 6 hours (different bank may open and close at different times), working hours- 7 hours per day (in general)

Officers spend more time at office. During months of September and March officers have to be present at the offices till late hours. Apart from prolonged working hours the officers have to undergo periodic training more frequently than the clerical and subordinate staff. (Basu, 1994)
Premises & Lay-out also plays important role in making optimum utilization of the manpower in a branch. As and when premises are taken up for opening of a Branch, aim of the Bank is generally to pay attention to the physical appearance of the branch. The seating arrangement within the premises, laying of counters, Cashier’s cabin, Manager’s cabin, Storing Room, Strong Room, etc. are decided by the architect of the Bank or Premises Department. (Desai & Sairam, 1994)

Work at Bank Branch at a Glance
General Layout of a Bank Branch in a City
Seating Arrangement of the Bank Personnel Generally followed at Branch

General Pattern of Mode of Interaction with the Customers
Regular Activities at a Branch

Busy Banking Hours
Security Measures at Branch level