PART -I

INTRODUCTORY ASPECT
OF THE STUDY
CHAPTER- I

INTRODUCTION
1.1 THE RESEARCH TOPIC

The topic for research “Role of New Generation Private Sector Banks in the Socio Economic Growth and Development of the country” assumes great significance in the backdrop of the present economic scenario. With the opening up of economy, the banking industry also threw open its doors and the Reserve Bank Of India allowed private sector banks to commence its activities, which were classified as New Generation Private Sector Banks. The study aims to find out the role of such banks in the various sectors of economy and to what extent these banks have been successful in impacting the socio economic growth of the country. An exhaustive research has been undertaken to study the role of these new generation private sector banks and the various challenges that these banks need to face in the course of time and with the changing face of Indian economy.

In a nutshell, this research makes significant contributions to the dynamic world of Indian Banking Industry and the most significant part is the relevance and challenges faced by the New Generation Private Sector Banks.

1.2 THE CHANGING FACE OF INDIAN ECONOMY

The Indian Economy has been besieged with “ups and downs” and for a long period languished as a “socialist economy”, driving the country towards an economic crisis, so much so that India was counted as an underdeveloped economy. Social equity and governmental influence on the economic parameters took the center stage as a result of which the economy became
stagnant with a plethora of ills such as closed economy, unemployment, low Gross Domestic Product, low Productivity and Consumption, negative BoP, high tax regime and license raj. While the major countries and their economies were booming and grabbing the attention of economists and social planners, Indian economy slowly faded into oblivion, into a hibernation of sorts. Myopic political vision and a dithering political will with vested interest kept the economy insulated from opening the doors to changes and the Indian economy was totally isolated from the world economy. Reeling under the pressure of a high negative balance of payment, low foreign exchange reserves, highly depreciated currency vis-à-vis the UD dollars, low agricultural output and a booming population, “aid” from external agencies became the prime source of sustenance and borrowing became the main technique for survival.

While the 19th century belonged to Europe, American economy stole the limelight in the 20th century and started spreading its tentacles the world over, many believed that the 21st century belongs to Asia, whether it is China, India or other countries in the south east of Asia. While in the mid sixties and early seventies, Asia contributed to 4% of the world GNP, by the early eighties, the share of Asia’s contribution to the world GNP was equal to that of America and by the end of nineteen ninety six, the South East Asian economies were way ahead of the combined economies of America and the UK. The winds of change had already started blowing across the world and economic liberalization was the new mantra for development. Indian leaders
who for decades together had kept themselves insulated from the change could no longer hold their forte and the strong winds of globalization and liberalization forced itself into the Indian sub continent. Under the able stewardship of the then Finance Minister Dr. Manmohan Singh, India started injecting the vital doses of change into the economy in 1991. This era is preferably called as the “second independence of India” from the shackles of economic bondage. This process has been continuing for the last fifteen years, albeit with mixed attitude and a very slow pace, but it put the rails on the track and signs of improvement are clearly visible on all fronts. The structural bottlenecks in the bureaucracy have been removed slowly, though we still cannot claim ourselves to be free from the “inspector raj” and the “bureaucratic red tapism”. Foreign Direct Investments have been coming and India is now slowly viewed as an investment destination by the world investors. Infrastructure is being accorded top priority and all possible efforts are being made to provide sound infrastructure facilities which otherwise would have impeded growth. Roads, Railways and Ports have been the thrust area and telecommunication has been acknowledged as the backbone of our growing economy. Transparency in administration and reforms in the area of labor and judiciary have also been initiated to foster a suitable climate for the global investors. The Tenth Five Year Plan witnessed a surge in the annual GDP of over 7% and subsequently the 11th Five Year Plan saw a rise of GDP to 9% in 2006 and 9.5% in 2007. Inflation at the present levels of less than 5%, though partly due to government control of
supply of items along with a tighter monetary policy, still points at a healthy economic growth ahead. Capital inflows exceeding 25 billion USD and foreign exchange reserves of more than 200 billion USD speaks about the buoyancy of the economy. Higher revenue collections based on a wider and inclusive base coupled with a surge in foreign trade points at the health of the economy.

