CHAPTER -1

OVERVIEW OF INDIAN BANKING
1.1 Introduction
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1.1 OVERVIEW OF INDIAN BANKING:

“With you-all the way pure banking nothing else”

The banking system has a significant role to play in the rapid growth of economy through planned efforts. In fact banking system of any country is lifeblood of the economy. A banking institution is indispensable in a modern society.

The banking sector is the life line of the economy. It is one of the most important financial institutes in financial system. It is plays a vital role in the success of failure of an economy. Bank is one of the oldest financial institutes in the financial system. They play an important role in mobilization of deposits and disbursement of credit to various sectors of the economy.\(^{(1)}\) The banking system is the fuel injection system which spurs economic efficiency by mobilizing savings and allocating them to high return investment research confirms that countries with a well developed banking system grow faster than those with the weaker one.

During the early logos, P.V. NarashimaRao government embarked on policy of liberalization and granted licenses to a small number of banks, which were later called as private banks, which were later called as tech-savvy banks. Examples of such Banks are UTI Bank (presently known as Axis Bank), ICICI Bank, and HDFC Bank. This move along with the rapid growth in the economy, kickstarted the banking sector in the country, which has witnessed a speedy growth with strong contribution from all three categories of banks namely, government, private, and foreign banks. Currently, India has 88 Scheduled commercial banks - 28 public sector Banks(PSBS) – (with the government of India holding a stake), 29 private banks (these do not have government stake, but may be publicly listed and traded on stock exchanges) and 31 foreign banks.\(^{(2)}\)

The innovation of modern era including the evolution of atomic energy & information & technology, are playing their due past in the world struggle. One of the important quarters, in to which the rays of new light have penetrated, is the sphere of banking.
1.2 ORIGIN OF WORD “BANK”:

According to some authors, the word ‘BANK’, itself is derived from the word ‘Bancus’ or ‘Banque’ that is a bench. The early banker, the Jews in Lombardy, transacted their business on benches in the market place. When, a banker failed is ‘banco’ was broken up by the people; it was called ‘bankrupt’. This etymology is, however, ridiculed by McLeod on the ground that “The Italian money changers as such never called in the middle ages “.

There are others, who are in the opinion that the word ‘Bank’ is originally derived from the german word ‘Bank’ meaning a joint stock fund, which has Italianized into ‘banco’ when the Germans were masters of a great part of Italy. This appears to be possible. But, whatever be the origin of the word ‘bank’ as professor Ram Chandra Raosays, “itwould trace the history of banking in Europe from the Middle Ages”. (3)

1.3 DEFINITION OF BANKING:

• “A bank is a financial intermediary, a dealer in loans and debts”

  Carincroses

• “By banking in the most general sense is meant the business of receiving the conserving and utilizing the funds of the community or of any special section of it”

  Willis and Beogen

• “The bank is dealer in credit its own and other people’s”

  Crowther

• “The accepting for the purpose of lending or investment, deposits of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise”.

  The Banking Regulation Act, 1956

• “A banker is one who, in the ordinary course of his business, honors drawn upon him by person from and for whom he receives money on current account.”

  H.L. Hart
• “A bank is an establishment which makes to individuals such advances of money or other means of payment as many be required and safely made, and to which individuals entrust money or means of payment when not required by them for use”

  Prof. Kintey

• “Banks are institutions whose debts usually referred to as bank deposits are commonly accepted in final settlement of other people’s debts

  Prof. R.S. Sayars

1.4 BANKING SYSTEM IN INDIA:

In India, though the money market are still chacterized & unorganized segments. The unorganized sector, comprising. The money lenders & indigenous bankers, caters to the credit needs of persons. In organized sectors, commercial banks and co-operative banks have been in existence for the past several decades. The regional rural banks came in to existence since the middle of seventies. (6)

Figure 1.1
Central Bank and Monetary Authority
Reserve Bank of India

Apex Banking Institutions

IDBI
Small Industrial Development Bank of India
NABARD
EXIM Bank
National Housing Bank
1.5 INDIAN BANKING AN OVERVIEW:

The first plan emphasized the fact that the banking system had to be fitted in to the scheme of development to make the processes of savings and their utilization “Socially Purposive”. The dimensional importance of the banking system as dynamic force of development started increasing over the successive plan period it progressively met and served better the needs of the developing economy in conformity with national policy and objectives.\(^{(7)}\)

Very significant changes have taken place in Indian banking since the nationalization of 14 major banks in July 1969. During the post nationalization period, up to June 1984, 36,321 offices were added to the branch network of commercial banks, bringing down the population served on an average by a bank office from 65000 to 15300. What is more the scale and scope of banking operation have undergone substantial changes in response to the changes that have been taking place in the social, political and economic environments. \(^{(8)}\)
Figure 1.2
Process of Commercial Banking in India

