EVOLUTION
OF
BANKING
2.1 INTRODUCTION

The system of banking in its most simple form is as old as civilization. The initial form of banking was granting credit to the people at an exorbitant rate of interest. As early as 2000 B.C. Babylonians had developed a system of Banks. In ancient Greece and Rome the practice of granting credit was widely prevalent. Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and Rome. In Rome the bankers were called Argentarii, Mensarii or Collybisoe and the banks were called Tabernoe Argentarioe. Some of the banks carried business on their own account and others were appointed by the Government to receive the taxes. They used to transact their business on similar lines as those of the modern Bankers.

Banking refers to transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, a bank is a financial intermediary that performs one or more of the following functions: safeguards and transfers funds, lends or facilitates lending, guarantees creditworthiness, and exchanges money. These services are provided by institutions such as commercial banks, central banks, savings institutions, trust companies, finance companies, life insurance companies, and firms that specialize in investment banking.

A narrower and more common definition of a BANK is a financial intermediary that accepts, transfers, and, most important, creates deposits. This includes depository institutions such as central banks, commercial banks, savings and loan associations, and mutual savings banks. Banking Regulation Act of India, 1949 defines Banking as "accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise."

Banks are most frequently organized in corporate form and are owned either by private individuals, governments, or a combination of private and government interests. Although noncorporate banks—that is, single proprietorships and partnerships—are found in other countries, since 1863 all federally chartered banks in the United States must be corporations. Only a few states permit formation of noncorporate banks. All countries subject their banks, however owned, to government regulation and supervision, normally implemented by central banking authorities. Many banking functions such as safeguarding funds, lending, guaranteeing loans, and exchanging money can be traced to the early days of
recorded history. In medieval times, the Knights Templar, a military and religious order, not only stored valuables and granted loans but also arranged for the transfer of funds from one country to another. The great banking families of the Renaissance, such as the Medicis in Florence (Italy), were involved in lending money and financing international trade. The first modern banks were established in the 17th century, notably the Riksbank in Sweden (1656) and the Bank of England (1694). Seventeenth-century English goldsmiths provided the model for contemporary banking. Gold stored with these artisans for safekeeping was expected to be returned to the owners on demand. The goldsmiths soon discovered that the amount of gold actually removed by owners was only a fraction of the total stored. Thus, they could temporarily lend out some of this gold to others, obtaining a promissory note for principal and interest. In time, paper certificates redeemable in gold coin were circulated instead of gold. Consequently, the total value of these banknotes in circulation exceeded the value of the gold that was exchangeable for the notes.

Two characteristics of the fractional-reserve banking remain the basis for present-day operations. First, the banking system's monetary liabilities exceed its reserves. This feature was responsible in part for Western industrialization, and it still remains important for economic expansion. The excessive creation of money, however, may lead to inflation. Second, liabilities of the banks (deposits and borrowed money) are more liquid—that is, more readily convertible to cash—than are the assets (loans and investments) included on the banks' balance sheets. This characteristic enables consumers, businesses, and governments to finance activities that otherwise would be deferred or cancelled; however, it underlies baking's recurrent liquidity crises. When too many depositors request payment, the banking system is unable to respond because it lacks sufficient liquidity. The lack of liquidity means that banks must either abandon their promises to pay depositors or pay depositors until the bank runs out of money and fails.

2.2 EVOLUTION OF BANKING IN INDIA

Indigenous banking is an age-old tradition in India. The literature of the Buddhist period supplies ample evidence of the existence of Sresthis, or bankers, in all the important trade centres and of their widespread influence in the life of the community. Their chief activity was to lend money to the traders, to merchant-adventurers who went to foreign countries, to explorers who marched through forests to discover valuable materials, and to kings who were in financial difficulties due to
war or other reasons, against the pledge of movable or immovable property or personal surety. Kautilya's Arthashastra had also some significant utterances with regards to banking practices during that period in terms of rates of interest on secured and unsecured loans. The books of the old Sanskrit Law Giver, MANU, are full of regulations governing credit, containing the use of credit instruments in judicial proceedings along with concepts of interest on loans on bankers, customers, and even the renewal of commercial papers. During the Mogul rule the issue of various kinds of metallic money in different parts of the country gave the indigenous bankers great opportunities for developing the very profitable business of money-changing and the most important among them were appointed mint officers, revenue collectors, bankers and money-changers to the Government in various parts of the Empire. Many of them wielded great influence in the country, and those among them known as Jagat seths (world bankers) in the 17th and 18th centuries possessed as great a power as the private bankers of any Western country. The English traders that came to India in the 17th century could make much use of the indigenous bankers owing to their ignorance of the latter's language owing to latter's inexperience of the finance of the former's trade. Therefore although the East India Company established connections with these bankers, borrowed funds from them, and for the first few years collected a portion of land revenue through them, the English agency houses in Calcutta and Bombay began to conduct banking business besides their commercial business.

The agency houses, the Presidency Banks and the Imperial Bank of India: -

The English agency houses in Calcutta and Bombay that began to serve as bankers to the East India Company, the members of the services, and the European merchants in India, had no capital of their own, and depended upon deposits for their funds. They financed the movement of crops, issued paper money, and paved the way for the establishment of joint stock banks. The earliest of these was the Hindustan Bank, which was established in 1770 by one of the agency houses in Calcutta; its business was closely connected with these houses. But it was wound up in 1832, when the firm of Alexander and Company, with which it was intimately connected, failed. The Bengal Bank and the General Bank of India were established about 1785. The latter was voluntarily liquidated in 1791 owing to inability to earn profits, and the former failed a little later owing to a severe run upon it caused by the temporary reverses inflicted upon the company by Tipu Sultan. These Banks were chartered by the East India Company, and were followed by banks established under the Acts of the Indian Legislature. The latter may be divided into two groups, the first
consisting of the three Presidency Banks amalgamated into the Imperial Bank of India in 1920, and the second, of the Indian joint stock banks. The Bank of Bengal, the first of the Presidency Banks, was established in 1806 as the Bank of Calcutta, and received its charter as the Bank of Bengal in 1809. The East India Company became a share holder of the bank by contributing £100,000 which was one-fifth of the banker's capital and obtained the right to appoint three of its directors. In 1823 the bank was allowed to issue notes, and in 1839 to open branches and to deal with inland exchange, but not in foreign exchange. The Banks of Bombay and Madras were established in 1840 and 1843, with a share capital of Rs. 50 lakhs and Rs. 30 lakhs respectively, out of which the East India Company provided Rs. 3 lakhs in each case and obtained the right to appoint some of their directors. Their secretaries and treasurers were members of I.C.S. Both the Banks are allowed to issue notes up to a certain amount. The bulk of the shares of all the three banks were subscribed by the Europeans. In 1862 their right of note issue was taken over by the Government, and as compensation they were given the use of Government balances in the Presidency towns free of charge. The Bank of Bombay became involved in the wild speculation of 1862-65 that followed the American Civil War and the rise in prices of cotton, suffered serious losses, and was voluntarily wound up in 1868, but a new bank having the same name was established immediately afterwards with a capital of Rs. 1 Crore. In 1920 three Presidency banks having about 70 branches were amalgamated into a new bank called "THE IMPERIAL BANK" having a paid-up capital of Rs. 3.75 crores and a total reserve of Rs. 3.5 crores. It was intended that the Imperial bank should gradually be developed into a full-fledged Central bank.