1.3 SECTORS OF THE ECONOMY

While there have been attempts by scholars to classify the various sectors affecting the Gross Domestic Product and the economy of the country, the process remains pretty dynamic on account of the changing economic scenario. Liberalization, not only brought in global competition, it also opened up avenues, which were hitherto not exploited. The latent potential of a variety of sectors were not realized until, global players in their attempt to shore up their economic growth paved way for Indian players to tread these sectors of growth. Information Technology was already a booming sector but IT enabled services such as Business Process Outsourcing, Knowledge Process Outsourcing and Clinical Research Outsourcing are new sectors which has revolutionized the economic growth of our country. Similarly, tourism sector had always got a great potential until medical tourism became the new age mantra for boosting the economy of the country. The Indian economy can be broadly discussed sector wise as under:
1.3.1. Agriculture and allied activities.

Agriculture forms the mainstay of the Indian economy and yet it was neglected for a long time, despite being the largest provider of livelihood with as high as two third of the work force of the country. Lack of a concerted approach towards use of land and enhancing productivity per hectare, production declined over the period and agriculture became an "unviable proposition" leading to migration of masses from the villages to our cities. Imports of food grains to tide over the food crisis, large-scale shortages and starvation deaths added to the woe, until the government came up with systematic policy on the matter. The eighth Five-year plan saw a considerable thrust on agriculture and allied industries, which ultimately led to the "Green Revolution" and in turn a robust stock of food grains in the country. Today, statistical data points out that agriculture activity and contributes about 18% to the country's GDP in the financial year 2006-2007 and is helping the country to become self reliant and build up a huge buffer stock of food grains giving the country a sense of "food security". This has directly pushed up the production of farm machineries and ancillary components along with the growth of food processing, floriculture, poultry and livestock, cold chains and logistics helping a more vibrant supply chain management. A scientific approach to use of fertilisers, change in cropping pattern and use of better quality inputs has further strengthened the backbone of our economy apart from opening up new vistas for farm lending and rural credit by banks and financial institutions. Technological missions
on Oilseeds, horticulture, floriculture, dairies and poultry have given a definite shape to the momentum in the area of agriculture and today agriculture is slowly being accepted, as a profession at will rather than a profession without recourse. But a lot still remains to be done in the area of water harvesting, better irrigation techniques, regular scientific research activities and diversification into other areas of agriculture.

1.3.2. Industries.

From an abysmally low industrial growth rate of less than 3% to a challenging rate of 10.8% in 2006 and 11.7% in May 2007, the travel has been a bumpy ride. Manufacturing sector accorded a jump from 12.2% in 2006 to 12.7% in May 2007 and marginal increase has been accorded in the area of power and mining sectors. Out of the 17 industry sectors, 7 sectors grew rapidly and out performed the growth over last year. The success stories of Indian corporates are being replicated the world over and hosts of Indian corporates are on a global acquisition spree. The global corporates have started to take serious note of Indian corporate that are drawing inherent strength from performance. The world has today awakened to a rude shock where Indian companies are acquiring global multinationals and making a place for themselves in the world economy and Indian industries are now a global force to reckon with.

1.3.3. Housing and Real Estate.

According to recent estimates, the real estate sector of our country is growing at a scorching pace of 30% annually and is valued to be roughly
around 13 billion USD. Real estate sector is considered to be a vital ingredient of the economy and is the second largest sector of employment after agriculture sector. The change in this sector has not happened overnight, but it took more than five years to reach its present potential, after the government allowed 100% foreign direct investment in 2002. The change in policy for FDI in integrated housing development spurred the demand and supply positions and today for every one rupee that is spent in real estate, around 78 paise adds to the GDP, which by any standards is quite substantial. The boom is equally influenced by the growth of Retail business, which again points to the growing influence of the middle class and their purchasing power.