1949  
Regulation  
Banking Companies Act 1949

1955  
Nationalization Phase-I  
State Bank of India

1959  
Nationalization Phase -II  
SBI Subsidiaries

1961  
Insurance Cover to Deposits  
Deposits Insurance Corporation

1968  
Social Control  
National Credit Council

1969  
Nationalization Phase -III  
14 Major Commercial Banks

1971  
Credit Gurantee  
Credit Guarantee Corporation

1975  
New Rural Banks  
Regional Rural Banks

1980  
Nationalization Phase IV  
Six Commercial Bank with over Deposits Rs. 200 Crores

1985  
Reorganization of Bankings  

**EVOLUTION OF PUBLIC SECTOR BANKS:**

Bank nationalization is not a big thing in India. The Public sector Banking exists its capitalistic as well. Banking in a public sector is a phenomenon of economic growth based on socialistic objectives.\(^9\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>1955</td>
<td>State bank of India</td>
<td>01</td>
</tr>
<tr>
<td>1959-60</td>
<td>Seven Associate Banks</td>
<td>07</td>
</tr>
<tr>
<td>1969</td>
<td>14 Major Commercial Banks with Deposits over Rs. 50 crores</td>
<td>14</td>
</tr>
<tr>
<td>1980</td>
<td>Six commercial Banks in private sector with deposits over Rs. 200 crores</td>
<td>06</td>
</tr>
<tr>
<td></td>
<td>Public Sector Banks</td>
<td>28</td>
</tr>
</tbody>
</table>
Table 1.1
Overview of Nationalized Banks

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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net Profit</td>
<td>16,547</td>
<td>15,477</td>
<td>18,927</td>
<td>20,338</td>
<td>26,988</td>
<td>34,320</td>
<td>39,257</td>
<td>44,901</td>
<td>49,514</td>
<td>50,583</td>
</tr>
<tr>
<td>2</td>
<td>Deposits</td>
<td>12,29,463</td>
<td>14,35,853</td>
<td>17,32,454</td>
<td>19,94,199</td>
<td>24,53,867</td>
<td>31,12,748</td>
<td>36,92,019</td>
<td>43,72,449</td>
<td>50,01,743</td>
<td>57,45,697</td>
</tr>
<tr>
<td>3</td>
<td>Investment</td>
<td>6,26,175</td>
<td>6,85,729</td>
<td>6,54,008</td>
<td>6,64,855</td>
<td>7,99,842</td>
<td>10,12,667</td>
<td>12,15,598</td>
<td>13,36,076</td>
<td>15,04,077</td>
<td>17,59,106</td>
</tr>
<tr>
<td>4</td>
<td>Gross NPA</td>
<td>51,389</td>
<td>48,250</td>
<td>42,499</td>
<td>38,963</td>
<td>40,453</td>
<td>45,156</td>
<td>59,927</td>
<td>74,664</td>
<td>1,17,262</td>
<td>1,64,462</td>
</tr>
<tr>
<td>5</td>
<td>Net NPA</td>
<td>20,371</td>
<td>16,903</td>
<td>15,925</td>
<td>15,325</td>
<td>17,837</td>
<td>21,033</td>
<td>29,644</td>
<td>36,055</td>
<td>59,162</td>
<td>89,950</td>
</tr>
<tr>
<td>6</td>
<td>Total Income</td>
<td>1,37,587</td>
<td>1,44,344</td>
<td>1,67,253</td>
<td>1,87,870</td>
<td>2,45,872</td>
<td>3,15,610</td>
<td>3,54,876</td>
<td>4,14,099</td>
<td>5,35,098</td>
<td>6,11,609</td>
</tr>
<tr>
<td>7</td>
<td>Total Expenditure</td>
<td>1,21,041</td>
<td>1,28,866</td>
<td>1,33,947</td>
<td>1,45,214</td>
<td>1,95,565</td>
<td>2,48,637</td>
<td>2,78,015</td>
<td>3,14,118</td>
<td>4,18,754</td>
<td>4,89,667</td>
</tr>
<tr>
<td>8</td>
<td>Spread as % Assets</td>
<td>2.98</td>
<td>2.91</td>
<td>3.54</td>
<td>5.88</td>
<td>4.93</td>
<td>5.12</td>
<td>2.12</td>
<td>2.55</td>
<td>2.59</td>
<td>2.40</td>
</tr>
<tr>
<td>9</td>
<td>Business per Employee</td>
<td>20.47</td>
<td>21.25</td>
<td>21.45</td>
<td>22.65</td>
<td>29.10</td>
<td>34.11</td>
<td>39.42</td>
<td>47.94</td>
<td>44.29</td>
<td>25.64</td>
</tr>
</tbody>
</table>

(Source: [www.indianbankassociation.com](http://www.indianbankassociation.com))
The data presented in table 1.1 represent overview of Indian Banking of Nationalized banks. Total of 19 public sectors banks, state bank group and other public sector banks for the period of 2003-04 to 2012-13.