After so many stages of developments, in 1933, a bill was introduced in the Central legislature for the establishment of the Reserve Bank of India and was passed in 1934, and the Bank commenced its business in 1935.

2.3 NATIONALISATION OF COMMERCIAL BANKS

The first phase of nationalisation started with the nationalisation of State Bank of India in 1955. Then Life Insurance Corporation was created by nationalising the existing private insurance companies in India. In the late 1960's there was a feeling among the policy makers and the Central Government that the Indian banks which have a vital role to play in economic growth had given little priority to the credit requirements of the small scale sector, agriculture sector and export sector. Nationalisation was aimed to give priority status to these neglected sectors, and this credit facility was to be rendered at considerably low interest rates. In the first phase
of bank nationalization, fourteen major Indian banks with a minimum deposit of Rs.50 crore each on the last Friday of June 1969 were identified and the Central Government acquired the undertaking of these banks. These 14 banks had a total deposit of Rs.2741.76 crores.

The broad aims of nationalization of banks as stated in the preamble to the Banking Companies (Acquisition and transfer of undertakings) Act 1970 are to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives. The important objectives of bank nationalization can be stated as: widening the ownership base of the banks (publicly owned); provisions for adequate and cheap credit to neglected sector like SSI, exports & agriculture; induction of professionalism in bank management; encouraging a new set of entrepreneurs and streamlining the regulation regarding training and service conditions for bank staff.

On the 18th July 1970 the Central Government constituted the first Board of Directors for each of the nationalized bank. The scheme governing the composition and appointments of the Board of Directors is called Nationalised Banks (Management and Miscellaneous) scheme, 1970. Under this scheme, each of the nationalized banks will have a board constituting directors of maximum 15 in number. The board should consist of representatives of the employees (two), depositors (one), officials of the RBI and Central Government (one each) and such other persons as may represent the interest of each of the following categories viz. formers, workers and artisans (one representative from each group). There will be whole time directors, of whom one shall be the managing director. The Government is empowered to appoint a maximum of 5 directors from amongst persons having special knowledge or practical experience in commercial banking. Compensation was paid to each of the 14 limited companies whose undertakings were acquired. A fixed amount was to be paid to each of the 14 nationalised banks within 60 days from the date the banking company applies for it.

Eleven years after the nationalization of fourteen commercial banks, the Government on April 15, 1980 took over six more scheduled commercial banks, each with demand and time liabilities exceeding Rs.200 crore. These banks are: Andhra Bank, Punjab & Sindh Bank, New Bank of India, Vijaya Bank, Oriental Bank of Commerce and Corporation Bank. The decision to nationalize these banks was guided mainly by two considerations; first, to help in implementing the 20-Point Programme particularly in raising the share of advances to priority sectors from 33.3 per cent to 40 per cent over the period of next five years and secondly, to have
effective control over the credit policy implementation of the banking system as a whole.

2.4 GROWTH AND DEVELOPMENT OF BANKING SYSTEM IN INDIA

In order to understand present make up of banking sector in India and its past progress, it will be fitness of things to look at its development in a somewhat longer historical perspective. The past four decades and particularly the last two decades witnessed cataclysmic change in the face of commercial banking all over the world. Indian banking system has also followed the same trend. In over five decades since independence, banking system in India has passed through five distinct phase, viz.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Period</th>
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<tbody>
<tr>
<td>Evolutionary phase</td>
<td>(prior to 1950)</td>
</tr>
<tr>
<td>Foundation phase</td>
<td>(1950-1968)</td>
</tr>
<tr>
<td>Expansion phase</td>
<td>(1968-1984)</td>
</tr>
<tr>
<td>Consolidation phase</td>
<td>(1984-1990)</td>
</tr>
<tr>
<td>Reformatory phase</td>
<td>(since 1990)</td>
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</tbody>
</table>

2.4.1 Evolution Phase: Prior to 1950

Enactment of the Reserve Bank of India Act 1935 gave birth to scheduled banks in India, and some of these banks had already been established around 1981 were under the definition. The prominent among the scheduled banks is the Allahabad Bank, which was set up in 1865 with European management. The first bank which was established with Indian ownership and management was the Oudh Commercial Bank, formed in 1881, followed by the Ajodhya Bank in 1884, the Punjab National Bank in 1894 and Nedungadi Bank in 1899. Thus there were five Banks in existence in the 19th century. During the period 1901-1914, twelve more banks were established, prominent among which were the Bank of Baroda (1906), the Canara Bank (1906), the Indian Bank (1907), the Bank of India (1908) and the Central Bank of India (1911).

Thus, the five big banks of today had come into being prior to the commencement of the First World War. In 1913, and also in 1929, the Indian Bank faced serious crises. Several banks succumbed to these crises. Public confidence in banks received a jolt. An important point to be noted here is that no commercial bank
was established during the First World War, while as many as twenty scheduled banks came into existence after independence – two in the public sector and one in the private sector. The United Bank of India was formed in 1950 by the merger of four existing commercial banks. Certain non-scheduled banks were included in the second schedule of the Reserve Bank. In view of these facts, the number of scheduled banks rose to 81. Out of 81 Indian scheduled banks, as many as 23 were either liquidated or merged into or amalgamated with other scheduled banks in 1968, leaving 58 Indian schedule banks. The age-wise distribution of these 58 Indian scheduled banks is given in Table 2.1.

