The introduction of reforms in Indian financial system since 1991 coupled with development in technology has brought structural and functional changes in Indian banking system. Earlier, banking was defined as a business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit. After the introduction of financial reforms in India, large scale mergers, amalgamations and acquisitions among banks and financial institutions occurred. There was a growth in size and competitive strengths of the merged entities, resulting in an adoption of a new financial service organization, i.e. Universal Banking. This move attempted to bridge the gap between the banking and financial service providing institutions. Universal Banks includes; normal banking functions as well as other financial services that are traditionally non-banking in character such as investment, insurance, mortgage, securitization etc.

1.1 Concept of Universal Banking

Universal Banking refers to financial intermediaries offering a wide range of banking and financial services under one roof. It is a one-stop super market for both wholesale and retail services. It is a combination of commercial banking, investment banking, insurance and various other activities.

The term universal banking can be defined in different ways. Universal banks are financial institutions that may offer the entire range of financial services. They may sell insurance, underwrite securities, and carry out securities transactions for others. They may own equity interests in firms, including non-financial firms. They may vote for the shares of companies they own and, if they are delegate as proxies for the owners, they may vote the shares of others (Benston, 1994). It is a combination of commercial banking, investment banking and various other activities including insurance. In other words ‘Universal Banking’ may be defined as a banking system made up of large scale banks that operate extensive networks of branches, provide many different services, held several claims on firms (including equity and debt), and participate directly in the
corporate governance of firms that rely on these banks as sources of funding or as securities underwriters (Calomiris, 1993).

Saunders and Walters (1994) identified four different types of universal banks:

- **The fully integrated universal bank**: These banks supply the complete range of financial services from one institutional entity.

- **The partially integrated financial conglomerate**: These represent the banks that are providing product and services through wholly owned or partially owned subsidiaries.

- **The bank subsidiary structure**: The bank focuses essentially on commercial banking and other functions, including investment banking and insurance, which are carried out through legally separate subsidiaries of the bank.

- **The bank holding company structure**: A financial holding company owns both banking (and in some countries, non-banking) subsidiaries that are legally separate and individually capitalized, in so far, as financial activities (other than "banking") are permitted by law. Internal or regulatory concerns about the institutional safety and soundness or conflicts of interest may give rise to Chinese walls and Firewalls. The holding company often owns non-financial firms, or the holding company itself may be an industrial concern.

According to Krishna (2005) there are three types of Universal Banks:

1. **In-house Universal Banking**, e.g. In Germany, Switzerland.

   ![Figure 1.1]

2. **Through separately capitalized subsidiaries**, e.g. In England, Japan.

   ![Figure 1.2]
3. **Operations carried through a holding company**, e.g. In USA, Japan.

![Figure 1.3](source)


Universal banks can be broadly categorized in forms of full universal banks, universal-subsidiary and holding company (Figure 1.4).

**Figure 1.4: Universal Banks in Different Forms**

**Error!**

- **Full Universal**
  - Universal Bank:
    - Commercial banking
    - Insurance underwriting
    - Insurance sales
    - Securities trading and underwriting
    - Asset administration and trust
    - Financial consulting

- **Universal-Subsidiary**
  - Bank Parent:
    - Commercial banking
  - Insurance Company
  - Trust Co.
  - Investment Dealer

- **Holding Company**
  - Holding Company
  - Commercial Bank
  - Investment Bank
  - Insurance Company
  - Fund Management Company

(Original Source: Saunders and Thomas (2001)).

To conclude, universal banking refers to a multi-purpose and multi-functional financial supermarket providing both banking and financial services through a single window.
1.2. Universal Banking—International Perspective

A universal bank participates in many kinds of banking activities and is both a Commercial bank and an Investment bank. The concept is most relevant in the United Kingdom and the United States, where historically there was a distinction drawn between pure investment banks and commercial banks. In the US, this was a result of the Glass-Steagall Act of 1933. In both countries, however, the regulatory barrier to the combination of investment banks and commercial banks has largely been removed, and a number of universal banks have emerged in both jurisdictions. However, at least up until the global financial crisis of 2008, there remained a number of large, pure investment banks. In other countries, the concept is less relevant as there is not regulatory distinction between investment banks and commercial banks. Thus, banks of a very large size tend to operate as universal banks, while smaller firms specialized as commercial banks or as investment banks. This is especially true of countries with a European Continental banking tradition. Notable examples of such universal banks include Deutsche Bank of Germany, and UBS and Credit Suisse of Switzerland.