The highest net profit was 50,583 in nationalized bank during the year 2012-13 where as the lowest 15,477 in nationalized banks during the year 2004-05. The highest deposits were 57,45,697 in nationalized bank during the year 2012-13 where as the lowest 12,29,463 in nationalized banks during the year 2003-04. The highest investment was 17,59,106 in the nationalized bank during the year 2012-13 where as the lowest 6,26,175 in the nationalized banks during the year 2003-04. The highest gross NPA was 1,64,462 in nationalized banks during the year 2012-13 where as the lowest 38,963 in the nationalized banks during the year 2006-07. The highest net NPA was 89,950 in nationalized banks during the year 2012-13 where as the lowest 15,325 in the nationalized banks during the year 2006-07. The highest total income was 6,11,609 in nationalized banks during the year 2012-13 where as the lowest 1,37,587 in nationalized banks during the year 2003-04. The highest total expenditure was 4,89,667 in nationalized banks during the year 2012-13 where as the lowest 1,21,041 in nationalized banks during the year 2003-04. The highest spread as % assets was 5.88 in nationalized bank during the year 2006-07 Where as the lowest 2.12 in nationalized banks during the year 2009-10. The highest business profit per employee was 44.29 in nationalized banks during the year 2010-11 Where as the lowest 20.47 in nationalized banks during the year 2003-04.

1.6 TYPES OF BANKS:

1.6.1. The Regional Rural Bank:

The regional rural banks are relatively new banking institutions which were added to the Indian Banking scene since October, 1975. There are 196 regional rural banks with a network of branches in the states of Indian Union. These banks have been established by the government of India in the terms of provision of Regional Rural Banks Acts, 1976. The distinctive feature of Rural Bank is that though it is separate body corporate with perpetual succession and common seal, it is very closely linked with commercial bank which has sponsored the proposal to establish it. The central government while establishing the rural banks at a request of commercial bank
specifies the local limit with in which it shall operate. The rural may established its branches or agencies at any place within the notified area.\(^{(11)}\)

The necessity of rural banks was felt because the then existing credit agencies the co-operative banks lacked in certain respect in meeting the needs of rural areas.

1.6.2. Reserve Bank of India:

The Hilton - young commission appointed in 1926 has recommended the necessity of centrally empowered institution to have effective control over currency and financial transaction in the country. Accordingly the Government has been passed Reserve Bank of India Act, 1934 and the Reserve Bank of India with the effect of 1\(^{st}\) April, 1935. The principal aim behind this was to organize to proper control over the currency management in the interest of the country benefits and to maintain financial stability with this; the RBI mainly looks after the following important function.\(^{(12)}\)

- Keep effective control over creation of credits and currency apply.
- Control the banking transaction of central and state government.
- Act as a central administered authority of all other banks in the country.
- Organize control over foreign currency transaction.
- Assist for improvement in financial aspects of the country.

1.6.3. Nationalized Banks:

The banking company Act established it in July 1969 by nationalization of 14 major banks of India. The sent percent ownership of the banks is of Government of India

1.6.4. State Bank group :

The State Bank of India was established under the state bank of India Act 1955 the subsidiary banks under the State bank of India (Subsidiary bank) Act 1959. The Reserve banks of India owns the state bank of India, to the large extent, and rest of the part is some private ownership in the share capital of state bank of India. The state banks of India own the subsidiary banks.
1.6.5. **Old Private Banks:**

These banks are registered under Companies Act, 1956. Basic difference between co-operative banks and private banks in its aim. Co-operative banks work for its members and private banks work for earn profit.

1.6.6. **New Private Banks:**

These markets lead the market of Indian banking business in a very short period. Because of its variety services and approach to customer and also because of long working hours and speed of services. This is also registered under the companies act, 1956. Between old and new private sector banks, there is a wide difference.

1.6.7. **Co–Operative Banks:**

(a) **State Co–Operative Banks:**

State co-operative bank means the principal Co-operative Society in the state. The primary function of it is to finance other co-operative societies in the state.

(b) **Central/ District Co-operative Banks:**

Central and district co-operative banks means the principal co-operative society in & district. The primary objective of these banks is to finance other Co-operatives in the particular district.

1.6.8. **Foreign Banks:**

Foreign Banks means Multi-countries bank. In case of India, Foreign banks are such banks which open its branch office in India and their Head office is outside India. E.g. HSBC Bank, City Bank, Standard Chartered Bank etc.
1.7 **ROLE OF BANKS:**

![Diagram of Banks, Savings, Investment, Consumption](image)

Through this, the investment requirements of savers are reconciled with the credit needs of investor and customers.

The banking sector has shown remarkable responsiveness to the needs of planned economy. It has brought about a considerable progress in its efforts at deposits mobilization and has taken a number of measures in the recent past to accelerate the rate of growth of deposits. To achieve this and, commercials banks opened a number of branches in urban and rural areas. (13)

In the changing scenario, the role of bank is very important for the growth and development of customer and economy. Banking sector is offering traditional other services as under.

- Regular savings & current A/cs.
- Regular fix Deposits.
- ATM with quondam optima.
- Credit card & D-Mat A/cs.
- Students banking and Kids bank
- Special NRI Services.
- Home loan, Vehicle Loan & Home Appliances Loan.
- Telephone Banking
- Internet Banking
- Online Trading
- Loan against Shares
- Insurance
- Portfolio Investment scheme
- Relief bond & Mutual Fund
- Senior citizen- Special Deposit Scheme

1.8 FUNCTION OF MODERN BANK:

Every bank has to perform certain function. Those Borrowing and leading constitute the main function of banking, unless otherwise stated the term bank represents the commercial banks. Function of Bank may be broadly classified in to two categories that are:-

1.8.1 Primary function:

Those functions on which a bank’s visibility and existence depends are called primary and main function. The primary function of bank- accepting deposits, and lending investing so fund accepted are defined in section (1) (b) of banking regulation Act 1949. Section 6(1)(a) of this Act specifies other forms of business which is essential for banking Company.

