Chapter Three

RESEARCH DESIGN

1. Objectives of the Research.
3. Sources and Methods of Data Collection.
4. Design of Sample.
5. Period of Study.
1. OBJECTIVES OF THE RESEARCH

The proposed study is designed to study the existing status of job satisfaction level of employees in banking industry with special reference to Jhansi and also to study the factors related to the job satisfaction, playing role in increasing or decreasing the job satisfaction level. It also aims to study the measures, which can lead to optimum level of Job Satisfaction in Banking Industry, and to put check on the Human Resource drain of the employees from public sector banks to private sector banks.

The first objective of job satisfaction survey is to give management an indication of general levels of satisfaction in banks. Survey will indicate specific areas of satisfaction or dissatisfaction (as with employee services) and particular groups of employees. Improved communication will be the benefit of the survey. Communication flows in all directions as people plan the survey, talk, and discuss its results. Particularly beneficial to the banks, as the upward communication will be practiced when employees are encouraged to comment about what they really have in their minds. An unexpected benefit from a job-satisfaction survey will be improved attitudes. For some employees, the survey is a safety valve, an emotional release, and a chance to get things off their chest. For others, the survey is a tangible expression of management's interest in employee welfare, which gives employees a reason to feel better towards management.

The job-satisfaction survey will also help to discover the causes of indirect productivity problems, such as absenteeism, turnover and poor quality of work. As already discussed, absenteeism and employee turnover are highly correlated with job satisfaction. It was also noted that these, in turn, affect productivity. If an organization is disturbed by a high rate of absenteeism or turnover, it might appropriately turn to job-satisfaction surveys to diagnose the cause. The causes could be low pay, lack of promotional opportunities, unchallenging jobs, unjust treatment, and the like. Without proper surveys, there could be random guessing on the part of management. A job-satisfaction survey will help management both to get a better handle on why employees are lagging and to plan better solutions to problems.

Another objective of satisfaction survey will be that it will help management to assess training needs. A job-satisfaction survey is an indicator of the effectiveness of organizational reward systems. As discussed earlier, there is a positive relationship between performance and satisfaction. This relationship will be strong when rewards (intrinsic and extrinsic) are distributed equitably contingent upon performance. Now, job-satisfaction surveys can provide some clues as to the effectiveness of the organizational reward system. They help managers judge whether the best performers are receiving the most rewards and the most satisfaction from their jobs. The best performers are likely to quit if they are not suitably rewarded.

One of the best uses of job-satisfaction survey will be in the evaluation of the impact of organizational changes on employee attitudes. For example, the management wants to know whether the job redesign program recently implemented in the organization has resulted in increased satisfaction to the employees. By comparing pre-change data and post-change data, it is easy to determine what impact the redesigned work has on
employee attitudes. Finally, it is not that, satisfaction surveys, benefit only management. They are useful to unions too. Often, both management and union argue about what the employees want, but neither really knows. The job-satisfaction survey is one way to find out. It is for this reason that unions support surveys.

2. NATURE OF THE RESEARCH.

The proposed research work is designed to study the existing status of job satisfaction level of employees in Nationalized Banks in Jhansi. It aims at developing measures to improve the Job Satisfaction level after studying the factors critical to Job Satisfaction level (JSL) and Quality of Work Life (QWL). The study also aims at studying the role of government in Banking Industry and its effect on employees. The nature of research for this particular research work may be described as: EXPLORATORY, DESCRIPTIVE AND DIAGNOSTIC.

This research work has been divided into eight chapters. Which are as follows:

Chapter 1 - What is Job Satisfaction
Chapter 2 - Factors Of Job Satisfaction
Chapter 3 - Research Design
Chapter 4 - Banking Industry In India
Chapter 5 - HRD In Nationalized Banks
Chapter 6 - Banks In Jhansi District
Chapter 7 - Findings & Analysis
Chapter 8 - Suggestions & Conclusion

There is an exploratory and descriptive research work in the first six chapters and descriptive and diagnostic research work in the seventh and the eighth chapters, which deal with the original survey conducted by the researcher.

The main purpose of an exploratory research is that of formulating a problem for more precise investigation, which in this case has been done in the last two chapters. The major emphasis in such studies is on the discovery of ideas and insights, such a research is flexible enough to provide opportunity for considering different aspects under study. Generally the following three methods are used for data collection in an exploratory research:

a. Survey of existing literature
b. Experience survey
c. Analysis of insight stimulating examples

All of the three methods stated above have been used while collecting relevant information for, this research work. The emphasis has been more on survey of existing literature in the first six chapters along with the researchers own views and views collected from various people through informal talks.