1.3.4. Infrastructure.

Since the advent of liberalization of the economy in the early nineties, a major facelift was accorded to the industry and infrastructure sectors. The government and planners had by then realized the socialist policies of the government in the last four decades had spelled doom for the Indian economy. By insulating the economy from global competition the country was not only bereft of precious foreign investments but also saw a gradual decline in export earnings as our goods and products became uncompetitive and obsolete due to lack of technological innovations. However in the Tenth Five Year Plan (2002-2007) the government fully realized the flaws and in order to achieve a double-digit growth rate of GDP, which was still languishing at around 6 percent, opened up the economy with much wider
dimensions. Infrastructure being the key driver for attracting foreign direct investments and technology transfer, the government took the lead in creating a conducive atmosphere for the development of infrastructure. Steps to improve the quality of governance and the quantum and quality of infrastructure, the government focused in areas of:

**1.3.4. (1) Road Transport.**

India lives in its villages and social planners have always aspired to link up our villages with the urban centers so that the urban rural divide could be minimized and mass migration from the rural to the urban centers would be reversed. The government in the early nineties drew up plans to link all our villages to the nearest towns through a novel scheme called “Pradhan Mantri Gram Sadak Yojana”. This was a major step towards improving the economy of our villages by facilitating better realization of agricultural produce and avoiding the market intermediaries. Similarly, transportation of goods and people across the country was accorded national priority for better productivity and growth and cutting down on the huge fuel losses due to congestion of our state and national highways. The government came out with the “Golden Quadrangle” project and intended to enhance our existing national highways to cope with the growing demand on movement of goods and people through roads. Roads were meant not only to link the entire country but also it served as a means of moving the determinants of economic activities across the country and create a better environment for trade and commerce throughout the length and breadth of the country.
1.3.4(2) **Power productions & distribution.**

Developed nations of the world have always aspired to build "energy security" for a sustained economic growth. Realizing the importance of energy in the growth process, the government realized, albeit a bit too late, that huge investments are required in the power sector and as a run up to this stage, the power sector needs to be privatized. Hence, the government allowed entry of international players and foreign direct investments in this area and power generation sector was privatized. Again in order to cut down huge transmission losses and losses on account of theft, the area of power transmission and distribution were also privatized. Many states such as Orissa and Andhra Pradesh were treated as model states for privatization of the power sector and despite numerous initial hurdles, the model is proving to be efficient.

1.3.4(3) **Telecommunications**

The Technology Mission headed by the famous Sam Pitroda under the able leadership of the then Prime Minister Shri Rajiv Gandhi, felt that the nation to move towards a developed economy requires our villages to be linked with the outside world and rural telephony was a major achievement in this direction. A slow movement was initiated to transform a "rural isolated village" to a "picturesque global village" and linking it to the outside world. It was an accepted fact that all planning related to growth and development of the economy were to take a back seat unless rural economy was juxtaposed with urban economy and bridging this rural urban divide was not possible
unless information flowed seamlessly across and outside the country. This gave birth to a new idea of deeper penetration in telecommunication and rural telephony was an offshoot of this idea, which later changed the entire economy.

1.3.4(4) Civil Aviation

Liberalization leads to globalization, which had its own share of challenges and prospects and easy accessibility was a major demand created out of this process. Business planners revamping the existing airports, modernizing them and creating new facilities in remote corners of the country required huge investments and the government started allowing private equity participation for development of airports.

1.3.4(5) Railways

Railways despite being the oldest mode of transportation were becoming a drag on the resources of the country and the importance of this facility was being undermined until the government realized the potential of this infrastructure and its contribution to the growth of the economy. The entire system was outdated and required to be computerized along with rationalization of Tariffs to make the movement of freight competitive and in sync with the market. The government has also drawn up ambitious plans to demarcate special railway routes as “dedicated freight corridors” for effective transportation of goods. Privatizing the ownership of wagons for transportation of goods was an important step in this direction and the government has clear-cut mandates for making the Railways more effective.
and efficient. Huge budgetary allocations have been made in the recent budgets for laying new lines as well as for strengthening the existing network, which will go along way in boosting the infrastructural requirements of the economy.

1.3.4(6) Ports and shipping

Ports had always been a point of economic activity, but had been neglected for a long time. Greater emphasis was placed on restructuring the existing ports and modernizing the facilities so that inland transport facilities and the ports could be integrated for better accessibility to resources. Since the process of modernization of ports and creation of new ports required a huge investment outlay, the government allowed private-public participation for the development of ports and private investment in ports was also opened up. Global organizations have started thronging the Indian mainland to set up basic manufacturing industries on a mega scale, but the rate of success of such projects will depend on the government's ability to provide proper ports and shipping services.

