Chapter - 1

Introduction and Overview
INTRODUCTION AND OVERVIEW

1.1. Prologue

In India, the Commercial Banking sector, as in many developing countries, has been the dominant element in the country’s financial system. This sector has performed the key functions of providing liquidity and payment services to the real sector, and has accounted for bulk of the financial intermediation process. Besides institutionalising savings, the banking sector has contributed to the process of economic development by serving as a major source of credit to households, Government, business, and to weaker sections of the economy like Village and Small-scale industries, and agriculture.

An important landmark in the development of the Indian Banking sector in recent years has been the initiation of the reforms following the recommendations of the first Narasimham Committee on Financial System. This Committee was set up in August 1991 by the Government of India as a part of its economy-wide structural adjustment programme, and in response to the unsatisfactory economic and qualitative performance of the Public Sector Banks (Sarkar, 1999) owing to lack of competition, low capital base, low productivity and high intermediation cost. The Financial sector reforms, which started in early 1990s, have uprooted many of the outdated regulatory fences within which banks were required to carry out their activities. This provided more liberty to banks and they started exploiting different areas of operation. Gradually, many of the banks, apart from their indigenous function i.e., banking, started having substantial interests in all sorts of financial businesses like insurance, funds management, mutual funds, securities trading etc. Eventually, such a bank acquired the status of Financial Conglomerate and slowly began moving towards Universal Banking framework. All these have a marked change in the structure of a bank.

Simultaneously, in the global banking system, there has also been a structural and functional change of profound magnitude. Large-scale mergers,
amalgamations and acquisitions among banks and financial institutions resulted in the growth of size and competitive strengths of the merged entities. Thus, with all these developments, there emerged new financial conglomerates that could maximise economies of scale and scope by ‘bundling’ the production of financial services. This heralded the advent of a new financial services organisation i.e., Universal Banking, bridging the gap between banking and financial-service-providing institutions.

Universal Banking can be defined as a multi-purpose and multi-functional supermarket providing both banking and financial services through a single window. In simple words, a Universal bank is a super store for financial products. Under one roof, corporates can get loans and avail of other handy services, while individuals can bank and borrow. It can be said that Universal banks are a new breed of financial concerns which entertain, in addition to normal banking functions, other services that are traditionally non-banking in character such as investment financing, insurance, mortgage financing, securitisation etc. Therefore in a nutshell, Universal Bank has been in the form of group-concerns offering a variety of financial services like deposits, short-term and long-term loans, insurance, and investment banking etc. under an umbrella brand.

With the advent of Universal banking concept in the Indian banking sector, commercial banks – both in the public sector as well as private sector are focusing on product innovation to meet customer satisfaction effectively. In view of these objectives, commercial banks have opted for diversification into allied areas of banking business. In this process, their risk exposures have also increased considerably and this has invited the need for regulations by the Government. Moreover, as Indian Financial Sector encompasses a diverse and to some extent, disparate group/ set of financial intermediaries and service providers – banks, developmental financial institutions, primary dealers, non-banking financial companies, mutual funds, housing finance companies, venture capital funds, insurance companies (both life as well as non-life), rating agencies, accounting firms, brokers, depositories, asset reconstruction
companies, trustees etc. offering financial services to one or more categories of customers simultaneously – effective regulation is essential. Significantly, in India, regulations are rather stringent and an entity to convert itself into a Universal bank has to negotiate several regulatory authorities viz. Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI) and Insurance Regulatory Development Authority (IRDA), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Pension Fund Regulatory and Development Authority (PFRDA)\(^1\). This has been made mandatory so as to prevent bank failures because failure of banks can tumble the entire economic set-up of a country.

Moreover, the decision of the Government of India to open the banking sector to the foreign participants after 2009, has thrown an open challenge before Indian Banks to attain operational efficiency. Thus, to meet these challenges, Indian Banks need to shore up their Balance Sheet in time, fund sectors of the economy that need the money the most, and merge and acquire a scale that will permit it to face the competition with Foreign banks; all these demand a proactive strategy with logical exposure to different businesses.

### 1.2. The Indian Banking System

In India, there are marked disparities in income, industrial growth and development among its regions. The Policy makers, in order to address the issues of equitable growth and development of all the regions as well as the people, have combined both Socialistic and Capitalistic features in the country’s economic policy framework since Independence. This is evident from the large investments of the Public sector in infrastructure, manufacturing and the service sectors and also from the role assigned to the Banking sector. Thus, in India, the Banking sector has had to serve the goals of the economic policies enunciated in successive Five-Year Development Plans, particularly concerning equitable income distribution, balanced regional economic growth and reduction and elimination of private sector monopolies in trade and industry.