Table 2.1 Age-wise Distribution of Indian Scheduled Banks

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Established During</th>
<th>No. of Banks</th>
</tr>
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<tbody>
<tr>
<td>01.</td>
<td>19th Century</td>
<td>2</td>
</tr>
<tr>
<td>02.</td>
<td>Pre-First World War</td>
<td>14</td>
</tr>
<tr>
<td>03.</td>
<td>Inter-War Period</td>
<td>21</td>
</tr>
<tr>
<td>04.</td>
<td>Second World War</td>
<td>03</td>
</tr>
<tr>
<td>05.</td>
<td>Post-Second World War</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>58</strong></td>
</tr>
</tbody>
</table>

It may be emphasized that banking system in India came to be recognized in the beginning of 20th century as powerful instrument to influence the pace and pattern of economic development of the country. In 1921 need was felt to have a State Bank endowed with all support and resources of the Government with a view to helping industries and banking facilities to grow in all parts of the country. The Imperial Bank of India was formed to accomplishment of this objective by amalgamating the three Presidency Banks. The role of the Imperial Bank was envisaged as to extend banking facilities, and to render the money resources of India more accessible to the trade and industry of this country, thereby promoting financial system which is an indisputable condition of the social and economic advancement of India. Until 1935, when RBI came into existence to play the role of Central Bank of the Country and regulatory authority for the banks, Imperial Bank of India played the role of a quasi-central bank. It was by making it the sole repository of all its funds and by changing the volume of its deposits with the Bank as and when desired by it, the Government tried to influence the base of deposits and hence credit creation by Imperial Bank and by rest of the banking system.
Thus, the role of commercial banks in India remained confined to providing vehicle for the community's savings and attending to the credit needs of only certain selected and limited segments of the economy. Bank's operations were influenced primarily by commercial principle and not by developmental factor. Failure of banks was common as governance in privately owned joint stock banks left much to be desired.

2.4.2 Foundation Phase: 1948-1968

The banking scenario prevalent in the country during the period 1948-1968 presented a strong focus on class banking on security rather than on purpose. The emphasis of the banking system during this period was on laying the foundation for a sound banking system in the country. Banking Regulating Act was passed in 1949 to conduct and control operations of the commercial banks in India. Another major step taken during this period was the transformation of Imperial Bank of India into State Bank of India and a redefinition of its role in the Indian economy, strengthening of the co-operative credit structure and setting up of institutional framework for providing long-term finance to agriculture and industry. Banking sector, which during the pre-independence India was catering to the needs of the government, rich individuals and traders, opened its door wider and set out for the first time to bring the entire productive sector of the economy-large as well as small, in its fold.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>December 1951</th>
<th>December 1956</th>
<th>December 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Banks</td>
<td>92</td>
<td>89</td>
<td>71</td>
</tr>
<tr>
<td>Non-Scheduled Banks</td>
<td>474</td>
<td>334</td>
<td>210</td>
</tr>
<tr>
<td>Total</td>
<td>566</td>
<td>423</td>
<td>281</td>
</tr>
</tbody>
</table>

During this period, the number of commercial banks declined remarkably (Table 2.2). There were 566 scheduled and non-scheduled banks as on December 1951. Of this, 92 were scheduled banks and the rest 474 were non-scheduled banks. This number went down considerably to 281 at the close of the year 1968. The sharp declined in the number of banks was mainly due to continuous fall in the number of non-scheduled banks, which touched an all time low level of 210.

The banking scenario prevalent in the country up-to-the year 1968 depicted a strong stress on class banking based on security rather than on purpose. Before 1968, only Reserve Bank of India (RBI), State Bank of India (SBI) and Associate Banks of SBI were mainly controlled by Government. Some associates were fully
owned subsidiaries of SBI and in the rest; there was a very small shareholding by individuals and the rest by RBI.

2.4.3 Expansion Phase: 1968-1984

This phase witnessed socialization of banking in 1968. Commercial banks were viewed as agents of change and social control. However, inadequacy of social control soon became apparent because all banks except the SBI and its seven associate banks were in the private sector and could not be influenced to serve social interests. Therefore, banks were nationalized (14 banks in 1969 and 6 banks in 1980) in order to control the heights of the economy in conformity with national policy and objectives. This period saw the birth and the growth of what is now termed as directed lending by banks. It also has seen commercial banking spreading across the country with great pace; with which a number of poverty alleviation and employment generating schemes were sought to be implemented through commercial banks. Thus, this period was characterized by the death of private banking and the dominance of social banking over commercial banking. It was hardly realized that banks were organizations with social responsibilities but not social organizations. This period also witnessed the birth of Regional Rural Bank (RRBs) in 1975 and establishment of NABARD in 1982, which had priority sector as their focus of activity.

Although number of commercial banks declined from 281 in 1968 to 268 in 1984, number of scheduled banks shot up from 71 to 264 during the period. The number of non-scheduled banks registered perceptible decline from 210 to 4 during the period under reference. The rise in the number of scheduled banks was, as stated above, due to the emergence of RRBs.

The fifteen years following the bank nationalization in 1969 were dominated by the Banks' expansion at a path breaking pace. As many as 50,000 bank branches were set up; three-fourths of these branches were opened in rural and semi-urban areas. Thus, during this period a distinct transformation of far reaching significance occurred in the Indian banking system as it assumed a broad mass base and emerged as an important instrument of socio-economic changes. Thus, with growth came inefficiency and loss of control over widely spread offices. Moreover, retail lending to more risk-prone areas at concessional interest rates had raised costs, affected the quality of assets of banks and put their profitability under strain. The competitive efficiency of the banks was at a low end. Customer service became least available commodity. Performance of a bank/banker began to be measured merely in
terms of growth of deposits, advances and other such targets and quality became a casualty.

2.4.4 Consolidation Phase: 1985-1990

A realization of the above weaknesses thrust the banking sector into the phase of consolidation. This phase began in 1985 when a series of policy initiatives were taken with the objectives of consolidating the gains of branch expansion undertaken by the banks, and of relaxing albeit marginally, the very tight regulation under which the system was operating. Although number of schedule banks increased from 264 in 1984 to 276 in 1990, branch expansion of the banks slowed down. Hardly 7000 branches were set up during this period. For the first time, serious attention was paid to improving housekeeping, customer services, credit management, staff productivity and profitability of the banks and concrete steps were taken during this period to rationalize the rates of bank deposits and lending. Measures were initiated to reduce the structural constraints, which were then inhibiting the development of money market.

By this time about 90% of commercial banks were in the public sector and closely regulated in all its facets. Prices of assets and liability were fixed by the RBI; prices of service were fixed uniformly by the Indian Banking Association (IBA); composition of assets was also somewhat fixed in as much as 63.5% of bank funds were mopped up by CRR and SLR and the remained was to directed towards priority sector leading and small loaning; salary structure was negotiated by the IBA and validated by the Government. Thus, there was no autonomy in vital decisions. Commercial approach in operations and drive towards efficiency was almost non-existent. The result was that during this period, the banks ended up consolidating their losses rather than the gains.