According to Saunders and Walter (1994), universal banking usually takes one of the three forms, i.e. in-house, through separately capitalized, or through a holding company structure. Universal banking in its fullest or purest form would allow a banking corporation to engage ‘in-house’ activities associated with banking, insurance, securities, etc. It implies that these activities would be undertaken within and by an organization itself rather than through separate subsidiaries. Three well known countries in which these three structures prevail are Germany, UK and US. In Germany, banking and investment activities are combined, but separate subsidiaries are required for certain activities. Under German banking statues, all activities could be carried out within the structure of the parent bank except insurance, mortgage banking, and mutual funds, which requires legally separate subsidiaries. In UK, broad range of financial activities is allowed to be conducted through separate subsidiaries of the bank. The third model, which was developed in U.S., generally requires a holding company structure and separately capitalized subsidiaries.
Table 1.1
Structure of Universal Banking in Various Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Banking System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>• German Banking system is the role model of universal banking, there is a far</td>
</tr>
<tr>
<td></td>
<td>greater integration of financial services, for e.g. securities underwriting,</td>
</tr>
<tr>
<td></td>
<td>insurance as well as more extensive control over non-financial firms. Extensive</td>
</tr>
<tr>
<td></td>
<td>control includes; large bank-debt stakes in firms control over nominee equity</td>
</tr>
<tr>
<td></td>
<td>votes, and bank membership on corporate boards of directors.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>• Financial activities are allowed to be conducted through separate subsidiaries</td>
</tr>
<tr>
<td></td>
<td>of the bank.</td>
</tr>
<tr>
<td>Korea and Japan</td>
<td>• There is an extensive equity cross holding links among banks and real sector</td>
</tr>
<tr>
<td></td>
<td>firms. In addition, banks are allowed to engage in various other financial</td>
</tr>
<tr>
<td></td>
<td>service activities such as securities underwriting. (This has been limited in</td>
</tr>
<tr>
<td></td>
<td>Japan).</td>
</tr>
<tr>
<td>Canada and Great</td>
<td>• Banks engage in financial service activities such as securities underwriting</td>
</tr>
<tr>
<td>Britain</td>
<td>and insurance through its subsidiaries.</td>
</tr>
<tr>
<td>U.S.</td>
<td>• Banks engage in financial service activities through a bank holding company</td>
</tr>
<tr>
<td></td>
<td>structure.</td>
</tr>
</tbody>
</table>


Universal banks could be very useful especially in countries where capital markets play limited role and economy demands large-scale investment. Raghuram (1996) added one more dimension stating that the universal banks could use the reputation gained in one product/service to sell the other easily. An empirical study by Forestieri (1993) had established prevalence of ‘Economies of Scale’ in most of the countries in Europe, which have the universal banking system. Universal banking helps the service provider to build up long-term relationships with the customers by catering to his different needs. The customers also benefit as they get a whole range of services at the lowest cost under one roof.
Introduction

Products offered by Indian Universal Bank:

(i) Saving Account                    (ii) Current Account
(iii) Fixed Deposits                  (iv) Personal Loan
(v) Home Loan                        (vi) Vehicle Loan
(vii) Educational Loan                (viii) Debit Cards
(ix) Credit Cards                    (x) Mutual Funds
(xi) Life Insurance                   (xii) Health Insurance
(xiii) General Insurance              (xiv) Bonds

Service Offered by Indian Universal Banks:

(i) DEMAT Account
(ii) Safe Deposit Lockers
(iii) Foreign Currency Travellers Cheques
(iv) Foreign Currency Cash
(v) Foreign Currency Demand Drafts
(vi) Foreign Currency Cheque Deposits


1.3. Reserve Bank of India (RBI) Approach toward Universal Banking in India

As far as the issue of universal banking in India is concerned, the process started with the report of Narasimham Committee II that suggested the conversion of Development Finance Institutions (DFIs) into Commercial Banks or NBFCs. The Khan Working Group held the view that DFIs should be allowed to become banks. The RBI released a ‘Discussion Paper’ in January 1999 for wider public debate. In the mid-term review of monetary and credit policy (1999-2000), the RBI acknowledged, that the principle of universal banking “is a desirable goal” and in April 2001 circulated its approach on the subject.

The Khan Working Group submitted a discussion paper in 1998, which included proposals for bringing about greater clarity in the respective roles of banks and financial institutions for greater harmonization of facilities and obligations. The paper was
organized into six sections. Section one included the details regarding the introduction of various committees constituted by government. Section two covered the concept of ‘universal banking’ and its advantages and limitations. Section three outlined the practice of universal banking and the position as it prevailed in India. Section four discussed some issues concerning future role of Development Financial Institutions in India. Section five threw light on the issue concerning harmonizing the role and operations of DFIs and banks in India. While the last section discussed the regulatory, supervisory and other related issues.