Significantly, as the Indian banking sector had been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, etc., they remained occupied with domestic priorities, especially massive branch expansion, attracting more people to the system and ensuring elimination of economic disparities. Thus, with the emphasis on social and development banking, margins on loans and advances had narrowed down and profitability of commercial banks declined. Apart from this, during this period, many Indian banks also remained internationally isolated (few Indian banks had presence abroad in international financial centres). The reason for which the banking system remained isolated from the international arena, however, can be attributed to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity was required for any Indian bank to open an office abroad (Deolalkar, 1999). Unfortunately, all these resulted in low profitability for Indian commercial banks. In view of low profitability of banks, the Government of India had initiated a series of reforms since early 1990s.

It is worth mentioning that the pace of development for the Indian banking industry has been tremendous over the past decade. Recent time has witnessed the world economy develop serious difficulties in terms of lapse of banking & financial institutions and plunging demand. Prospects became very uncertain causing recession in major economies. However, amidst all this chaos India’s banking sector has been amongst the few to maintain resilience (FICCI, 2010).

1.3. The Evolution of Indian Banking System

The indigenous system of banking had existed in India for many centuries and catered to the credit needs of the economy of that time (Leeladhar, 2007). The famous Kautilya’s Arthashastra, which is ascribed to be dating back to the 4th century BC, contains references to creditors and lending. For instance, it says “If anyone became bankrupt, debts owed to the state had priority over other creditors”. Similarly, there is also a reference to “Interest on commodities loaned” (Prayog Pratyadanam) to be accounted as revenue of the state. Even
Manu, the great Hindu jurist, devoted a section of his work to deposits and advances and laid down rules relating to rates of interest to be paid or charged (Bedi & Hardikar, 1983). Thus, in the medieval India, it appears that lending activities were not entirely unknown and the concepts such as ‘priority of claims of creditors’ and ‘commodity lending’ were established business practices even during that time.

For more than a century, in many developing countries, the Banking system remains the focal point in its financial set-up and as such banks are regarded as special in view of their specialised functions in the financial intermediation and payment system of a country (Samal, 2001). The Indian Banking System is no such exception and in fact, in India too, economic development has evolved around the banking system. However, the Indian Banking System is unique and perhaps has no parallels in the banking history of any country in the world (Velayudham, 2002). This is because, over the last five decades, Indian Banking has witnessed a gradual and remarkable growth in terms of resource mobilisation, branch expansion, and its command over financial assets and also in terms of the services it offers. Thus, the progress of Indian Banking is tremendous and it is not only significant for the country’s economy but at the same time, it gives us interesting dimensions on the various phases of its growth especially in the light of macro economic developments, monetary and banking policies of the government and the external situation which influenced the evolution of Indian banking in different ways and in different periods. A historical glance on the development of Indian Banking Industry reveals that it has passed through various distinctive phases of growth, which may be classified under different phases. These phases are discussed below-

1.3.1. Evolutionary Phase: Banking before Nationalisation (1948-1968)

During the pre-independence era, India witnessed a turbulent politico-economic scenario due to the outbreak of Second World War and subsequent intensifying of national freedom movement of our country (Singh, 2005). With the dawn of independence, India faced the herculean task of rebuilding the economy, which
was in a state of despair. In view of this situational requirement and specially to provide the much needed stimulus and direction to the economy, the Government of India as well as State Governments have formulated various policies for faster and orderly growth of the economy through optimum utilisation of available resources – natural, physical, human and financial.

As the financial sector provides necessary impetus for a sound economy, the policies of the Government had been directed for the upliftment and strengthening of this sector. And the first step in this direction was nationalisation of Reserve Bank of India in 1948, followed by the enactment of the Banking Regulation Act, 1949 for amendment and consolidation of the laws relating to banking companies. This was deemed necessary as independent India inherited a banking system that was patterned on the British Banking System and during that period, there were many joint stock companies doing banking business especially in major cities. However, due to lack of uniform law governing banking activities in our country, there was mushroom-like growth of banking companies. This eventually lead to the failure of as many as 55 banks in the year 1949 and these banks either went into liquidation or went out of banking business (Velayudham, 2002). Thus, the enactment of Banking Regulation Act with its subsequent enforcement in March 1949 imposed certain discipline on the joint stock companies doing banking business in India and thereby provided the legal framework for the regulation of the banking system by RBI. As a result, the banking industry came to be organised for the first time on certain uniform parameter.