In the latter part of the research, mainly, the last two chapters, the nature of the research changes from exploratory to descriptive and diagnostic. In this section the
study heavily depends upon the data collected through the questionnaires, together with other compiled material available to the researcher from the various banks in Jhansi.

The Last Chapter of the research is chiefly diagnostic in nature, since in this chapter the various recommendations have been made by the researcher, on the basis of the information which had previously been collected through a survey of existing literature and through experience survey, consisting of data collected through questionnaire filled by the bank employees of Jhansi.

Thus we say that we have not stuck to one form of research but have changed it as and when the need was felt.

a) Tools

The present research study is likely to be based mainly on primary data. However secondary data will also be significantly used, appropriate operational research and statistical techniques/models will be used for analysis and for drawing inferences. Tools will comprise of questionnaire and personal interviews.

b) Methodology

The primary data is to be collected through questionnaires and personal interviews of Nationalized Bank employees. Secondary data have been also compiled from various reports and publications, newspapers, magazines, journals; books etc. the data so collected has been processed and tabulated. In the interpretation of data, however various statistical tools have been used for drawing valuable inferences.

c) Hypothesis

In the present research study several hypothesis can be framed. Some of the tentative null hypotheses are:

1. Job Satisfaction Level of employees in Nationalized Bank is High.
2. Job Satisfaction Level of employees in Nationalized Bank is not important.
3. Job Satisfaction Level of employees in Nationalized Bank has no relation with performance and productivity.

On the basis of the present study various observations are likely to be emerged, these may lead to various interpretations to give the:

1. Existing Job Satisfaction Level in Banking Industry.
2. Potential level of Job Satisfaction that can be attained.
3. Elements in the Banks that directly affects the Job Satisfaction Level.
4. Measures to prevent the drain of Human Resources from public sector Banks to private sector banks.
3. SOURCES AND METHODS OF DATA COLLECTION

The sources of data will be both primary as well as secondary data. The primary data will be collected from the appropriate sample by the means of questionnaires. If required personal interviews of the present as well as ex-employees of nationalized banks in Jhansi will also be entertained for making the study authentic and purpose achieving. The tertiary data, if required will be also collected in order to make the research work authentic. The secondary data will comprise of the works and research designs done on this line by other scholars and researchers, including reports, journals and research works.

4. DESIGN OF SAMPLE.
Sample design, as we know is a definite plan for obtaining a sample from a given population. It refers to the techniques or the procedure, which are adopted in selecting items for the sample.

Our Universe consisted of all banks. Our survey population consisted of all nationalized banks in Jhansi, I have to stick only to nationalized banks as there were no private banks in Jhansi and our Observational Units consisted of the employees of these nationalized banks.

The Sampling procedure, which we had adopted for the purpose of choosing the sample is "stratified sampling". It is a combination of both random sampling and purposive sampling. Here we had divided our survey population in three units as follows

1. Managerial
2. Officers
3. Clerical

Thus in the selection of strata we made use of purposive selection method, but in selecting actual units from each stratum, random method was used. But even in random sampling care was taken to cover almost all branches and departments in selecting the workmen to be questioned.

5. PERIOD OF STUDY

The survey on this research, conducted at the nationalized banks in Jhansi was conducted in the month of April-May 2003. The preliminary spell of work relating to these units and & visit to these units was in the month of December –January 2003. The total period of study on this particular research work lasted from April 2001 to June 2003. (Two years two months).
Chapter Four

BANKING INDUSTRY IN INDIA

1. History Of Banking In India
   A. Introduction-Bank And Banking
   B. History Of Banking In India
   C. Development Of Banking In India
   D. Features Of Banking
   E. Banking And The Indian Economy
   F. Role Of Reserve Bank And Other Banking Constituents.
   G. The Banking Industry: An Overview

2. Structure Of Banks In India
   A. Introduction -Un-Organized And Organized Sector
   B. Banking Systems
   C. Banking System In India
   D. Classification Of Banks
   E. Organizational Set-Up Of Banks

3. Impact Of LPG On Banking Industry In India
1. HISTORY OF BANKING IN INDIA

Introduction

If India's dream of entering the 21st century as a developed country were to be fulfilled, the approach to development of banking industry would be one of the significant factors. Today, a wave of optimism is motivating the country's policymakers, planners, administrators and managers to give shape and direction to the coming events, which will become milestones of progress in achieving our national goals. Public sector commercial banks will be under great compulsion to take to innovative banking in all vital areas deposit mobilization, lending and customer service. Apart from rationalization of their management structures and organizational methods, innovative banking will require computerization, expansion of training facilities and a healthy work environment. It is in this context that personnel management of public sector commercial banks in the country requires urgent attention.127