In pursuant to this, in the monetary and credit policy of RBI (1999-2000), it was mentioned that Financial Institutions have an option to transform into a bank provided prudential norms as applicable to banks are fully satisfied. It means that a Financial Institution must follow several operational and regulatory issues addressed in policy paper in order to become a universal bank. Salient operational and regulatory issues for conversion of Financial Institutions into universal bank are briefly enumerated below (1.3.1. RBI Guidelines for Existing Banks/Financial Institutions for Conversion into Universal Banks 2001).

1.3.1. RBI Guidelines for Existing Banks/Financial Institutions for Conversion into Universal Banks (2001)

- **Reserve Requirements**: Compliance with the cash reserve ratio and statutory liquidity ratio requirements (under Section 42 of RBI Act, 1934, and Section 24 of the Banking Regulation Act, 1949, respectively) would be mandatory for a Financial Institution (FI) after its conversion into a universal bank.

- **Permissible Activities**: Any activity of a FI currently undertaken but not permissible for a bank under Section 6(1) of the Banking Regulation Act, 1949, may have to be stopped or divested after its conversion into an universal bank.

- **Disposal of Non-Banking Assets**: Any immovable property, howsoever acquired by FI, would, after its conversion into an universal bank, be required to be disposed of within the maximum period of 7 years from the date of acquisition, in terms of Section 9 of the Banking Regulation Act.
Composition of the Board: Changing the composition of the Board of Directors might become necessary for some of the FIs after their conversion into an universal bank, to ensure compliance with the provisions of Section 10(A) of the Banking Regulation Act, which requires at least 51% of the total number of directors to have special knowledge and experience.

Prohibition on Floating Charge of Assets: The floating charge, if created by an FI, over its assets, would require, after its conversion into an universal bank, ratification by the Reserve Bank of India under Section 14(A) of the Banking Regulation Act, since a banking company is not allowed to create a floating charge on the undertaking or any property of the company unless duly certified by RBI as required under the Section.

Nature of Subsidiaries: If any of the existing subsidiaries of a FI is engaged in an activity not permitted under Section 6(1) of the Banking Regulation Act, then on conversion of the Financial Institutions into an universal bank, delinking of such subsidiary / activity from the operations of the universal bank would become necessary since Section 19 of the Act permits a bank to have subsidiaries only for one or more of the activities permitted under Section 6(1) of Banking Regulation Act.

Restriction on Investments: A FI with equity investment in companies in excess of 30 per cent of the paid up share capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less, on its conversion into an universal bank, would need to divest such excess holdings to secure compliance with the provisions of Section 19(2) of the Banking Regulation Act, which prohibits a bank from holding shares in a company in excess of these limits.

Connected Lending: Section 20 of the Banking Regulation Act prohibits grant of loans and advances by a bank on security of its own shares or grant of loans or advances on behalf of any of its directors or to any firm in which its director/manager or employee or guarantor is interested. The compliance with these provisions would be mandatory after conversion of an FI into an universal bank.
Licensing: A FI converting into an universal bank would be required to obtain a banking license from RBI under Section 22 of the Banking Regulation Act, for carrying on banking business in India, after complying with the applicable conditions.

Branch Network: FI, after its conversion into a bank, would also be required to comply with extant branch licensing policy of RBI under which the new banks are required to allot atleast 25 per cent of their total number of branches in semi-urban and rural areas.

Assets in India: An FI after its conversion into an universal bank, will be required to ensure that at the close of business on the last Friday of every quarter, its total assets held in India are not less than 75 per cent of its total demand and time liabilities in India, as required of a bank under Section 25 of the Banking Regulation Act.

Format of Annual Reports: After converting into an universal bank, a FI will be required to publish its annual balance sheet and profit and loss account in the in the forms set out in the Third Schedule to the Banking Regulation Act, as prescribed for a banking company under Section 29 and Section 30 of the Banking Regulation Act.

Managerial Remuneration of the Chief Executive Officers: On conversion into a universal bank, the appointment and remuneration of the existing Chief Executive Officers may have to be reviewed with the approval of RBI in terms of the provisions of Section 35(B) of the Banking Regulation Act. The Section stipulates fixation of remuneration of the Chairman and Managing Director of a bank by Reserve Bank of India taking into account the profitability, net non-performing assets and other financial parameters. Under the Section, prior approval of RBI would also be required for appointment of Chairman and Managing Director.

Deposit Insurance: A FI, on conversion into an universal bank, would also be required to comply with the requirement of compulsory deposit insurance from DICGC up to a maximum of Rs.1 lakh per account, as applicable to the banks.
- **Authorized Dealer's License**: Some of the FIs at present hold restricted Authorized Dealer's license from RBI, Exchange Control Department to enable them to undertake transactions necessary for or incidental to their prescribed functions. On conversion into an universal bank, the new bank would normally be eligible for full-fledged authorized dealer license and would also attract the full rigour of the Exchange Control Regulations applicable to the banks at present, including prohibition on raising resources through external commercial borrowings.