1.3.5. Education.

As per reports of the world bodies like WHO and UNDP, India faces a unique issue of illiteracy, with more than 55 percent of its population being either semi literate or illiterate. The main reason behind such a situation is the lack of proper investments by the government in the basic education sector which is now trailing at around 2.5% of the GDP and needs to be brought up to at least 10% of the GDP. To quote Shri Krishan Khanna “The Goddess of
Learning needs to be unchained", by which he meant that to transform India as an economic power, the education sector needs to be deregulated and opened up, just as we unleashed our economic prowess by opening up our economy. An average estimate puts the figure straight at an additional 1 lac crores is required to take basic education to the most remote corner of our country and then only it would be possible to become a "knowledge Power" along with being branded as an "Economic Power". This can be only possible if the government allows education as a sector for private investment and more and more entrepreneurs are encouraged to invest in this activity and not take up education as a philanthropic activity. With India already becoming a knowledge hub due to its inherent strength in the education system and the power of English, the government has initiated actions to attract more and more investments in education sector and make it a viable and rewarding sector.

1.3.6. Health Care
The deplorable condition of Public Health System stems from the failure of government intervention in making health care available for all. A systemic neglect and apathy by the government and the politicians have resulted in a total collapse in the health care system and worst hit are the rural masses that often have to travel more than fifty kilometers by foot to avail basic health care facilities. This situation prompted the mushrooming of private health care system in the country, which although provided state of the art facilities, never became affordable for the common man. The government
woke up to these harsh realities and recently decided to allow foreign direct investments in the health care sector of the country. In a recent development, the government of India has also ambitious plans of allowing Private Public Partnership model in the health care sector of the country so that the vast existing infrastructure of the government can be tapped for better usage. With the growing Indian middle class and the growth in purchasing power, health care services is no more confined to the affluent classes and the sector now looks to the “middle of the pyramid” as a potential segment for boosting the economy.

1.3.7. IT and IT Enabled services.

Despite the fact that IT related industry is a fast growing industry, Indian government never accorded any priority to this industry. Only after the government under the New Computer Policy in 1984 delicensed the industry and gave away a host of concessions to the industry, that the industry started incubating from infancy to its present stage. With a huge English-speaking work force and world-class corporates, India catapulted itself into the Ivy League and the world economies started to reckon India as a major force in the field of IT.

Information Technology and IT Enabled services comprising of the software, Business Process Outsourcing and Knowledge Process Outsourcing has caught the fancy of the world investors and India has become one of the hot favorites. Today service sector in India contributes more than 50% of the total GDP, which reaffirms the solid fundamentals in our economy.
Service Sector in India

Service Sector in India today accounts for more than half of India's GDP. According to data for the financial year 2006-2007, the share of services, industry, and agriculture in India's GDP is 55.1 per cent, 26.4 per cent, and 18.5 per cent respectively. The fact that the service sector now accounts for more than half the GDP marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy. As more and more corporate across the world will find outsourcing as a cost effective method of getting their jobs done, India will do well in the ITES sector and this sector will continue to be the largest contributor to the GDP and the economy. A step forward in this direction is the concept of Business Process Outsourcing, Knowledge Process Outsourcing and even Clinical Trials outsourcing.

1.3.8. Tourism

Our planners never reckoned the potential of Indian tourism industry until incomes from the travel and tourism industry became the second largest foreign exchange earner. The government was quick to gauge the potential of this sector and declared travel and tourism as an industry and accorded all benefits to that of an industry. The various bottlenecks that exist for the development of tourism industry again encompass huge investments in infrastructure in the form of roads, airports and hotels. In order to augment the very high capital investments and private participation in the tourism
sector Government of India promulgated the New Tourism Policy, which revolved around the seven basic tenets of:

i) Welcome or Swaagat

ii) Information or Soochana

iii) Facilitation or Suvidhaa

iv) Security or Surakshaa

v) Cooperation or Sahyog

vi) Infrastructure or Sanrachnaa

vii) Safaai or Cleanliness

In order to bring in more transparency and ramp up growth in this sector the government of India allowed foreign equity up to 51 per cent in tourism projects and also allowed 100% NRI investments in this area. Moreover the government initiated the Automatic approval route for Technology agreements in the hotel industry and the government in the area of customs duty so as to make this sector more profitable and alluring has initiated drastic cuts. Considerable Tax holidays and tax rebates have also been allowed in the tourism sector to enhance investments and the government is now keen on more of private public participation model for boosting this sector. The government is sensitive to the huge funds outlay for boosting this sector and has ambitious plans of allowing more than 74% FDI in tourism sector.
1.4 PERIOD OF THE STUDY

The period in which the research study has been undertaken is after decades of the liberalization of the Indian economy i.e. post 2001 till the current financial year 2007-2008. The reason for choosing the period was to study the role and impact of the liberalized economy and the role of the New Generation Private Sector Banks or more commonly referred to as NGPS Banks in India.