2.4.5 Reformatory Phase: 1991 and onwards

Continued financial profligacy of the Government coupled with close monitoring and control rendered the financial systems completely dependent and inefficient so much so that by the year 1991, the situation was ripe for drastic reforms. It was, however, precipitated by the unprecedented economic crisis, which engulfed the economy in 1991. For the first time in its history, India faced the problem of defaulting on its international commitments. The access to external commercial credit markets was completely denied; international credit ratings had been downgraded and the international financial community's confidence in India's ability to manage its economy had been severally eroded. The economy suffered from
serious inflationary pressures, emerging scarcities of essential commodities and breakdown of fiscal discipline.

In the year 1991, another historic event took place in the annals of Indian banking with the appointment of a high level committee headed by Mr. M. Narasimham to examine the existing financial system and to recommend measures to improve its efficiency and effectiveness. Till that date Govt. of India (GOI) talks about control and social welfare for the banks. But as the financial viability of the banks were at stake, GOI for the first time talked about efficiency and effectiveness indicating a new phase of reforms for the Indian banks. The first out come of this was merger of a weak public sector bank ‘New Bank of India” with ‘Punjab National Bank’ in the year 1993 reducing the number of public sector banks to 27. In the same year, Reserve Bank of India issued guidelines as per the recommendations of Narasimham Committee for setting up new private sector banks in India. This has led to the establishment of new banks like Bank of Punjab, HDFC Bank, UTI Bank, ICICI Bank, etc. along with the existing private banks like Federal Bank, J & K Bank, Vyasya Bank, etc. Many of the private banks born at that phase has grown stronger and few of them are no more. (Global Trust Bank has merged with Oriental Bank of Commerce in the year 2004).

The Government took swift action to restore international confidence in the economy and redress the imbalances by initiating various macro economic structural reformatory measures in the field of foreign trade, tax system, industrial policy and financial and other sectors. The objective was to improving the underlying strength of the economy and furthering the fundamental developmental objectives of growth with equity and self-reliance.

South-East Asia crisis, mounting non-performing loans (Rs.40,000 crore at a point of time), over-staffing by 40% (as estimated by GOI), lack of legal infrastructure for recovery of loans, duplication of branch network, over-banked geographical terrain calling for branch closure, etc. are some of the major developments at the end of 20th century. Some other crisis of the banking system are lack of autonomy rubbing of banks from quick decision making, completely out-dated systems needing technological support and changes in the domestic and international scenario. Further, the need for review of recommendations of Narasimham Committee was felt for the Indian banking and financial system. At the back drop of these crises, the second generation of reforms start in the year 1998 with the constitution of Narasimham Committee II. It has made a series of recommendations those are being used as a launching pad to take Indian banking sector further ahead. The changes
made during the last four decades have transformed the banking scene in the country beyond recognition. The banks have not only grown in size, but they have become robust by changing their scope of functioning and integrating themselves to the global changes.

Table 2.3 Summary of the Indian Banking Industry: (1990-1991 to 2000-2001)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>No. of Banks</td>
<td>28</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>2087.3</td>
<td>64.3</td>
<td>84.5</td>
</tr>
<tr>
<td>(Rs. Billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Credit</td>
<td>1305.7</td>
<td>49.5</td>
<td>50.6</td>
</tr>
<tr>
<td>(Rs. Billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit-deposit</td>
<td>0.63</td>
<td>0.52</td>
<td>0.60</td>
</tr>
<tr>
<td>ratio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of Total</td>
<td>92.1</td>
<td>4.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Deposits (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>240.4</td>
<td>10.4</td>
<td>15.3</td>
</tr>
<tr>
<td>(Rs. Billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>4.7</td>
<td>0.4</td>
<td>1.5</td>
</tr>
<tr>
<td>(Rs. Billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: PUB-Public Sector Banks; PVT-Private Sector Banks; Forg-Foreign Banks

Indian banking system has been subject to widespread structural reforms initiated since June 1991. This phase can be regarded as “second banking revolution”. During this phase, reform measures such as introduction of new accounting and prudential norms, liberalization measure etc., are heading towards a truly competitive and well-structured banking system resilient from an international perspective. These have spurred the dynamics of Indian banking sector in all the fields. State Bank of India has become the first universal bank in 2004 followed by ICICI Bank. Now India is boasting of joining the bandwagon of universal bank elsewhere in United States, Europe, and Japan. The consolidated balance sheet of
the scheduled commercial banks has shown substantial growth since the dawn of this century.

It is evident from the table 2.3 that the commercial banks in India have grown substantially in period under study. The increase in deposits and advances indicate a favourable trend in the financial sector. The number of Banks in Indian Private Sector and foreign banking sector has increased over the period 1990-2001 i.e. from 25 to 32 private banks; and from 23 to 41 foreign banks. The annual growth of branch expansion during 1990-2000 was 1.1%. The population served per branch was 15000 as at March-end 2000. During 1990-2000, the annual average growth rates of deposits and credit were 16.1% and 14.8% respectively. During 1990s, the growth of investments was 20.0% as compared to 16.0% during 1985-1990 and 18.8% during 1980-1985. The net profit of the banking system grew by more from Rs.555.33 crore as at March end 1990 to Rs.7306.36 crore as at March-end 2000.

2.5 MAJOR DEVELOPMENTS IN INDIAN BANKING

The major developments that have taken place in the history of Indian Banking are described below in chronological order.

1967 Social Control
1969 Nationalisation of 14 Major Indian Banks
1974 Targets for Priority Sector Lending set.
1975 Norm prescribed for lending and fixing working capital limits.
1978 Demonetisations of high denomination notes.
1980 Nationalization of six more Indian Banks taking the total banks nationalized to 20.
1982 Establishment of National Bank or Agriculture and Rural Development (NABARD), Export-Import Bank of India.
1987 Banks allowed to commence mutual fund business.
1988 Establishment of Discount and Finance House of India, National Housing Bank, Service Area Approach adopted for rural lending programmes.
Cheque bouncing made a criminal offence. Loan concentration on ratios evolved.


1994 Interest rates on loans over Rs.2 lakhs deregulated allowing banks to fix prime lending rates. Banks allowed raising capital up to 49 percent of equity from the capital markets by amending Banking Companies (Acquisition and Transfer of Undertaking) Acts 1970/1980. Board for Financial Supervision was set up.