With the introduction of economic planning in 1951, a strong need was felt for aligning monetary and banking activity with the requirements of planning. This need had arisen due to the fact that the banking system was deficient in the following respects –

(a) The banks were largely urban-oriented and remained beyond the reach of the rural population, which then constituted a major percent of total Indian population. Thus, bank’s rural penetration was grossly inadequate.
(b) Agriculture – the backbone of Indian economy was not considered an economic proposition by banks and as such credit in-flow to this sector was inadequate. Thus, this crucial sector of the Indian economy was not supported by the banking system in any form.

(c) Initially, the focus of banks was entirely on short-term credit. During that period, there were neither any prominent source of long term finance (except for Industrial Finance Corporation of India which was set-up in 1948) nor the capital market was as developed as it is today. As a result of this, industries suffered due to dearth of long-term finance.

With a view to overcome the above lacunae, RBI constituted All India Rural Credit Survey Committee in 1954 to review the rural credit scheme. The recommendations of the Committee led to nationalisation of Imperial Bank of India and it was rechristened as State Bank of India from July 1955. The State Bank of India was given the responsibility of expanding its rural branch network. This, in fact, was the first step taken to induct the commercial banks into rural credit – a domain, which till the other day was under the hold of co-operative credit agencies.

1.3.2. Expansion Phase: Nationalisation and after (1969-1984)

The expansion phase began in a sedate manner with the appointment of the Banking Commission in 1969. The Commission was given the responsibility to recommend changes in structure, procedures and policy for the Indian Banking system. However, the Commission did not have much time to complete its task as it was overtaken by swift politico-economic developments, which culminated in the nationalisation of banks in 1969 (Velayudham, 2002). The Government, headed by then Prime Minister of India, Mrs Indira Gandhi, issued an ordinance and accordingly 14 major Schedule Commercial banks in the private sector was nationalised with effect from the midnight of July 19, 1969. In fact, this move of the Government came into effect after the paper entitled ‘Stray thoughts on Bank Nationalisation’ presented by Mrs. Gandhi in the annual conference of the All India Congress Meeting was received with positive enthusiasm. Subsequently on
April 15, 1980, 6 more private sector banks were nationalised, and with this the GOI controlled around 91% of the banking business of India. In other words, the second round of nationalisation extended further the area of public control over the Indian banking system.

In fact, the Indian Banking system gained much strength and cohesiveness after the first round of nationalisation of banks as nationalisation has improved the environment in respect of formulation and implementation of the monetary and banking policies (Dhar, 2004). With nationalisation of the banks, the management of the banks was taken over by the Government of India, which is now being run by the Board of Directors comprising persons of eminence in the field of agriculture, trade & industry, academics, banking and social services etc. and banking activities were initiated mainly to bring large areas of economic activity within the organised banking system. Therefore, the two significant aspects of nationalisation were –

- Rapid branch expansion
- Channelling credit according to priorities

During this phase, there was phenomenal growth in the number of bank branches covering the un-banked and remote areas of the country thereby making the banks accessible to the common people by adding to the length, width and depth of the banking services. In fact, in terms of the branch licensing policy laid down by the RBI, the accent was on the opening of branches in rural and semi-urban areas, backward regions and under- banked states so that inter-regional disparities could be reduced. All these initiatives of the Government and RBI lead to an increase in the number of bank branches by about 733.36 % from 8,262 branches as on June, 1969 to 68,852 branches as on March, 2010. Similarly, the total deposit mobilised by banks went up from Rs. 4,646 crores as on June, 1969 to Rs. 45,14,603 crores as on March, 2010, while bank credit went up from Rs. 3,599 crores as on June, 1969 to Rs. 33,33,794 crores as on March, 2009².

However, during this phase, the dominance of social considerations over commercial judgement in Government-directed bank policy led to compromise on the quality of the credit leading to poor profitability of the banks and resulting into booking of losses by the nationalised banks. Moreover, during this phase, banks were required to work under administered price regime wherein the RBI determined the rate of interest, service charges, other fees and charges in consultation with the Government of India. This, in fact, acted as a limiting factor for banks thereby adversely affecting their profitability and which necessitated consolidation of weaker banks.