After independence, to boost up industrialization and to bring about social development in the country in an organized and systematic manner, need was felt for expansion of banking industry to meet long-term financial requirement of industrial and agricultural sectors as well as the general public. The Banking Regulations Act, 1949 and later many amendments in it provide for social control over banks in India.

a) Definition Of Bank And Banking

Banking plays an increasingly important role in a nation's economy. Occupying a pivotal position in the organized money market, it has acquired a special place with its large network of branches, and with its huge deposits and advances. The long process of expansion, regulation and re-organization of Banking can be elaborately dealt with. With the gradual change in the very concept of banking and with the entry of State in its administration, Banking has assumed enormous importance as a subject of analysis and research.

It is interesting to trace the origin of the word 'bank' in the modern sense. The German word" Banck" which means, heap or mound or joint stock fund. From the Italian word "Banco" meaning heap of money was coined. Some people have opinion that the word "bank" is derived from the French words "bancus" or "banque" which means a 'bench'. Initially, the bankers, the Jews in Lombardy, transacted their business on benches in the market place and the bench resembled the banking counter. If a banker failed, his 'banque' (bench) was broken up by the people; hence the word "bankrupt" has come. In simple term, bankrupt means a person who has lost all his money, wealth or financial resources. Thus, the origin of the word bank can be traced as follows:

Banck - German (Joint stock fund)
Banco - Italian (Heap of money)
Bancus - French (Bench/ chest a place where valuables are kept)
Banque
Banque

Bank - English (common meaning prevalent today, *i.e.*, as an institution accepting money as deposit for lending).

In the ordinary language, a 'Bank' is a person or a body corporate or an institution, which accepts deposits of money from the public and lends money to needy persons for productive purposes. It pays interest on the amounts kept with it in the form of various deposits and charges interest on the sum of money lent to others the difference of interest is the profit of the Bank. In technical terms, 'Any company which transacts the business of banking' may be called 'Banking Company'. A bank is an institution, which deals in money and credit. Thus, bank is an intermediary, which handles other people's money both for their advantage and to its own profit. But bank is not merely a trader in money but also an important manufacturer of money. In other words, a bank is a factory of credit. Let us see the definitions of bank and banking, given by various authorities.

Crowther defines a bank as, "one that collects money from those who have it to spare to who are saving it out of their income and lends the money so collected to those who require it".\(^{128}\)

Dr. L. Hart, says that the bankers are "one who in the ordinary course of business donors cheques drawn upon him by persons from and for whom he receives money on current accounts".

Sir John Paget says that, "no person or body corporate otherwise can be a banker who does not, (i) take deposit accounts, (ii) take current accounts, (iii) issue and pay cheques, (iv) collect cheques, for his customers".

Sir Kinley, "A bank is an establishment which makes to individuals such advances of money as may be required and to which individuals entrust money when not required by them for use".

Prof. Sayers says "Banks are not merely purveyors of money but also in an import sense, manufacturers of money".

The origin of modern banks is traced to three important sources. They are,

(i) The goldsmiths
(ii) The moneylenders and
(iii) The merchant bankers.

The goldsmith by virtue of dealing in Gold, which is a very valuable item, had facilities for the safe keeping of valuables. He accepted for safe custody the money,

another important valuable item, belonging to his customers. The goldsmiths began to lend the money knowing that all the depositors do not withdraw their savings at a time. The moneylender lent his surplus funds to the needy and earned the income by way of interest. The merchant bankers were primarily trader and had to oblige his customers by accepting their money for safe custody. He was doing the banking business as a side occupation. Modern banks retain all the characteristics of these three types of institutions/ functions.

Banking made its first appearance as a public enterprise in the year 1157 in Italy with the establishment of 'Bank of Venice'. The 'Bank of Barcelona' started in 1401. The 'Bank of Genoa' in 1407 and the 'Bank of Amsterdam' in 1609. The Lombard's who migrated to Europe and England from Italy were responsible for the development of modern banking.

When the King Charles II imposed severe restrictions on them, their business was affected at large. Private bankers gradually replaced the goldsmiths. After the Banking Act was passed in 1833 in England, the growth of joint stock commercial banking was accelerated. Foundations were laid for the growth of modern commercial banking during the 19th century.