Accordingly nonbanking Company can obtain a license from the reserve bank, under section 22, of the same Act, unless it undertakes of the carry on the banking business’ in India as defined in the Act. Deposit forms the liability side of the bank balance sheet. This product offers products and services across all the segments of a bank’s customers, professionals self employed individual of small and medium business enterprise, large corporate house, and trust consults and non-residents Indian. The focus is on creating products and services that meet the needs of target customers and meet their liquidity need while it is being profitable for the bank as well.14

Deposit product are offered bank to fund the assets side of the balance sheet. Interest rates vary from time to time based on assets – liability balance that a bank wishes to maintain. The approach of deposit products is entirely based on the specific
liquidity position that the bank requires and time horizons to meet various obligations from time to time.

Undertaking deposit products will help in servicing customer better as it would give a perspective and insight into how such products are structured and specific requirement for each set of products. This would help in advising customers in a more informed.

• **Demand Deposits:**
  Demand deposits are those that can be withdrawn or transferred by the customer without previous notice to the bank. The deposits are maintained to meet the liquidity and transaction need. Demand deposits are of two type’s i.e. current deposit & saving deposits

• **Time Deposits:**
  Time deposits are also called fixed deposit or term deposit. These are repayable after the expiry of specified period varying from 15 days to 120 months.

• **Accepting Deposit:**
  This is the oldest and most important function of commercial bank. The Jews and Goldsmith has started banking by accepting deposits. Even today bank accept deposits of money from the public. These deposits may be repayable on demand or on the expiry of a fixed period. Deposits are accepted on various types of accounts namely, current account, saving account, Home safe account, fixed deposit account. Bankers pay interest on such deposits. The longer the period of deposits, the greater the rate of interest.

  A commercial bank accepts deposit from public on various account, important deposit account generally kept by bank are:

  A saving bank account is meant for household of the lower and middle classes who wishes to save the part of their future needs and also intends to each an income from their saving. Saving bank suit to those who just want to keep their small saving
in the bank and need to withdrawn then occasionally, one or two withdrawn up to a certain restriction on the saving bank account and also offer a reasonable rate of interest. The need of keeping cash reserve against such deposits is comparatively much larger Vis- a-Vis the fixed Deposit but smaller as against the current deposits because of the restriction of number of withdrawals. Bank gives the passbook and a cheque book, withdrawals are allowed by cheque and withdrawal form.

• Restrictions on Withdrawals:
  
  In pursuance of the objective saving bank accounts, bank imposes restriction on the right of the depositor to withdraw money within a given period. At presents the savings bank deposits are subject to the restriction regarding the number and amounts of withdrawals over a period of one year is limited to 150.

  A bank may at its discretion allow withdrawals also if it is satisfied about the merit of the case. A depositor cannot withdrawer from a sum smaller than Rs. 1 or any sum which is not a multiple of Rs. 1 unless it is to close his account. The minimum amount of cheque is Rs. 5

• Restriction of Deposits:
  
  The customer may deposit any amount in the saving bank account subject to a minimum of Rs 5. The bank accepts cheque or other payable to a third party for the purpose of deposits in the saving account.

  Bank have introduced the practice of imposing a service charge of Rs. 10 per annum on those saving account in which :-

  - The minimum balance is not maintained. The minimum balance is Rs. 500 for saving account with cheque facility in urban and metro city branches of State bank of India.
  - The number of withdrawals exceed the specified limit and,
  - The amount of withdrawals exceeds the Specified limit; Bank may waive this charge in the case of respectable customers.
1. **Payment of Interest :**

   The rate of interest payable by the banks on deposits maintained in saving account is prescribed by the Reserve Bank. At present the rate on interest on saving deposits is 3.5% Scheduled commercial bank with deposits less than Rs. 25 crores may at their discretion give an additional interest of ¼% Regional Rural Bank may give an additional ½%. The above rate of interest payable irrespective of whether cheque facility is extended or not. Interest is calculated at quarterly or longer rest of the minimum balance to the credit of the account during the period from the tenth day to last day of each calendar month on every complete sum of Rs. 10 and is credited to the account. The state bank of India credits interest once in a year.\(^{(15)}\)

2. **Current Deposit :**

   A current account is a running and accounts that that may be operated upon any number times during a working day. There is no restriction on the number and the amounts of withdrawals from the current account. As the banker is under the obligation to repay this deposit on demand they are called Demand liability of the Banker. To meet such liability the banker keep sufficient cash reserve against such deposits is the saving and fixed deposits.