- **Priority Sector Lending**: On conversion of FI into an universal bank, the obligation for lending to "priority sector" up to a prescribed percentage of their 'net bank credit' would also become applicable to it.

- **Prudential Norms**: After conversion of a FI into a bank, the extant prudential norms of RBI for the all-India financial institutions would no longer be applicable but the norms as applicable to banks would be attracted and will need to be fully complied with. This list of regulatory and operational issues is only illustrative and not exhaustive.


### 1.3.2. Indian Universal Banks

Universal Banking refers to financial intermediaries offering a wide range of banking and financial services under one roof. It is a one-stop super market for both wholesale and retail services. It is a combination of commercial banking, investment banking, insurance and various other activities.

In the mid-term review of monetary and credit policy (1999-2000), the RBI acknowledged, that the principle of universal banking “is a desirable goal” and in April 2001 circulated its approach on the subject. After that, in the monetary and credit policy of RBI (1999-2000), it was mentioned that Financial Institutions have an option to transform into a bank provided prudential norms (RBI Guidelines for Existing
Banks/Financial Institutions for Conversion into Universal Banks, 2001) as applicable to banks are fully satisfied.

The present study focuses on four Indian universal banks namely; State Bank of India, Punjab National Bank, HDFC Bank Ltd. and ICICI Bank Ltd. These banks are selected as the universal banks on the basis of their annual reports and press releases in which they have characterized themselves as universal banks. Elaborating our point, today the ICICI bank has two main subsidiaries- ICICI Prudential Life Insurance and Prudential ICICI Mutual Fund. Both have been performing well and have attained leadership positions within the private players segment. Similarly, SBI offers the life insurance covers through its subsidiary, SBI life, to its entire saving account holder for a small fee. SBI Mutual Fund is India's largest bank sponsored mutual fund with an investor base of over 5.8 million (http://www.sbimf.com, accessed on 11th November 2010). Punjab National Bank has launched mutual fund products of Principal PNB-AMC, with an aim to retain large customer base and enhance fee-based income of the bank.

Furthermore, the bank is providing insurance services by creating joint ventures with other banks and financial institutions. HDFC Bank has been providing insurance and mutual funds through its subsidiaries namely; HDFC Standard Life and HDFC asset management Co. Ltd. Today, these entities have all become one stop departmental stores for mutual funds, loans, insurance, etc. Further, these four are most popular and best performing banks in India.

State Bank of India is the largest state-owned banking and financial services company in India, by almost every parameter- revenue, profits, assets, market capitalization, etc. ICICI is the second largest bank in India and the largest private sector bank in India by market capitalization, Punjab national bank is the second largest government-owned commercial bank in India with about 5000 branches across 764 cities and HDFC is best private bank by strength, soundness and growth (capital adequacy percentage, liquidity, total assets growth and growth in advances).

(Source: http://www.hdfcbank.com/aboutus/awards/Financial_Express_25032010.htm accessed on 16th September 2010)
1.4. Profile of the Banks under Study

1.4.1. State Bank of India (SBI)

State Bank of India (SBI) is the largest bank in India. The origin of the State Bank of India goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in 1806 in Calcutta. Three years later the bank received its charter and was re-designed as the Bank of Bengal in 2nd January, 1809. It was the first joint-stock bank of British India sponsored by the Government of Bengal, as a unique institution. The Bank of Bombay (15th April 1840) and the Bank of Madras (1st July 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India in 27th January 1921.

The State Bank of India, the country’s oldest bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits is today going through a momentous phase of change and transformation. The two hundred year old public sector monster is today stirring out the public sector legacy and moving with quickness to give the private and foreign banks a run for their money. The bank entry into a many new businesses with strategic tie ups- Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc., each one of these initiatives having a huge potential for growth. The bank is forging ahead with cutting edge technology and innovative new banking models, to expand its rural banking base, looking at the vast untapped potential in the surroundings and proposes to cover 1000000 villages in near future.

It is also focusing at the top end of the market on the whole sale banking capabilities to provide India’s growing mid/large corporate with a complete array of products and services. It is consolidating its global treasury operations and entering into structured products and derivatives instruments. Today, the bank is the largest provider of infrastructure debt and the largest arranger of external commercial borrowings in the country. It is the only Indian bank to feature in the fortune 500 list.