1.3.3. Consolidation Phase (1985-1990)

The phenomenal growth of the Indian Banking system over the last two decades prior to reforms, gave rise to several problems which became more visible from the mid-eighties (Velayudham, 2002). The emergence of social banking i.e., the use of banking as an instrument of promoting socio-economic objectives of the Government and rapid branch expansion initiatives of banks thereafter had rendered the banking system unwieldy. In fact, the expansion phase after nationalisation, which was marked by geographical and numerical proliferation of bank branches, developed some weakness such as low profitability, poor customer service, mounting non-performing assets, over staffing etc. Besides these, the banking sector was exposed to several weaknesses. These were low operational efficiency, inadequate capital base, unhealthy balance sheets, unsatisfactory customer service etc. In short, the very viability of the banking system came in for scrutiny.

In view of all these developments, the need for consolidation of the banking system was felt. Individual banks had started to prepare action plans covering organisation and structure, housekeeping, training, customer service, credit management, recovery of loans, productivity and profitability. In the back drop of these developments, the Rangaranjan Committee on Computerisation in banks put forward its recommendations. On the basis of these recommendations, Reserve Bank of India asked banks to introduce in a phased manner, modern technology in banking operations. Simultaneously, banks started rationalising
their branch network by shifting, merging and closing down the non viable branches; new branches were opened based purely on business/ profitability considerations. Moreover, increasing competition made the banks more customer-oriented and at the same time, led to shrinkage of profit margin, which eventually resulted in voluntary merger of many banks so as to gain competitive edge. Significantly, during this phase, merger of Bank of Madura with ICICI Bank, Times Bank with HDFC Bank, ICICI Ltd with ICICI Bank etc. took place. These mergers took place because ‘size does matter’ as it helps to bring down per unit cost of technology and various overhead costs (Das & Das, 2007). In short, the motive to enjoy substantial cut in cost per unit of production and at the same time to remain competitive was one of the reasons for consolidation taking place in the banking industry.

During this phase, apart from India, M&A activity was seen in various countries and these were largely a response to the deregulation of the industry as exemplified by the abolition of geographic restrictions on banks and demolition of demarcation lines between different types of financial services (Hagendorff, Collins & Keasey, 2007). In fact, deregulation of the sector initiated the process of consolidation of the banking system not only in developing nations like India but also in developed nations like the USA, Italy, and Germany.

1.3.4. Reforms Phase – the regime of reforms (1991-2002)

In India, economic reforms programmes began as a response to macro-economic crisis that developed in early 1991. The crisis manifested itself in rising inflation, high level fiscal deficit, low growth and unsustainable current account deficit, and the Gulf war of 1990 further precipitated the Balance of Payment crisis. The Government of India, faced with the most serious BOP problems, initiated measures for stabilisation and structural adjustment with far reaching consequences. However, economic reforms in the real sectors of the economy would not succeed without parallel reforms in the financial sector and also the banking system cannot become viable or sustainable in the long run unless it adequately responds to the needs of the market-oriented economy. In view of
this need, the Government felt the need for financial sector reforms. Another significant reason which made the Government of India to introduce financial liberalisation programmes in 1991 was the decline in public sector profitability, coupled with policy prescriptions of the ‘Washington Consensus’ (Howcroft & Ali, 2006).

The basis of financial sector reforms was provided by the first Narasimham Committee on Financial System which made its recommendations in November, 1991. These recommendations are a landmark in the evolution of banking policy of the country because reform measures have uprooted many of the outdated regulatory fences within which banks were required to operate. Apart from this, the reform measures specifically aimed to improve overall monetary policy framework, strengthening the financial institutions and gradual integration of the domestic financial system into the global economy. In other words, the primary objective of this initiative was to establish a more profitable, efficient and robust commercial banking system by creating a competitive environment through deregulation of interest rates and state-directed credit policies, the removal of entry barriers and privatisation of public sector banks. Therefore, this phase can be regarded as second banking revolution (Samal, 2001).

As a result of introduction of financial reforms, this phase began with a radical departure from regulated banking towards market-oriented banking. Moreover, this phase witnesses the liberal entry of private and foreign banks, operational freedom to the banks, deregulation of interest rates, reduction in the statutory reserve requirements of SLR and CRR, introduction of international norms of accounting in terms of capital adequacy, income recognition, asset classification and provisioning etc. All these changes brought competitiveness and ‘profitability’ became the core of business objective of the banking sector (Singh, 2005).