   Current deposits are generally kept by a big businessman, joint stock companies, Industrialist, Institution, Public authorities and Public Corporation and those people who meet the large number of monetary transaction in their routine. These deposits are known as short term deposits or demand deposits. They are payable on demand without notice. Usually no interest paid on such deposits because the bank cannot utilize these deposits and keep almost percent reserve against them.\(^{(16)}\)

**Special Characteristics of a current account are as follows :**

i. A current account is meant for the convenience of the customers, who are relieved of the task of handling cash themselves and to take the risk inherent therein. Thus the primary object of current differs from the object of other deposit account that is meant to solicit the savings of the people.
ii. The state bank makers no longer for keeping an account provide the balance maintained to sufficient to compensate the bank for the work involved. In case of un-remunerative account involved lot of work but without the maintenance of sufficient balances, the banker charges incidental expenses from the customers. The public sector banks now impose a uniform ‘ledger folio charge’ of Rs. 20 portfolio on an account having average balance below Rs. 25000.

iii. Since May 1983 banks have been permitted to pay interest on balances lying in the current accounts in the name of deceased depositor from the date of death of depositor till the payment to the legal heirs. Interest on such amount is is payable at saving bank deposits rate.

3. Fixed Deposits :

Fixed deposits are also known as time deposit. In this account fixed amount is deposited for the fixed period of time. Deposits are payable after the expiry of stipulated period. Customers keep their money in their fixed deposits with the bank in order to earn interest. The bank pay higher rate of interest on fixed deposit.

Fixed Deposits is repayable on the expiry of a specified period chosen by the depositor to suit his purpose and to enable him to get back the money as and when he needs it. For example if a person intends to utilize his money for the purpose after a few years, he may deposit it for 3, 5, or 6 years, whereas it his purpose is to meet some urgent need in the near future, the fixed deposit may be made for 3, 6 or 9 months. (17)

As the date of repayment of fixed deposits is determine in advance, the banker need no keep more cash reserve against it and can utilize such amount more profitably. The banker therefore offers higher rate interest on such deposits because the depositor parts with liquidity for a definite period. Fixed deposits have grown in importance and popularity in India during the recent year. These deposits constitute more than half of the total bank deposits.
• Overdrafts:

Customers of good standing are allowed to overdrafts from their current account, but they have to pay interest on extra amount they have withdrawn. The banks allow overdraft facility to their customers just to provide temporary or a short period.

• Lending Money:

Lending money is the second important function of commercial bank. Receiving deposits and lending of funds are the traditional function and is the core of banking activity. The difference interest rates on deposits and on kindling are the source of bank revenuer. Nearly 75% of operating revenues are derived from the lending function. Borrower is usually customer of bank who have short term needs of funds and ready to offer collateral. Instead they allow overdraft facilities, loan, and cash credit. Discounting bills of exchange under approved limits. The bank advances money in any one of the following forms.

• Loans:

Loans are granted by the banks on security which can be easily disposed in the market, e.g. Government security or share of approved concerns. When the bank has satisfied itself regarding the soundness of the party the loan is advanced. A borrow seldom wants the whole amount of his loan in cash. Its opens the current account with the loan amount and thus deposit is created in the books of the name in the bank.

• Cash Credit:

It is an arrangement by which a bank allows his customer to borrow money up to a certain limit against certain tangible securities and share of approved concern etc. In this case interest is by the customers and not on the limit allowed to him.

• Discounting Bill:

Discounting bills is another important way of giving loans. The bank purchase bills and immediately pay cash for this bill after discount the maturity of the bills, the
banks its full value. Thus these bills are good liquid assets and moreover this investment is also very safe.

• **Investing funds:**

  Banks also undertakes an employment of surplus fund by investing in gilt-edged securities, Shares, Debenture and bonds. As the ownership of such vest in the depositors the banker making the investment has to remain quiet cautious lest his money should be lost in the temptation of high earning certain statutory requirement of liquidity have also be taken into account.

• **Rendering Various Services to Customers:**

  As soon as the customers lodge their money with the bank, they became account holder, banker undertakes to pay cheques and bills of exchange drawn or accepted by customers. Similarly Cheques, draft, bills, hundis and other documents are collected in favor of account holder. Bank also follows standing instruction from their customer to pay insurance premium, tax, liability, and membership fees etc. regularly.

• **Credit Creation:**

  This is vital function commercial banks out of total demand and some deposit banks retain a certain proportion of it as cash reserves and the remaining is lent out. The funds so lent out in due course accrue again as deposits either with the same bank or with another bank. The repetition of this process throughout the banking system as a whole leads to the creation of more credit.

• **Remittance of Funds:**

  Banks remit money from place to another place at the request of their customers and non customers. Banks also issue, when requested letters of credit travelers cheque and circular notes in favor of their customers.
**Dealing Foreign Exchange:**

The provision of the Foreign Exchange Regulation Act. Commercial banks undertake buying and selling of foreign exchange “at spot or forward rates” as prescribed by reserve bank of India from time to time. Only such banks not all, as have been granted licenses by Reserve bank to deal in

Foreign exchange can undertake all types of foreign exchange transaction in permissible currencies.

**Dealing in securities:**

Commercial bank can acquire, hold or underwrite stocks, Shares, Debentures, bonds etc at the instance if the customers.

**Accepting safe custody of valuable or providing lockers:**

A bank may all kinds of valuable for safe custody creation charges from customers a here possible; bank may also provide facility of safe deposit vaults or locker to its customers against payment of agreed rent.