The bank is actively involved since 1973 in non profit activity called Community Services Banking. All branches and administrative offices throughout the country sponsor and participate in large number of welfare activities and social causes (http://en.wikipedia.org/wiki/State_Bank_of_India accessed on 6th December 2010 & ACE Equity V2-3.0.0 accessed on 15th March 2011).
## Table 1.2
SBI Bank Subsidiaries

<table>
<thead>
<tr>
<th>Indian Subsidiaries</th>
<th>Foreign Subsidiaries</th>
<th>Non-Banking Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of Bikaner and Jaipur (SBBJ)</td>
<td>SBI International (Mauritius) Ltd.</td>
<td>SBI Capital Markets Ltd.</td>
</tr>
<tr>
<td>State Bank of Hyderabad (SBH)</td>
<td>State Bank of India (California)</td>
<td>SBI Funds Management Pvt Ltd</td>
</tr>
<tr>
<td>State Bank of Indore (SBIr)</td>
<td>State Bank of India (Canada)</td>
<td>SBI Factors &amp; Commercial Services Pvt Ltd</td>
</tr>
<tr>
<td>State Bank of Mysore (SBM)</td>
<td>INMB Bank Ltd. Lagos</td>
<td>SBI DFHI Ltd.</td>
</tr>
<tr>
<td>State Bank of Patiala (SBP)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank of Travancore (SBT)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: ACE Equity V2-3.0.0 accessed on 15th March 2011)

## Table 1.3
Financial Highlights of SBI

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Paid Up</td>
<td>634.88</td>
<td>634.88</td>
<td>631.47</td>
<td>526.30</td>
<td>526.30</td>
</tr>
<tr>
<td>Reserves</td>
<td>65314.32</td>
<td>57312.82</td>
<td>48401.19</td>
<td>30777.26</td>
<td>27117.29</td>
</tr>
<tr>
<td>Deposits</td>
<td>804116.32</td>
<td>742073.13</td>
<td>537403.94</td>
<td>435521.09</td>
<td>380046.06</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>70993.92</td>
<td>63788.43</td>
<td>48950.31</td>
<td>37242.33</td>
<td>35794.93</td>
</tr>
<tr>
<td>Operating Profits</td>
<td>18320.91</td>
<td>17915.23</td>
<td>13107.55</td>
<td>9999.94</td>
<td>11299.23</td>
</tr>
<tr>
<td>Profit After Tax</td>
<td>9166.05</td>
<td>9121.23</td>
<td>6729.13</td>
<td>4541.31</td>
<td>4406.67</td>
</tr>
<tr>
<td>Dividend %</td>
<td>300</td>
<td>290</td>
<td>215</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>Number of Offices</td>
<td>13039</td>
<td>12022</td>
<td>10683</td>
<td>9679</td>
<td>9468</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>200299</td>
<td>205896</td>
<td>179205</td>
<td>185388</td>
<td>198774</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1053413.73</td>
<td>964432.08</td>
<td>721526.31</td>
<td>566565.24</td>
<td>493869.55</td>
</tr>
<tr>
<td>Investments</td>
<td>285790.07</td>
<td>275953.96</td>
<td>189501.27</td>
<td>1491848.88</td>
<td>162534.24</td>
</tr>
</tbody>
</table>

(Source: ACE Equity V2-3.0.0 accessed on 15th March 2011)
1.4.2. **Punjab National Bank**

Established in 1895 in Lahore, Punjab National Bank is one of the oldest banks in India having a virtual presence in every important centre of the country. The bank has over 35 million customers through 4540 offices including 421 extension counters, out of which 2/3 of its branches in rural and semi rural areas- the largest among nationalized banks, which makes it enjoy one of the highest penetration rates of banking activities in the country. PNB caters to a wide variety of audience through spectrum of services including corporate and personal banking, industrial finance. Sitting on a vast banking resources and significant presence in almost every lending sphere, the bank has a capital adequacy ratio (CAR), well above the Basel-2 regulatory requirement at 12.96% as on June 2008, despite being exposed to numerous market and credit risk elements.

Constantly strengthening the capital adequacy ratio through internal accruals and a regular increase in Tier 1 capital has put the bank on a very comfortable and formidable position. PNB has a net interest margin (NIM) higher than the industry average due to mix of improving yields and low cost funding base and has one of the healthiest low cost current account saving account (CASA) ratio of 41.31%. It also enjoys the highest rating by all four domestic rating agencies and one of the few banks to boast an AAA rating on its perpetual debt issue. The bank has ambitious plans of major technological upgradation to establish capability of having 100000 terminals under the Core Banking Solutions (CBS) with a greater thrust on increasing international footprints. The bank has successfully migrated to the Basel 2 accord in February, 2010.