1.5 ASSUMPTIONS

The basic assumption of the research activity is that all the three New Generation Private Sector Banks have level playing field and all the three banks are inclined to meet the credit parameters as well as the various stipulations as required by the Ministry of Finance and the RBI.

1.6 BANKS UNDER STUDY

Out of a variety of private sector banks and host of New Generation Private Sector Banks, the following three banks have been selected for the sake of undertaking the research activity, namely:

1. ICICI Bank
2. HDFC Bank
3. AXIS Bank (Formerly known as UTI Bank)

All the three banks are pioneers in the field of banking in India and these three banks played a major role in commoditizing the products and services
of a bank, which hitherto was available as a product and not a commodity. These three banks also are accredited with the job of ushering in a new concept of "Retail Banking Revolution" in the country with alternate delivery channels. These banks also raised the standards of customer service in India and shifted the age-old system of "brick and mortar banking" to "click and delight banking". It is widely believed that the credit of revolutionizing the concept of "home banking" or "doorstep banking" goes entirely to these three banks, which rewrote the benchmarks of customer service and customer satisfaction. NGPS banks were created with the basic objective of rendering world class banking solutions and create a healthy competition among peer level banks. The research aims at studying as to whether these three NGPS banks have stood the test of time and pioneered product innovations, catering to the specialized requirement of customers.

1.7 PLAN OF PRESENTATION OF THESIS

The thesis is being presented in seven chapters, followed by Bibliography, Appendices and Enclosures. The brief description of chapters is as under:

Chapter 1: Introduction

This chapter deals with the analysis of pre liberalization of the Indian economy and the impact of liberalization in the various sectors of the economy. It also tries to visit the various sectoral contributions to the Gross Domestic Product growth of the country over a period of time.
Chapter 2: Concepts related to the study

To make the research more meaningful, concepts relating to banks, banking industry, government policies, credit policies of the Reserve Bank of India and other economic parameters have been taken into consideration. These parameters and concepts have been widely discussed and explained so that the research paper appeals to a larger cross section.

Chapter 3: Research Methodology

Despite the fact that no research paper is available on the subject, some literature on the performance of public sector banks in India is available. Apart from this, some interesting research has been done on the various sectors of the economy, though not directly related to the contributions made by banks in these sectors.

Chapter 4: Profile of the sampled banks.

The three banks that brought about a revolution in retail banking products and services in the post liberalized era of our economy, namely ICICI Bank, HDFC Bank and Axis bank have been taken into our purview of research. These three banks brought about a metamorphosis of the product delivery standards and channels of delivery, so much so that, the public sector banks started facing the threat of either “perform or perish”.

Chapter 5: NGPS Banks in Action-Achievements and Scope

An analysis has been made of the various sectors of the economy and the opportunities that exist for banks in these sectors and how the three NGPS
banks have been able to meet these requirements. Based on the data available with the Reserve Bank of India on the various parameters of growth of the economy, the contributions made by the three NGPS banks have been analyzed. An effort was made to map the contributions made by the NGPS banks to the national benchmark and achievement of the public sector banks in the country along with a sampling of the respondents and their views on the NGPS banks and their performance in the country. The above analysis would lead to a logical conclusion of the role of NGPS banks in the socio economic growth and development of the country.

Chapter 6: Data Analysis

The research data obtained through questionnaires from a sample of respondents has been analyzed and the hypothesis has been put to test.

Chapter 7: Implication of the study & Recommendations

A comparative analysis would also open up vistas where NGPS banks would have to improve their performance so that they contribute meaningfully to the growth and development of the country. These seven chapters are succeeded by Bibliography, Appendices which also included the questionnaires for collection of primary data and enclosures related to the research topic. The idea now is to get a basic understanding of the various concepts used in banking parlance, which would make the research study more appropriate and meaningful.