1996 Measures taken to strengthen secondary market in government securities. Banks allowed purchasing PSU bonds in the secondary
market. Limits for sanction of advances against shares and debentures enhanced.

1997 India's first shared payment network system (SWADHAN) became operational in Mumbai. Limited and conditional autonomy are given to public sector banks. Central Board of Bank frauds constituted to contain incidence of frauds in the banking industry. Norms for setting up of local Area Banks announced.

1998 Committee on Financial Sector Reforms (Narasimham Committee) reviewed the progress of the reforms and recommended blue print for implementation of second-generation reforms. Norms for capital adequacy, reduction in the non-performing assets evolved. Internet rats on term deposits above 15 days deregulated. Banks allowed to offer incentives based on the size and tenor.

1999 Guidelines on asset-liability management issued for implementation by banks.

2000 Union Budget proposals contained bringing the government equity in public sector banks to 33 percent without losing the character of the public sector.

2001 Recommendations of Narasimham Committee II came into force.

2002 Banks are asked to make provisions for NPA as per the revised guidelines; as a result many public sector banks posted heavy losses in their balance sheet.

2003 Reduction of CRR to 4.5 per cent of NDTL. The maturity period of fresh NRE deposits to be 1 to 3 years. Guidelines on Fair Practices Code issued. Revised guidelines issued to banks to identify wilful default. Detailed operational guidelines for the process of take-over of bank branches in rural and semi-urban centres are issued. The guidelines for accounting legal expenses in suit-filed accounts issued. Banks are given freedom to determine rates of interest on advances. Education loans up to the ceiling of Rs.7.5 lakhs for studies in India, and Rs.15 lakhs for studies abroad to be reckoned under priority sector advances. Foreign Banks operating in India are permitted to remit net profits on quarterly basis to the Head Office. A working group on flow of credit to SSI sector constituted. Each commercial bank is required to constitute an ad hoc
committee to undertake procedures and performance audit on public services rendered by it.

2004 All branches maintaining currency chests are to provide customer services to the public more actively. Private sector banks are to ensure that no transfer takes place on any acquisition of shares of 5% or more without prior acknowledgement of Reserve Bank of India. Banks are free to decide on all aspects relating to renewal of overdue deposits. Guidelines towards bringing about a certain minimum level of uniformity with regard to the content and coverage of the Best Practices codes (BPC) in banks issued. Revised norms with regard to Cheque Drop-Box facilities, delivery of cheque books over the counter and statement of accounts are to be issued. Banks are to ensure the compliance of three accounting standards (No.24, 26, and 28) relating to discounting operations. Banks are to maintain the confidentiality of information provided by the customers for 'Know Your Customers' (KYC) compliance. The types of instruments those are to be included in Tier-II bonds were widened. Banks are to take appropriate steps to increase credit flow to priority sector. Banks can open branches having no interface with customers, and which will attend exclusively to data processing. Banks are to formulate a comprehensive policy covering the three aspects, viz., immediate credit to cheques, timeframe for collection of cheques, and interest payment for delayed collection.

2.6 EVOLUTION OF BANKING IN ORISSA

2.6.1 Introduction: -The banking facilities of a region certainly paved the way for economic development of that region. The commercial banking was started in Orissa in the year 1909 with the opening of the Puri Joint Stock Bank. Subsequently, two other banks—the Cuttack Joint Stock Bank and the Jagannath Bank were established in the year 1913 and 1919 respectively. The Cuttack Joint Stock Bank continued to exist and merged in the United Bank of India in the year 1954 and the other two banks were liquidated in the mid-thirties.

The Imperial Bank of India formed after the amalgamation of three Presidency Banks opened its first branch in Orissa at Berhampure (Ganjam) in the year 1921 and the second branch at Cuttack in the same year. The Maharaja of Mayurbhanj
opened a new bank in the year 1938 in the name “Mayurbhanj State Bank”. In the beginning the Imperial Bank was both a banker's bank and a banker to the Government. On being converted into the State Bank of India, in the year 1956, it continued to function as a Public sector Bank in the commercial line. The Mayurbhanj State Bank was amalgamated into the State Bank of India in the year 1961.

On 19th July, 1969, Indira Gandhi, the then Prime minister of India took the momentous decisions to nationalize 14 major scheduled Commercial Banks with the major objectives of providing banking services to unbanked and underbanked areas. In Orissa, the number of Bank offices was only 100 in June, 1969. The number of scheduled commercial bank branches in Orissa has been raised to 1973 as at the end of June, 1989 from that of 100 branches as at the end of June, 1969. During the post nationalization period banks in Orissa made spectacular progress in mobilization of deposits through various innovative schemes and a wide network of branches. At the time of nationalization, aggregate deposits were Rs.31.13 Crore which went up to Rs. 1884.92 Crores as at the end of June, 1989. The share of aggregate deposits of Orissa was 0.67% of total deposits of India at the end of June, 1969 which has gone up to 1.28% as at the end of, March, 1989. At the end of June, 1969, Banks in Orissa had deployed a credit of Rs.16.63 Crores as against the aggregate deposits of Rs.31.13 Crores.

Looking at the relative performance of different institutional agencies in spreading banking facilities in Orissa, it is revealed that the Post Office Savings Banks had a wide network of offices prior to the year 1949 as compared to other institutions. There were 210 post office savings banks in Orissa by March 1949. In terms of percentage, they accounted for 85.7 per cent of the total no. of banking offices in the state. As a result, average population and area served per office of a post office savings bank 66 thousands of population and 285 square miles of area, respectively. Next to post office savings banks, the cooperative banks consisting of state cooperative bank and central cooperative banks had a total no. of 21 offices or 8.6 percent of total no. of offices in the state as on June, 1949.

It is seen that out of total 31 towns in Orissa as on December, 1949, commercial banks served only 11 towns that is 35.5 percent of the total towns in the state. The remaining 20 towns were not served by any office of commercial bank. Out of the total number of 17 smaller towns having a population of less than 10000
the commercial banks opened offices in 2 towns. The remaining 15 smaller towns were not served by any office of the commercial banks.

The nationalisation of commercial banks in 1969 has provided banking services to the un-banked areas. The number of branches of different commercial banks in Orissa was 100, which has been raised to 1896 by the end of June 1989. During the post-nationalisation period, banks in Orissa have spectacular progress in mobilisation of deposit through various schemes and a wide network of branches. At the nationalisation, aggregate deposits were Rs.31.13 crore, which went up to Rs.1884.92 crore by the end of June 1989. The share of aggregate deposit of Orissa to the National deposit was 0.67% at end of June 1969, has been increased to 1.28% at the end of June 1989. The aggregate credit of the banks were Rs.16.63 crore against a deposit of Rs.31.13 crore as on 1969 giving the credit-deposit (C-D) ratio of 53.4% as against the All-India average of 77 per cent. At the end of June 1989, the C-D ratio stood at 83.4% as against the national average of 60%, clearly indicating a better utilisation rate and need for bank credit.