Punjab National Bank (PNB), the country’s third largest lender, is resurrecting its insurance plans. In insurance segment, a joint venture insurance broking company, PNB - Principal Insurance Advisory Company (IAC) has also been set up, which has already commenced its activities with effect from April 18, 2005. A tie up with IFFCO-TOKIO General Insurance has been done so as to provide insurance to housing loan borrowers. It has also entered into a tie-up arrangement with New India Assurance for providing personal accident insurance cover to its retail-lending customers. Further, a tie-up arrangement has been made recently with MetLife India for providing insurance cover to all savings and individual current account holders in the age group of 18 to 64, on payment of nominal premium.
PNB Asset Management Company Private Limited is the fund manager for the mutual fund. PNB mutual fund formally known as ‘Principal Mutual Fund’ with collaboration between Principal financial group of the US, PNB and Vijaya bank. In all, 65% stake in the AMC is held by principal group, 30% by PNB and 5% by Vijaya bank.

accessed on 29th March 2010 & ACE Equity V2-3.0.0 accessed on 15th March 2011)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Equity Paid Up</td>
<td>315.30</td>
<td>315.30</td>
<td>315.30</td>
<td>315.30</td>
<td>315.30</td>
</tr>
<tr>
<td>Reserves</td>
<td>17407.62</td>
<td>14338.33</td>
<td>12033.04</td>
<td>10120.16</td>
<td>9061.06</td>
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<tr>
<td>Deposits</td>
<td>249329.80</td>
<td>209760.50</td>
<td>166457.23</td>
<td>139859.67</td>
<td>119684.92</td>
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<tr>
<td>Interest Earned</td>
<td>21466.91</td>
<td>19127.22</td>
<td>14265.02</td>
<td>11236.14</td>
<td>9584.15</td>
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<tr>
<td>Operating Profit</td>
<td>7326.28</td>
<td>5690.40</td>
<td>4006.24</td>
<td>3617.41</td>
<td>2917.11</td>
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<tr>
<td>Profit After Tax</td>
<td>3905.36</td>
<td>3090.88</td>
<td>2048.76</td>
<td>1540.08</td>
<td>1439.31</td>
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<tr>
<td>Dividend %</td>
<td>220</td>
<td>200</td>
<td>130</td>
<td>100</td>
<td>60</td>
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<tr>
<td>Number of Offices</td>
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<td>4472</td>
<td>4319</td>
<td>4192</td>
<td>4146</td>
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<tr>
<td>Number of Employees</td>
<td>53417</td>
<td>54780</td>
<td>56025</td>
<td>57316</td>
<td>58047</td>
</tr>
<tr>
<td>Total Assets</td>
<td>296632.78</td>
<td>246918.62</td>
<td>199020.36</td>
<td>162422.50</td>
<td>145267.39</td>
</tr>
<tr>
<td>Investments</td>
<td>77724.47</td>
<td>275953.96</td>
<td>189501.27</td>
<td>149148.88</td>
<td>162534.24</td>
</tr>
</tbody>
</table>

(Source: ACE Equity V2-3.0.0 accessed on 15th March 2011)

1.4.3. Housing Development Finance Corporation Bank Limited (HDFC Bank Ltd.)

The HDFC Bank was incorporated on August 1994 by the name of ‘HDFC Bank Ltd.’, with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. The Housing Development Finance Corporation Limited (HDFC) was amongst the first few to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization policy for the Indian Banking Industry in 1994.
HDFC Bank is headquartered in Mumbai. The Bank at present (till January 2011) has an enviable network of over 1416 branches spread over 550 cities across India. All branches are linked on an online real-time basis. Customers in over 500 locations are also serviced through Telephone Banking. The Bank also has a network of about over 3382-networked ATMs across these cities.

The promoter of the bank HDFC was incepted in 1977 is India’s premier housing finance company and enjoy impeccable track record in India as well as in International markets. HDFC developed significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities. With its experience in the financial market, a strong market reputation, large shareholder base and unique consumer franchise, HDFC has ideally positioned to promote a bank in the Indian environment. The shares are listed on the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE). The Bank’s American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) under the symbol ‘HDB’ and the Bank’s Global Depository Receipts (GDRs) are listed on Luxemburg Stock Exchange. On May 23, 2008, the amalgamation added significant value to HDFC Bank was formally approved by Reserve Bank of India to complete the statutory and regulatory approval process.

The merged entity holds a strong deposit base of around Rs. 122000 crore and net advances of around Rs. 89000 crore. The balance sheet size of the combined entity would be over Rs. 163000 crore. The amalgamation added significant value to HDFC Bank items of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower. In a milestone transaction in the Indian banking industry, Times Bank Limited was merged with HDFC Bank Ltd., effective from February 26, 2000. This was the first merger of two private banks in the New Generation Private Sector Banks.

HDFC Bank offers a wide range of commercial and transactional banking services and treasury products to wholesale and retail customers. The bank has three key business segments: Wholesale Banking Services (The Bank’s target market ranges from large, blue-chip manufacturing companies in the Indian corporate to small & mid-sized corporate and agri-based businesses), Retail Banking Services (The objective of the
Retail Bank is to provide its target market customers a full range of financial products and banking services, giving the customer a one-stop window for all his/her banking requirements) and Treasury (within this business, the bank has three main product areas—Foreign Exchange and Derivatives, Local Currency Money Market & Debt Securities and Equities. The treasury business is responsible for managing the returns and market risk in this investment portfolio. HDFC Securities (HSL) and HDB Financial Services (HDBFSL) are its subsidiaries).