1.8.2 **Secondary function:**

Beside the main function, banks have expended their activities to cater to varied need of their customers. These functions add to the utility for their revenues, section 6(1) (b to u) of the banking regulation Act, 1949 sets out other forms of business in which banking companies may engage. The following are some important form of ancillary business:-

1. Acting as agent for any Government Local authority or any other customers.
2. Contracting negotiating and issuing public and private loan.
3. Managing issue of shares or debenture etc.
4. Carrying on guarantee and indemnity business.
5. Managing selling and realizing any property in its possession in satisfaction of any of its claims.
6. Dealing with any property received a security against any loan or advance.
7. Undertaking and executed trusts.
8. Administration of Estate as executer trustee or otherwise.
9. Acquisition contraction and maintenance of any building or works or works necessary for the bank.
10. Dealing with right and property with bank.
11. During all business incidental or conductive to the promotion of banking business.

| Table 1.2 |
| Differences between Primary and Secondary Functions |

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<tr>
<th>Primary Functions</th>
<th>Secondary Functions</th>
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<tbody>
<tr>
<td>1. These are the main activities of the banks.</td>
<td>1. These are the secondary activities of the bank.</td>
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<td>2. These are the main sources of income of the banks.</td>
<td>2. These are not the main sources of income of</td>
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<td>3. These are obligatory on the part of bank to perform. But generally all commercial activities.</td>
<td>3. These are not obligatory on the part of bank to perform. banks perform these</td>
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1.9 TECHNOLOGY MANAGEMENT IN BANKS:

Technology has always been seen as an instrument of social progress. The human aspiration for continuous improvement in the standard of living increasingly depends upon technology as it touches all the aspects of human being. It is essentially because of the technological revolution that the world is moving at the menacing pace producing profound effects on every conceivable walk of human life.

The economic growth and prosperity of the countries, industries and business firms depends to a large extent, upon the effective management if technology. Indian banking industries is no exception. In fact it is one area where the impact of technology has brought about a sea change in the processes and the products that are made available to the customers. There is no doubt that technology creates wealth. It is the proper application and exploitation of technology and not just its development that influences business competitiveness and provide the leading edge.(19) It is therefore clear that for a business form to be successful, it is to be integral part of
technological innovation, which is no more a question of choice but a matter of survival in the fast changing market place, critical factors that have bearing on technological competitiveness are research, innovation, quality of products, effective corporate planning, productive efficiency and the like.

Business organization of the future both in the manufacturing and service sector, are going to be increasingly technological and complex hence their success in a large measure, depends upon the ability of their managers to manage resources efficiently in an environment of rapidly changing technology.

• What is technology?

Technology can be defined as all the knowledge products processes, tools, method and system employed in the creation of goods or in providing services. Simply stated it is the ways of doing things. Technology does not mean computer system and the like. According to Zeeland (1986), technology consists of the following components;

1. Hardware (the equipment or machinery used to execute the task)
2. Software (the logic of using the hardware to carry out the task)

Brain ware (know why). To this know – how the knowledge of doing things (in whatever manner required) may be added.

When we take a close look at the technology management in the banks, it would be incumbent upon us to review how technology has influenced the above area in the banking industries especially in the post liberalization era. Banks are primarily service organization and their profitability and survival greatly depend upon their ability to widen and retain their customer base by rendering a multitude of services in a manner that it meet the expectation of the customer may be a function of time, cost perceived efficiency and the pleasant feeling with which one leaves the bank. While the first three parameters relates to information and financial technology in place, the fourth one has a human (e) or human resources dimension. It is pertinent to note in
this connection that technologies contribution is not only in how goods and services can be produced but also in those having the potential to be produced.

- **Technology and Innovation :-**

  Innovation normally results in the creation of a product or services that novel to an organization. Innovation can takes place in the process, Service area or procedure. Technological innovation service area is equally important as it is the product. It could encompass enhancing the quality and reliability of an existing service by changing the service delivery system or by totally revamping it in line with the changes in the market place. The introduction of ATMs is a case in point. It has entirely change the way of major percentage of personal banking transaction take place bringing in its wake a cultural Shift in established banking services. To be acceptable in the market place an innovation must contribute to the creation of value or customer satisfaction. Creativity results in innovation creativity or creative result in innovation combining a few ideas in to an entirely a new one. Infact according to the celebrated scientist, Albert Einstein, it is looking at the old issue from a new dimension.

1.10 **RISK MANAGEMENT IN BANKS :**

Risk management has been very important components of business plan for the bank and an undercurrent of risk mitigation and planning has always being part of banking business. There have been conscious efforts in minimizing the risk without affecting the business opportunity since the early days of banking. Risk management is relatively easy in stable environment and under predictable circumstances of interest rates and forexrates. However, with increasing volatility in the market that is more in the tune of market moods and opening up of the financial markets as well as the resultants more free flow of capital across the borders has made risk management more complex. Liquidity risk is the most difficult to manage in a banking system. The biggest problem is the inability to ascertain when and where such as risk is going to occur. The bank in Japan, failed to understand the importance of stress testing under different Scenarios of back end testing.
1.10.1 Credit Risk:

The arises due to default in payment or delayed payment. In other words it is the risk of not getting back the money that is lent. Credit Risk may be of two types-Domestic credit Risk and Foreign Credit Risk. Foreign credit risk may be arising from the overseas operation of a bank and may be due to fluctuation in exchange rates, interest rates differentials between countries and country risk.