2.6.2 Distribution of Branches of Commercial Banks in Orissa during 2003-04 & 2004-05.

The table-2.4 describes that 21 branches of various commercial banks have been opened during the period 1st April 2003 to 31st March, 2004 and in the following year 34 branches have been opened in Orissa.

<table>
<thead>
<tr>
<th>Table-2.4  Number of Branches Opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>During</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>01/04/2003 to 31/03/2004</td>
</tr>
<tr>
<td>01/04/2004 to 31/03/2005</td>
</tr>
</tbody>
</table>

The table 2.5 shows that out of a total of 2289 branches of Commercial Banks in Orissa as at the end of the year 2003 & 2004 about 70% of the branches (1598) are operating in rural areas. The figure again goes upto 1600 in the following year.
Table-2.5  Number of Bank Branches in Orissa

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th>Semi urban</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31; 2004</td>
<td>1598</td>
<td>339</td>
<td>352</td>
<td>2289</td>
</tr>
</tbody>
</table>
| March 31, 2005 | 1600  | 351        | 371   | 2322  

### 2.7 Changing Face of Banking

The Global financial markets have weakened significantly since end-March 2002, reflecting a downward revision in profit forecasts and concerns about the sustainability of the recovery. Corporate sector distress and auditing and accounting irregularities in June and early July-2002 severely undermined investor confidence and deepened the slump in equity markets. Negative sentiment spilled over into the corporate bond market, reflected in a sharp rise in interest rate spreads; and portfolio changes indicate a continuing flight to quality and safety. International banking activity experienced a slowdown, affected by subdued demand for credit and consolidation of off-shore lending. The current phase of the banking cycle appears to be driven by the downturn in economic activity rather than financial distress.

The Indian Banking has recently been exhibiting signs of Staying Ahead of global activity. There has been improvement in the growth of non-food bank credit reflecting a better outlook for industrial growth. There has been an increase in the credit disbursed to the housing sector and industries like coal, iron and steel, textiles, fertilizer, drugs and pharmaceuticals, cement, construction, petroleum, computer software, automobiles, gems and jewellery and power.

A major drag on financial structure reforms in India is the slow progress in the management of Non-Performing Assets. Although Net NPAs have undergone a steady decline since 1992-93, they are still high by the International standard of about 2 per cent. Settlement Advisory Committees were introduced in 1999 to provide a simplified non-discretionary and non-discriminatory mechanism to deal with the stock or 'over hang' of NPAs especially in the small sector. In 2001, a corporate debt restructuring mechanism as prevalent in the UK South East Asian countries was finalized for restructuring debts of viable corporate entities. Lok Adalats have proved
to be an effective institution for settlement of similar dues. The Union Budget for 2002-03 announced the setting up of a Pilot Asset Reconstruction company with the participation of banks, financial institutions and multilateral agencies.

From March-2003, banks would be required to conform to Accounting Standards issued by the Institute of Chartered Accountants of India. Banks are also required to make additional disclosures in notes to accounts on risk features such as movement in provisions held towards non performing assets and depreciation of investments, capital market exposures loans subject to corporate debt restructuring. In April 2002 Monetary and Credit policy statement of banks have been required to announce the maximum spread over their prime lending rates (PLR) along with their PLR requirement, the minimum and maximum rates charged to borrowers, deposit rates, the effective annualized return to the depositor and processing and service charges.

There has been considerable thinking on Corporate Governance issues in India too. The Kumar Mangalam Birla committee appointed by the SEBI in 1999 framed codes of disclosure for corporates. The R.H. Patil Advisory Group on corporate governance made important recommendations regarding the responsibilities of boards to stake / shareholders, selection procedures for appointment of directors, oversight of corporate governance practices, amendment of companies act for enforcing good governance, to name a few. The M.S. Verma advisory committee on banking supervision advocated uniform quality of corporate governance, irrespective of ownership. The consultative group of Directors Banks / FIs under Dr. A.S. Ganguly, member of the board for financial supervision has made recommendations to strengthen the supervisory role of the boards of banks.

The year 2002-03 was marked by revival of industrial growth with a buoyant services sector. Nevertheless the drought situation inhibited the firm sector, and the overall GDP growth for 2002-03 was moderate. In line with the resurgence of industrial growth, there was some pick up in scheduled commercial banks’ nonfood credit, particularly in the second half of 2002-03 portfolio’s of SCB’s, on the asset side, showed some shift in favour of advances. Owing to the holding of government securities by SCBs, far in excess of stipulated requirements and a fall in interest rates, their income profile continued to be driven by treasury operations. There has been a reduction in the ratio of non performing assets (NPAs) to advances with various initiatives, such as improved risk management practices and greater recovery
efforts, driven, inter alia, by the recently enacted Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. During the year the commercial banks have experienced a significant improvement in their earnings. The return on Assets ratio witnessed a marked improvement of 1%- the highest over the last six years. Trading in Government securities become the job of most bankers during this year. The significant improvement in the performance of SCBs masks the wide variation in performance across bank groups. The increase in income was lowest for the old private banks, due to a modest increase in interest income. Foreign Banks, on the other hand, experienced a decline in both income and expenses, with the decline in the latter outpacing that in the former, arising out of containment in interest expenses. Taking advantage of the easy liquidity conditions, public sector banks (PSBs) contained their interest expenses within reasonable levels. Declining rates also allowed banks realize gains on the sale of appreciated securities. Provisions and contingencies increased for most bank groups reflecting a greater appreciation on their part to improve the credit portfolio; an exception being the foreign banks for which provisions in fact declined reflecting improvements in their asset portfolio. Capital levels of the banking sector improved markedly during the year with the overall capital adequacy of SCBs rising from 10.4% as at end of March 1997 to 12.6% as at end-March 2003, owing to ploughing back of profits into reserves. All public sector banks had capital well above the stipulated minimum. Out of 93 SCBs 2 could not satisfy the stipulated 9.0% capital adequacy ratio. A marked improvement in credit risk management of banks was also evident. The overall Nonperforming assets (NPAs) of the banking sector declined by over Rs.2000 Crore to 8.8% of gross advances as at end-March-2003. The reason behind the same was SARFAESI Act, and greater recovery efforts. The SARFAESI Act provides for sale of financial assets by banks and financial institutions to securitization companies (SCs) or reconstruction companies (RCs). Recently IDBI, ICICI Bank, and SBI a few other banks jointly promoted Asset Reconstruction Company (India) Limited (ARCIL) with an initial authorized capital of Rs.20 Crore and a paid-up capital of Rs.10 Crore.