Table 1.5

Financial Highlights of HDFC Bank Ltd.

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Equity Paid Up</td>
<td>457.74</td>
<td>425.38</td>
<td>354.43</td>
<td>319.39</td>
<td>313.14</td>
</tr>
<tr>
<td>Reserves</td>
<td>21061.84</td>
<td>14220.95</td>
<td>11142.81</td>
<td>6113.76</td>
<td>4986.39</td>
</tr>
<tr>
<td>Deposits</td>
<td>167404.44</td>
<td>142811.58</td>
<td>100768.59</td>
<td>68297.94</td>
<td>55796.82</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>16172.90</td>
<td>16332.26</td>
<td>10115.01</td>
<td>6647.93</td>
<td>4475.34</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>6429.73</td>
<td>5178.95</td>
<td>3765.42</td>
<td>2563.91</td>
<td>1978.74</td>
</tr>
<tr>
<td>Profit After Tax</td>
<td>2948.70</td>
<td>2244.94</td>
<td>1590.19</td>
<td>1141.45</td>
<td>870.78</td>
</tr>
<tr>
<td>Dividend %</td>
<td>120</td>
<td>100</td>
<td>85</td>
<td>70</td>
<td>55</td>
</tr>
<tr>
<td>Number of Offices</td>
<td>1729</td>
<td>1422</td>
<td>745</td>
<td>666</td>
<td>516</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>51888</td>
<td>52687</td>
<td>37386</td>
<td>21477</td>
<td>14878</td>
</tr>
<tr>
<td>Total Assets</td>
<td>222458.57</td>
<td>183270.77</td>
<td>133176.60</td>
<td>91235.61</td>
<td>73506.39</td>
</tr>
<tr>
<td>Investments</td>
<td>58607.62</td>
<td>58817.55</td>
<td>49393.54</td>
<td>30564.80</td>
<td>28393.96</td>
</tr>
</tbody>
</table>

(Source: ACE Equity V2-3.0.0 accessed on 15th March 2011)

1.4.4. Industrial Credit and Investment Corporation of India Bank Ltd (ICICI Bank Ltd.)

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. ICICI’S shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in Fiscal 1998, an
equity offering in the form of ADRs listed on the NYSE in fiscal 2000. ICICI Bank’s acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. ICICI was formed in 1995 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium term and long term project financing to Indian businesses. In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group's universal banking strategy. The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services. The merger would enhance value for ICICI Bank shareholders through a large capital base and scale of operations, seamless access to ICICI's strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries.

In October 2001, the Board of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. Shareholders of ICICI and ICICI BANK approved the merger in January 2002, by the high court of Gujarat at Ahmadabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002. Consequent to the merger, the
ICICI group’s financing and banking operations, both wholesale and retail, have been integrated in a single entity.

(Source: ACE Equity V2-3.0.0 accessed on 15th March 2011)

Table 1.6
Financial Highlights of ICICI Bank Ltd.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Paid Up</td>
<td>1114.81</td>
<td>1113.21</td>
<td>1112.60</td>
<td>899.27</td>
<td>889.80</td>
</tr>
<tr>
<td>Reserves</td>
<td>50503.48</td>
<td>48419.73</td>
<td>45357.53</td>
<td>23413.92</td>
<td>21316.16</td>
</tr>
<tr>
<td>Deposits</td>
<td>202016.48</td>
<td>218347.83</td>
<td>244431.05</td>
<td>230510.19</td>
<td>165083.17</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>25706.93</td>
<td>31092.55</td>
<td>30788.34</td>
<td>21995.59</td>
<td>14306.13</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>9732.18</td>
<td>8925.23</td>
<td>7960.68</td>
<td>5874.41</td>
<td>3888.42</td>
</tr>
<tr>
<td>Profit After Tax</td>
<td>4024.98</td>
<td>3758.13</td>
<td>4157.73</td>
<td>3110.22</td>
<td>2540.08</td>
</tr>
<tr>
<td>Dividend %</td>
<td>120</td>
<td>110</td>
<td>110</td>
<td>100</td>
<td>85</td>
</tr>
<tr>
<td>Number of Offices</td>
<td>1717</td>
<td>1430</td>
<td>1269</td>
<td>716</td>
<td>569</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>35256</td>
<td>34256</td>
<td>40686</td>
<td>33321</td>
<td>25384</td>
</tr>
<tr>
<td>Total Assets</td>
<td>363399.72</td>
<td>379300.96</td>
<td>399795.08</td>
<td>344658.11</td>
<td>251388.95</td>
</tr>
<tr>
<td>Investments</td>
<td>120892.80</td>
<td>103058.31</td>
<td>111454.34</td>
<td>91257.84</td>
<td>71547.39</td>
</tr>
</tbody>
</table>