1.10.2 Market Risks:

This arises from adverse movement in interest rates and exchange rates. Market is also called price risk or interest rates risk. The discrepancies between fixed interest assets and fixed interest liability or difference in floating rates assets and floating rate liabilities give rise to price or interest rate risk.

1.10.3 Technological Risks:

Technological changes especially in the field of computer and communication and give rise to technological risk. The bank should properly assess technological risk and adopt suitable strategies and measures to manage risks.
1.10.4 Liquidity Risk:

Bank face the risk that tradable financial instrument or any assets may not be realize in cash. This risk is termed as liquidity risk. As Liquidity risk emanates from maturity mismatch of assets and liability, the gap in mismatch may be narrowed by raising funds from the money market of all the financial risks, liquidity risk is more important and it has to be kept within acceptable limits. Otherwise banks dependence on the money market would increase.

1.10.5 Contingent Risks:

This also referred to as off- balance sheet as it is associated with of balance sheet activities of the banks such as lines of credit, forward contracts and so on.

1.11 SCENARIO OF INDIAN BANKING:

There is a sea change in the Indian Banking system over the last 150 years. There were only 96 banks with just Rs. 1019 crore. Deposits and Rs. 424 cr. of credit in 1947. Today the deposits amount to Rs. 3016260 cr. And credit Rs. 214912 cr. In the past six eventful decades banks have played a commendable role in promoting saving and investment, helping in the nation in its march towards economic independence. The growth is highly impressive. The decade of 1990s was the turning point for the Indian Banking industries. It witnesses a complete transformation in the banking was caring out in India.\(^{(22)}\) Recapitalizing a few weak public sector banks (PSBS) and reviving the sick banks cost the exchequer thousands or crores of rupees. The fact that the current market value of capital is more than the cost is the matter of satisfaction. Accepting market realities and realizing the needs to raise the capital, to meet Basel II norms and growth, the government allowed diluted of stake in PSBS.

The major participants of Indian financial system are the commercial bank, Financial Institution (FIS), encompassing term Institutions, investments institutions, specialized financial institutions and the state –level development banks. Non bank financial companies (NBFCS) and other market intermediaries such as the stock brokers and money lenders. The commercial banks and certain variants of the NBFCS are among the market participants. The FIS on the other hand, are relatively new entities in the financial markets place. Banks in India have a chequed history.
The British legacy left behind a host of large and small privately held banks. Nationalization of banks leading to emergence of the PSBS, took place during the late 1960s. The 1960s saw the banking industry embracing technology in the massive way. This was mainly due to the entry of the private banks and the Multi National Company (MNC) banks.

Technology has made a tremendous impact on the banking industry and brought about many changes Virtual e-banking and “Any where and any time banking “are the order of the day. The financial sector operates in a more and intermediates huge volume of international financial flows. In the wake of greater financial deregulation and global financial integration, Indian banks face several challenges.

The major challenges are:
- Financial inclusion
- Wealth Management
- Implementation of Basel II norms
- Consolidation/ Merger and Liquidation
- Customer Relationship Management (CRM)
- Cyber Security
- Hectic Competition

To meet these challenges effective, the banks have to be optimistic in their approach.

According to David Rockfeller a prominent American Bankers in his book creative management in banking that explains the essence of ‘Creative Banking’ has five characteristics.
- Flexibility of approach
- Receptivity to change
- Optimism
- Courage to risk mistakes
- Sense of social responsibility
By keeping these in mind, the bank must continuously monitor the trends in the economy and care of rising rupees. ICICI Bank, CEO K.V. Kamath has given the following message for the present day banker:

“You can balance the risk of strong rupees through globalization market diversification, market heading and incremented efficiency by doing so, you can offset the impact of the rising rupee.”

The present day banking can be summarized in three words:
- Transformation
- Technology
- Transparency

The process of transformation is continuously on. This we have been witnessing from Gold Loan banking in 1860s to today’s need based lending. Retail banking and new financial product are the order of the day. From brick and mortar form of banking, we have come in to virtual banking.

1.12 **FUTURE OF INDIAN BANKING SECTOR:**

The Reserve Bank of India in its ‘road map’ for the banking industry has indicated that the Indian market will be opened for international banks by in nearer future. It is expected that many foreign banks would gain entry in the Indian market to tap the vast potential that exists today. These banks with the help of advanced technology, adequate capital for investment, and their customer centric approach will be able to attract the profitable customers from the existing banks. A fierce competition between the existing banks and the new entrants is likely to provide impetus for business growth. To effectively meet the competitive challenges from such banks, the Indian Banking industry will have to gear up and adopt the global best practices, which make them stronger and comparable with the international banks.\(^{27}\)

The new foreign banks entering the Indian market will strive for creating a strong customer base. These banks with their large resources availability in the form of capital are likely to infuse the latest IT based technological solutions for quality
financial services. The Indian commercial banks have experienced the shift of preference of the new generation customers from ‘personalized banking’ to ‘technological banking’. This techno-savvy customer groups prefers to complete banking transactions from their home or officers rather than visiting the bank branch.\(^{(28)}\) They have very little loyalty to their bankers and given a slightest improved technology to shift their banking needs from the existing to another bank. In the face of the threat of losing profitable customers to the new entrants in the banking sector, the existing commercial banks will have to evolve suitable market strategies aimed at attracting the existing ones.