1 Washington Consensus: The term Washington Consensus was initially coined in 1989 by John Williamson to describe a set of ten specific economic policy prescriptions that he considered should constitute the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank, and the US Treasury Department. (http: www.en.wikipedia.org/wiki/Washington_Consortium)
Again, the Government of India, to review the implementation of the reforms recommended by the earlier Committee and to look ahead and chart the reforms necessary in the years ahead to make Indian Banking strong and better equipped to compete effectively in the fast-changing environment, appointed a second high-level – ‘Committee on Banking Sector Reforms’ headed by Mr. M Narasimham. The Committee submitted its report in April 1998 and made wide-ranging recommendations covering various aspects of banking policy, institutional, supervisory and legislative dimensions. The Committee came out with recommendations with regard to capital adequacy; asset quality; non-performing assets; directed credit; prudential norms; disclosure requirements; asset liability management; earnings and profitability; systems and methods in banks; restructuring including mergers and amalgamations; reduction of Government and RBI holdings to 33% in the public sector banks; devising effective regulatory norms and the review of the banking sector laws. In follow up of Narasimham Committee’s (1998) reference to weak banks in the context of restructuring of banks, Verma Committee was appointed in 1999 with the specific task of identifying weak public sector banks, examining their problems and suggesting strategies for restructuring them.

Simultaneously, in 1998, a Working Group chaired by S.H. Khan on ‘Harmonising the Roles and Operations of Development Financial Institutions and Banks’ was formed by the Government. This Working Group explicitly recommended for a progressive movement towards Universal Banks, especially for DFIs.

Thus, the most significant achievement of the financial sector reforms has been the marked improvement in the financial health of the commercial banks in terms of capital adequacy, profitability and asset quality as also greater attention to risk management (Purwar, 2003). Further, deregulation has opened up new opportunities to banks to increase revenues by diversifying into investment banking, insurance, credit cards, depository services, mortgage financing, securitisation etc. At the same time, liberalisation has brought greater
competition among banks both domestic and foreign, as well as competition from mutual funds, Non Banking Financial Companies, post office etc.

To sum up, it can be said that the first part of this phase may be termed as 'curative'. This is because during this period, the issues of cleansing the balance sheet of banks and putting them on a recovery path (Kohli, 2001) were addressed. The second generation reforms, which started in 1998, can be termed as 'preventive' as it aimed at building a strong and robust banking system which can withstand the pressures of globalisation. Thus, during this phase, with legislative changes taking place for making the banks more transparent and viable and international accounting standards being introduced in a phased manner, the objective, in fact, was to make the Indian banks internationally competitive with sound capital base.

1.3.5. The Era of Innovative Banking and New Challenges (Beyond 2002)

Reforms in the Banking sector (especially after the first phase of Financial reforms) laid the basis for a sound banking system (Velayudham, 2002) and at the same time provided the much required impetus to Indian banks to carry out their business operations in the competitive and deregulated environment. In fact deregulation has triggered competition and this is presumed to intensify in 2009 and beyond when the Indian Banking sector would be thrown open to foreign participants (Rajadhyaksha, 2004). Thus, it is evident that competition, here, does not mean just in terms of number of competitors, but it is in terms of proliferation of innovations, specialised markets, cross-border trade in financial services and capital flows – all of which are to be supported by adequate information and communication technology.

A striking feature of this phase is that profitability has become the main criterion of working of the banks. Banks have moved from branch expansion to branch rationalisation and from mass recruitment to Voluntary Retirement Schemes (VRS) with selective recruitment and finally from least technology driven to total branch automation and inter-branch linking (Lakshminarasimha &
Murali, 2004). This was deemed necessary because competition in the banking sector has increased tremendously. With blurred product boundary, banks are facing competition not only from domestic private and public sector banks but also from foreign banks, Non Banking Financial Companies, DFIs as well as Mutual Funds and Insurance Companies.

With increased competition in the banking sector as well as margins on traditional business have been eaten away, today, banking is no longer limited to borrowing and lending of funds (Singh, 2001) but it is seen as a business related to information on financial transactions. Significantly, the last decade of the 20th century have seen banks diversify into new areas to widen their business horizons. Modern banking has seen the banks diversifying along product and business lines, which considerably enlarged the operations of the various public and private sector banks. Banks have ventured into new areas like merchant banking, leasing, factoring, mutual funds, portfolio management, venture capital, housing finance, stock trading, securitisation of debts etc., thereby proliferating in multi-directional way as well as in multi-dimensional manner.