(Source: ACE Equity V2-3.0.0 accessed on 15th March 2011)

1.5. Customer Satisfaction

Customer is an individual or group of individuals to whom one or more products or services are supplied (Smith et al., 2003). Customers are one of the most important assets that a bank can obtain because they are the suppliers of money. Without the customers, the bank would not survive, but without bank, the customer still survives (Kaur, 2007). Customer satisfaction, business term, is a measure of how products and services supplied by a company meet or surpass customer expectation. It is seen as a key performance indicator within business. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy.

In the present banking scenario, the customers are the main driving force behind a bank’s functioning. Therefore, they need to be provided with standardized, accurate, and high-quality services by the bank in order to obtain customer satisfaction. Satisfaction of the customers is an ever-moving bar. Customers’ wants, needs and expectations move as quickly as the market conditions. Customers have become more sophisticated and have a greater choice with wide range of products and services.

Keeping this in view, customer satisfaction surveys have become important for the banks to know whether the services that are being provided by the bank meet the expectations of the customers. Parameters for customer satisfaction are:

- Employees’ competence (like professionalism, courtesy, timely response, knowledge of services, cooperative, friendliness).
- Physical evidence (like bank layout, location of the bank, parking facility, atmosphere inside the bank, drinking and sanitary facilities).
- Bank products and services (like automated teller machines, saving plans offered by bank, on-line banking, bill payment, credit cards, phone banking, securities offered, safety deposit box/lockers, traveller’s cheque, foreign exchange, demat services, insurance, consumers complaints handling procedures etc.).

1.6. Employee Perception

Perception is the process of attaining awareness or understanding of sensory information (http://en.wikipedia.org/wiki/Perception accessed on 12th June 2008). The Employee Perception is an employee attitude that provides an important view of the organization through the eyes of employees. It’s a kind of discreet feedback that provides a powerful tool for understanding and meeting employee needs. Employees that are satisfied and motivated perform better. The Employee Perception defines in detail employee needs and concerns for the management. Employee satisfaction is improved when needs are met and concerns are shared openly.

Parameters for employee’s perceptions are:

- Job satisfaction factors (like salary, type of work, promotion, supervision, co-workers).
- Motivational factors (like current job, achievement, recognition, personal growth).
1.7. **Need of the study**

Examining bank employee perceptions and customer satisfaction has been a common practice among banking and finance researchers over the years. The main reason for continued interest in this area of research is ever changing banking business environment throughout the world. Customer satisfaction and employee perceptions are the most important issues for each and every banking organization. If the customers are not happy and employees are not satisfied with the working culture of the bank, the business will not generate any money. For this reason, customer satisfaction and employees perception in the context of universal banking environment needs to be explored.

However, not much research has been conducted to study the employee’s perception and customer satisfaction in universal banks in India. Hence, need of the study arises due to the changing concept of banking in India, along with the inclusion of new products and services under universal banking. As the concept of universal banking is of recent origin in India, hence the researcher has not come across sufficient literature on this concept. Though, there are several studies conducted worldwide to assess the level of customer satisfaction in specialized banking.

1.8. **Objectives of the study**

The main objective of the proposed study is to analyze the employee perceptions and customer satisfaction towards universal banking in India. The specific focus of the study would be on the following issues:

1. To analyze the perception of Bank employees as regards the working environment of selected universal banks in India.
2. To study the satisfaction level of customers of selected universal banks in India.
3. To make suggestions for improving customer services and satisfaction of employees towards changing working environment of universal banks in India.

1.9. **Organization of the Study**

The present study consists of 6 chapters. The introduction to the concept forms Chapter I.

In Chapter II, the relevant literature (both empirical and conceptual studies) has been reviewed.
Chapter III deals with the detailed discussion on research methodology for the achievement of objectives of the study.

Chapter IV deals with the analysis of responses of bank employees regarding the changing working environment of Indian universal banks. Besides this, an attempt has been made to study the relationship between overall job satisfaction and job satisfaction dimensions based on the age of employees and length of employment.

Chapter V is devoted to the analysis of the perceptions of the respondents towards different products and services offered by universal banks in India besides investigating the impact of the occupation, age, education and income of the respondents on the ranking done of the given products and services. The analysis has also been done to study the responses of the respondents to a list of 28 statements relating to perceptions of customers towards bank employee’s attitudes, physical environment, sense of public responsibility, working hours, interest charges and extent of information made available to customers by the bank. Apart from this, the analysis of the responses towards bank selection criteria has been done.

Chapter 6 presents the summary of findings and conclusions of the study.