The year 2003-04 is a very favourable year for the Indian Economy, because the growth in GDP accelerated to 5.7% over the corresponding quarter of the previous year. Liquidity conditions continued to be comfortable. The performance of the commercial banking system during the quarter ended June, 2003, as revealed from the supervisory returns of SCBs, indicate a significant improvement in their performance over the corresponding quarter of the previous year. The net profits to total assets of SCBs for the quarter ended June-2003 stood at 0.32% as compared
with 0.24% during comparable period of the previous year. The improvement in net profits was driven by containment of expenses, in general, and interest expended, in particular, and was achieved despite a sharp rise in provisions contingencies across bank groups. Operating expenditures, by and large, remained at the same level as at end-June-2002: an exception being the new private banks for whom these expenses increased marginally. Reflecting the industrial recovery, financial assistance by financial institutions increased during April-September 2003.

2.7.1 Customer Service and Financial Inclusion

Liberalization of financial services and competition have improved customer service. However, experience shows that consumer's interests at times are not necessarily accorded full protection and their grievances are not properly attended to. There have been complaints relating to charges for balance enquiry, cheque status verification, signature verification, address confirmation, photograph verification, punitive service charges for non-maintenance of minimum balance in saving accounts, transaction charges for reorder of cheque book and for cash transactions at the branch beyond a stipulated number. The Reserve Bank has been issuing guidelines from time to time to facilitate banks' focus on service to the common man. With the Reserve Bank's initiative, the Indian Banks' Association (IBA) has prepared a model 'Fair Practices Code' which is a public document enlisting things that a customer can expect from the concerned bank. The purpose of the policy is that banks should deliver to depositors what they had promised at the time of accepting deposits. The scope of the Banking Ombudsman is also being expanded to cover all individual cases/grievances relating to non-adherence to the 'Fair Practices Code' evolved by the IBA and adopted by individual banks. In addition, the Reserve Bank decided to institute an independent Banking Codes and Standards Board of India in order to ensure that comprehensive code of conduct for fair treatment of customers is evolved and adhered to.

2.7.2 Basel II and Risk Management

It has been the endeavour of the Reserve Bank to facilitate gradual convergence of prudential norms for the banking sector with international best practices with suitable country specific adaptations. In India, the capital adequacy norms were adopted in 1992 following the Basel Accord, 1988. With the increasing sophistication in banking operations and the growing cross-border activities of banks, the earlier Accord, which focused exclusively on credit risk, did not adequately
In line with the regulations on registration of Indian insurance companies as issued by the Insurance Regulatory and Development Authority (IRDA) and subsequent Government Notification specifying 'insurance' as a permissible form of business that could be undertaken by banks under Section 6(1)(o) of the Banking Regulation Act, 1949, commercial banks were permitted in August 2000 to set up insurance joint ventures on a risk participation basis and also to undertake insurance business as agents of insurance companies on a fee basis, without any risk participation by banks.

2.7.4 Managerial Autonomy for Public Sector Banks

The Government of India issued a managerial autonomy package for the public sector banks on February 22, 2005 with a view to providing them a level playing field with the private sector banks in India. Under the new framework, the Boards of public sector banks would enjoy more freedom to carry out their functions efficiently without any impediment. The functions, however, have to be in sync with the extant statutory requirements, government policy prescription and regulatory guidelines issued by the Reserve Bank from time to time. The revised guidelines allow public sector banks to pursue new lines of business, make suitable acquisitions of companies or businesses, close/merge unviable branches, open overseas offices, set up subsidiaries and exit a line of business. Similarly, these banks have been allowed to decide human resource issues, including staffing pattern, recruitment, placement, transfer, training, promotions and pensions as well as visits to foreign countries to interact with investors, depositors and other stakeholders. Besides, the Boards of Directors of stronger banks would have additional autonomy for framing their own human resource (HR) policies. Prescription of standards for categorisation of branches, based on volume of business and other relevant factors, have been left to the banks to decide. Public sector banks have been permitted to lay down policy of accountability and responsibility of bank officials.

2.8 TRENDS & PROGRESS IN BANKING DURING 2004-05

The Indian economy continued to register robust growth during 2004-05 (April to March), notwithstanding some setback arising from a deficient monsoon. Real GDP growth rate at 6.9 per cent in 2004-05, one of the highest in the world, came on the back of a 15-year high real GDP growth rate of 8.5 per cent in 2003-04. Overall real GDP growth for 2004-05 at 6.9 per cent, despite a sharp slowdown in agriculture, propelled the average growth to 6.5 per cent in the first three years of the Tenth Five Year Plan period (2002-03 to 2006-07). Growth of real GDP originating from
address the emerging realities of banking. After due consultative process which began in 1999, the New Capital Accord, popularly known as Basel II, was enunciated in 2004 for adoption by banks. The revised Accord takes into account both market and operational risks, reinforced by a three-pillar strategy. Basel II, under which banks' capital requirements will be more closely aligned with the underlying risks in their balance sheets, is expected to promote stronger risk management practices in banks.

In India, commercial banks will start implementing Basel II with effect from March 31, 2007. In particular, they will adopt the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk. After adequate skills are developed both at the bank and the supervisory levels, some banks may be allowed to migrate to the Internal Ratings Based Approach. The Reserve Bank had advised banks in May 2004 to examine in depth the options available under Basel II and draw a road map by end-December 2004 for migration to Basel II and review the progress made at quarterly intervals. Subsequently, all banks were advised to undertake a self-assessment of the various risk management systems in place, with specific reference to the major risks covered under Basel II and initiate necessary remedial measures to update the systems to match up to the prescribed minimum standards. Banks were also advised to formulate and operationalise the Internal Capital Adequacy Assessment Process (ICAAP) as required under Pillar II of the new Accord. The adoption of risk based supervision (RBS) would facilitate in factoring the Pillar II requirements under Basel II. In the interim, banks were also advised to create an investment fluctuation reserve of 5 per cent of the investment portfolio, both in the AFS and HFT categories plus a 2.5 per cent risk weight on the entire investment portfolio to address the market risk.