Another area where banks have started emphasising upon is customer satisfaction. In fact, one of the biggest challenges for a service organisation like a bank is to meet rising customer expectations (Khan, 2004). Today, customers expect information and advice on tailor-made asset management, operations management and high technology services incorporating instruments such as derivatives (Singh, 2001). And it is believed that Information Technology plays a significant role in providing better customer service, presumably at a lower cost. Therefore, several innovative IT based services such as ATM, Electronic Fund transfer, Anywhere-Anytime banking, Smart cards, Net banking etc. are adopted by banks (Sureshchandar, Rajandran & Anantharaman, 2003) to facilitate customers in availing the products of their choice.

Thus, in the Era of Innovative banking, Indian banks need to shore up their Balance Sheet in time, fund sectors of the economy that need the money the most, and merge and acquire to get the scale to take on competition especially in post 2009 so as to retain its customer-base.
1.4. Institutional set-up of the Indian Commercial Banking Sector

The Commercial Banking sector in India, as in many developing countries, has been the dominant element in the country’s financial system. Commercial banks which conduct the business of banking in India and which—

(a) have paid up capital and reserves of not less than Rs.5 lakh and

(b) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interest of their depositors,

are eligible for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934, and when included are known as ‘Scheduled Commercial Banks’. Commercial Banks include foreign banks operating in India in addition to Indian banks in the public sector and the private sector, including the Regional Rural Banks. Significantly, the banking sector in India is dominated by Scheduled Commercial banks and among these the largest banks accounting for a predominant share of bank deposits are owned by the Government.

Fig. 1.1 : Institutional set-up of the Indian Commercial Banking Sector

![Institutional set-up of the Indian Commercial Banking Sector]

Source: NEDFi Databank Quarterly, April, 2004
Thus, banking in India, has witnessed a tremendous progress, both quantitatively and qualitatively, since the initial round of Nationalisation of banks in July, 1969. The number of commercial banks at that time was only 89 and it has grown to 292 as on March, 2003. Significantly, the bank branches have grown from 8,262 in 1969 to over 68,561 in March, 2003. The population served per branch has improved substantially to 16,000 from 64,000 in 1969\textsuperscript{4}.

Today, the key driving force underlying developments in banks is the momentum of innovation in a broad range of information processing technology including telecommunications and computer technology and providing innovative tailor-made products so as to retain customer-base and survive competition in the environment. Moreover, with the country’s emerging economy, ongoing reforms of the financial sector, ever-increasing levels of FDI, a positive regulatory climate and a diverse demographic profile have led India to emerge as one of the fastest growing banking markets worldwide (Singh, 2009).

1.5. **Overview of the Thesis**

The Thesis consists of 9 (nine) chapters. A brief on each chapter is as below –

**Chapter I : Introduction and Overview**

In this chapter, a brief introduction on the topic is given. It highlights the evolution of the Indian Banking System over the years as well as the existing institutional set-up of the Indian Commercial Banking sector.

**Chapter II : Review of Literature**

The chapter – Review of Literature briefs the past studies conducted in this area of research as well as publications made in the area of banking and financial management.

**Chapter III : Objectives, Scope and Limitations of the Research**

The third chapter of the thesis is on the objectives of the research, the scope and the *limitations of the research*.

\textsuperscript{4} Source: NEDFi Databank Quarterly, April 2004.
Chapter IV : Research Methodology

The fourth chapter is on Research Methodology. This chapter gives detailed information on how the research process was carried out.

Chapter V : Banking Sector Diversification and Rise of Universal Banks

The basic theme underlying this research is Universal Banking. In this Chapter, an effort is made to provide detailed information on Universal Banking framework, the challenges before Indian banks on becoming Universal Banks, the advantages and disadvantages of Universal Banking and the structure of Universal Banks.

Chapter VI : Risk and Risk Management in the Banking Sector

Risk in the banking sector has increased substantially over the years as banks have gone for diversification. In Chapter VI of the thesis, a detailed outline is given on the types of risks encountered by the banks and how these risks are managed.

Chapter VII : Indian Banking Sector - Emerging Challenges

Chapter VII highlights the emerging challenges that banks are facing due to financial sector reforms initiated by the Government since early 1990s and also due to diversification of business activities by banks.

Chapter VIII : Analysis & Findings

Chapter VIII is on Analysis and Findings of the research.

Chapter IX : Conclusion and Recommendations

On the basis of findings of the research, conclusion of the research is derived and accordingly recommendations are put forwarded. These are elaborated under Chapter IX of the thesis.