1.13 **SERVICES OF BANKS**

The banking commission’s report has enlisted the following services rendered by Indian Commercial Banks\(^{(29)}\)

1.13.1 **Allied Deposits Scheme:**

1. Current Accounts  
2. Savings Accounts  
3. Fixed or Term Deposits  
4. Monthly Interest income Deposit scheme  
5. Cash Certificates  
6. Annuity or retirement Schemes  
7. Farmer’s Deposits Scheme  
8. Daily Saving Scheme  
9. Minor Saving Scheme  
10. Marriage / Educational saving plans

1.13.2 **Deposits Linked with Special Benefits:**

1. Insurance linked saving bank account  
2. Housing Deposit schemes  
3. Salary Reserve Scheme.
**1.13.3 Service provide for Depositors:**

1. Collection of cheques, demand draft, bills of exchange, Promissory Notes, Hundis, Inland and Foreign documentary clean bills.
2. Purchase of local and foreign currency, documentary/clean bills, negotiation of bills under inland and foreign letters of credit established by branches and correspondents.
3. Carrying outstanding introduction of deposits for the payment of insurance premium, payment of subscription, payment of certain taxes and gift remittances.

**1.13.4 Allied Loans Schemes:**

1. Call Loans
2. Term Loans
3. Cash Credit
4. Overdrafts
5. Letter of Credit
6. Personal loan for durable consumer goods, construction for residual houses, and electrification and purchase of gas connection.
7. Loan participation
8. Loan to road transport operation
9. Loan to small scale Industry
10. Loan to self employed person
11. Loan to technocrats, technologists, technicians and entrepreneur.

**1.13.5 Ancillary Services:**

1. Guarantees such as performance guarantees and financial guarantees.
2. Safe custody of deeds, and Securities
3. Safe deposit vaults.
4. Purchase and sale of services.
5. Collection of interest on securities, debenture and dividend on shares, collection of pension bills
6. Personal tax assistance
7. Credit Cards
8. Travelers cheques
9. Gift cheques
10. Credit transfers

1.14 **BANKING ON CYBER AGE:**

The electronic age has meant several changes of banking. Firstly the delivery channels have increased leading to lower cost and wider variety of services. The channels include internet, ATM and Phone banking. Internet banking has enabled by the passage of the it act in India. (30)

The second set of development relates to the activity of regulator. The recently launched negotiated dealing system for bond markets in an example of electronics has transformed the functioning of the financial markets. Thirdly the electronic age has affected clearing system, leading to very fast and more reliable Electronic fund transfer. The development in electronic bank has also led to new area of risk such as data security and integrity. These require newer techniques of risk management. (31)

1.15 **PROBLEMS AND PROSPECTS OF INDIAN BANKS:**

During the post reform period and due to situation because of Liberalization, Privatization and globalization (32) Indian banking sector is facing some problems and challenges. These are as under:

- Low profitability and productivity
- Lack of integrity
- Increase if administrative expenses
- Survival of loss making branches
- Scandals
- Lack of professional behavior
- Lack of personal and friendly approach with customers
- Non - performing Assets
- Customer Oriented Markets
- Problem of Customer satisfaction
- Post VRS effect in nationalized banks
- Depressing period running over the country
- Managing Workforce
- Management of technological advancement

However the banks have some prospects in present environment, by converting threats into opportunities, the banks can have better advantages these opportunities are as under:\(33\)

- Offering of innovative products, door to door service approach.
- Better customer service by customer relationship management
- Professional approach
- Managerial excellence
- Marketing and technological orientation
- Mass class customized and cyber service
- Branch expansion and rationalization of branches
- Deposit mobilization
- NPA management
- Assets reconstructions
- Motivational HRM policies
- Changes in landing process
- Merger and acquisitions
- Adoption of bench marketing and total quality management concept.
1.16 CONCLUSION:

The purpose of this study has been to assess the role of the Indian banking system in the socio economic field in the post nationalization period to evaluate its many achievements and shortcomings. The Indian banking system has undergone a major structural transformation from the one design to the serve mainly large and medium industries and large business house to one which support widespread growth in all the key sectors of the economy. The structure of organized banking sector is multidimensional and covers the public co-operative and private sectors. The public sector in the banking industry dominates and plays a significant role in overall development of the economy of the country.

Even through the banking structure in India is modeled on the British banking pattern; the banking seen began to alter with the nationalization of the imperial Bank of India, which became the State Bank of India in 1955 and seven associate banks of Bank of India in 1959-60. It was only in 1967 that the concept of Social control became a matter of actual policy. The philosophy of social control was concretized with nationalization of 14 major banks on July 19, 1969. Six more banks was nationalized on April 15, 1980 further extending the area of the operation of the public sector.
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