2.7.3 Insurance Business

Entry in insurance business from 2004-05 has been made even more broad-based with the inclusion of other banking entities under its ambit. In October 2004, RRBs have been allowed to undertake, with prior permission of the Reserve Bank, insurance business as corporate agents without risk participation, subject to fulfilling certain terms and conditions such as positive net worth, compliance with prudential norms, NPAs not exceeding 10 per cent, continuous profits in the last 3 years and no accumulated losses. Besides, subject to certain conditions, they have also been allowed to undertake insurance business on a referral basis, without any risk participation, through their network of branches.
'agriculture and allied activities' decelerated sharply to 1.1 per cent during 2004-05 from 9.6 per cent during the previous year. Real GDP growth originating from industry, however, strengthened to 8.3 per cent with the industrial recovery spreading across almost all sectors during 2004-05. The firming up and spread of the upturn in industrial activity was led by manufacturing growth facilitated by positive investment climate, improved business confidence and buoyant external demand. The services sector contributed as much as 70.5 per cent to the real GDP growth in 2004-05.

The inflation rate in 2004-05 was somewhat higher than that in 2003-04, driven mainly by the rise in oil prices. It was, however, contained by successful policy interventions, both fiscal and monetary measures. Headline inflation, measured by year-on-year changes in the wholesale price index moved in two distinct phases during 2004-05. The first phase covering April-August 2004 witnessed a hardening of domestic prices of coal, petroleum products, iron ore and metals, reflecting lagged adjustments to international prices. Inadequate South-West monsoon also pushed up the prices of food and non-agricultural commodities between July and August 2004. Inflation receded in the second phase beginning September 2004 as the adverse impact of the South-West monsoon turned out to be far more limited than earlier perceived. The year-on-year headline inflation eased to 5.1 per cent by end-March 2005. For the year 2004-05 as a whole, inflation (in terms of WPI), on an average basis, was somewhat higher at 6.4 per cent than 5.4 per cent recorded in 2003-04.

2.9 INTERNET BANKING IN INDIA

The Internet banking is changing the banking industry and is having the major effects on banking relationships. Even the Morgan Stanley Dean Witter Internet research emphasized that Web is more important for retail financial services than for many other industries. Internet banking involves use of Internet for delivery of banking products & services. It falls into four main categories, from Level 1 - minimum functionality sites that offer only access to deposit account data - to Level 4 sites - highly sophisticated offerings enabling integrated sales of additional products and access to other financial services such as investment and insurance. In other words a successful Internet banking solution offers:

- Exceptional rates on Savings, CDs, and IRAs
- Checking with no monthly fee, free bill payment and rebates on ATM surcharges
Credit cards with low rates
Easy online applications for all accounts, including personal loans and mortgages
24 hour account access
Quality customer service with personal attention

Advantages previously held by large financial institutions have shrunk considerably. The Internet has leveled the playing field and afforded open access to customers in the global marketplace. Internet banking is a cost-effective delivery channel for financial institutions. Consumers are embracing the many benefits of Internet banking. Access to one's accounts at anytime and from any location via the World Wide Web is a convenience unknown a short time ago. Thus, a bank's Internet presence transforms from 'broucheware' status to 'Internet banking' status once the bank goes through a technology integration effort to enable the customer to access information about his or her specific account relationship. The six primary drivers of Internet banking includes, in order of primacy are:

- Improve customer access
- Facilitate the offering of more services
- Increase customer loyalty
- Attract new customers
- Provide services offered by competitors
- Reduce customer attrition

The banking industry in India is facing unprecedented competition from non-traditional banking institutions, which now offer banking and financial services over the Internet. The deregulation of the banking industry coupled with the emergence of new technologies, are enabling new competitors to enter the financial services market quickly and efficiently.

Indian banks are going for the retail banking in a big way. However, much is still to be achieved. Throughout the country, the Internet Banking is in the nascent stage of development (only 50 banks are offering varied kind of Internet banking services) In general, these Internet sites offer only the most basic services. 55% are so called 'entry level' sites, offering little more than company information and basic marketing materials. Only 8% offer 'advanced transactions' such as online funds transfer, transactions & cash management services. Foreign & Private banks are much advanced in terms of the number of sites & their level of development.
2.9.1 Strategies to be adopted by Indian Banks

Internet banking would drive us into an age of creative destruction due to non-physical exchange, complete transparency giving rise to perfectly electronic market place and customer supremacy. The question to be asked right now is "What the Indian Banks should do" Whatever is the strategy chosen and options adopted, certain key parameters would determine the bank's success on web:

A. For long term success, a bank may follow:

- Adopting a webs mindset
- Catching on the first mover's advantage
- Recognizing the core competencies
- Ability to deal multiplicity with simplicity
- Senior Management initiative to transform the organization from inward to outward looking
- Aligning roles and value propositions with the customer segments
- Redesigning optimal channel portfolio
- Acquiring new capabilities through strategic alliances.

B. The above can be implemented in four steps:

(i) Familiarising the customer to new environment by demo version of software on bank's web site. This should contain tour through the features which are to be included. It will enable users to give suggestions for improvements, which can be incorporated in later versions wherever feasible.

(ii) Second phase provides services such as account information and balances, statement of account, transaction tracking, mail box, check book issue, stop payment, financial and customised information.

(iii) The third phase may include additional services such as fund transfers, DD issue, standing instructions, opening fixed deposits, intimation of loss of ATM cards.

(iv) The last step should include advanced corporate banking services like third party payments, utility bill payments, establishment of L/Cs, Cash Management Services etc.

All the above strategies will help banks in translating their traditional business model into an Internet one, falling into three main categories:

- One stop shop
- Virtual one-stop-shop
- Best of breed supplier.
2.14 CONCLUSION

Though the origin of banking is believed to be in the European countries, still we have banking in our country from the very beginning. The form was different; there was no scope for record of such events. Kautilya’s 'Arthasastra', the books of Sanskrit law giver Manu gives us sufficient proof of practice of banking in older days. The literature of Buddhist period also shows the proof of banking in the country. The agency houses, the presidency banks and the imperial bank of India were the main pillars of foundation of Indian banking System. In Orissa, the year 1909 was the year in which the formal banking system enters with the opening of Puri Joint Stock Bank. The banking system has been developed to the unreachable height. The process of liberalization and the tremendous progress in information technology have brought the banking to such a stage. The entry of private sector banks with the latest technology has ignited the consumerism. Reserve Bank of India carried out a study on the customers’ services by the scheduled commercial banks for the period January 1, 2003 to June 25, 2005. the result of such study showed that there were more complaints against the public sector banks.

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41
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