Banking' has been understood differently at different places. The Royal Commission on Indian Currency and Finance, 1926, had stated that the term 'bank' or 'banker' should be interpreted as meaning every person, firm or company using, in its description or title-the word 'bank' or 'banker' or 'banking', and every company accepting deposits of money subject to withdrawal by cheque, draft or order.129

_Indian_ Companies (Amendment) Act, 1936 defines banking as "a company, which carries on as its principal business the accepting of deposits of money on current accounting or otherwise subject to withdrawal by cheque draft or order". The 1936 definition treated as banks all companies, having as their principal business, accepting of deposits from the public, which were allowed, to be withdrawn at the order of the depositor as deposits, may be invested by way of giving loans or advances for productive purposes.

The Banking Regulation Act, 1949 (formerly Banking Companies Act, 1949) defines a banking company as a company, which carries on the business of banking, that is "accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise."130 _Hence it can be concluded that Banking is an activity by which_ the money is accepted from the 'public as deposit and which can be withdrawn at any time or as per agreement between the parties by drawing a cheque, draft or in any other manner. The money, which is accepted from public as 'deposit', is lent to -other persons who are in need of money for the purpose of business, industry or for any other productive purpose. The following are the various characteristics of the term 'Banking':

130 India, Banking Regulation Act, 1949.
1. It is the activity, brokers or function performed by the Bank.
2. It includes accepting of deposits of money from the public.
3. A person may withdraw the money from the Bank by way of drawing a cheque, draft or even by writing a letter.
4. The money, accepted

As per Section 7 of the Banking Companies Act, 1949, no company other than banking company shall use as part of its name any of the words "bank", "banker" or "banking", and no company shall carry on the business of banking in India unless it uses as part of its name at least one of these words. It has been held by a court that any company, which is engaged in the manufacture of goods or carries on any trade and accepts -deposits of money from public merely for the purpose of financing its business as manufacturer or trader shall not be deemed to transact the business of banking. As such the manufacturing on trading concerns accepting public deposits cannot be included in the term 'banking' or 'banker'. Sub-section I of Section 6 of the Banking Companies Act further states that in addition to the business of banking, a banking company may engage in anyone or more of the following forms of business, namely:

(a) The borrowing, raising, or taking up of money, the lending or advancing of money either upon or without security, the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, Honorees, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scripts and other instruments and securities transferable or negotiable or otherwise; the granting and issuing of letters of credit, traveler's cheques and circular notes, the buying, selling and dealing in bullion and specie, the buying and selling of foreign exchange including foreign bank notes, the acquiring, holding issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds, the purchasing and selling of bonds, scripts or other forms of securities.

(b) Acting as agents for any Government or local authority

(c) Contracting for public and private loans and negotiating and issuing the same;
(d) The effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of state, municipal or other loans or of shares, stock, debentures or debenture stock of any company, corporation or association and the lending of money for the purchase of any such issue;

(e) Carrying on and transacting every kind of guarantee and indemnity business;

(f) Managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;

(g) Acquiring and holding and generally dealing with any property or any right title or interest in any such property which may form the security or part of the

---

security for any loans or advances or which may be connected with any such
security;

(h) Undertaking and executing trusts;

(i) Undertaking the administration of estates as executor, trustee or otherwise;

(j) Establishing and supporting or aiding in the establishment and support of
associations, institutions, funds, trusts etc.

(k) The acquisition, construction, maintenance and alteration of any building or
works necessary or convenient for the purposes of the company;

(l) Selling, improving, managing, developing, exchanging, leasing, mortgaging,
disposing of or turning into account or otherwise dealing with all or any part of
the property and rights of the company;

(m) Acquiring and undertaking the whole or any part of the business of any person
or company, when such business is of a nature enumerated or described in this
subsection;

(n) Doing all such other things as are incidental or conducive to the promotion or
advancement of the business of the company;

(o) Any other form of business, which the central government may, by notification
in the official gazette, specify as a form of business in which it is lawful for a
banking company to engage as per Sub-section 2 of Section 6 of the Act. no
banking company shall engage in any form of business other than those referred
to in Sub-section 1 as above.

The 1949 definition had profited by the experience gained in applying the 1936
definition. The Reserve Bank, suggested that 'Banking' means "the accepting, for the
purpose of lending or investment, of deposits of money from the public, repayable on
demand or otherwise, and withdrawable by a negotiable instrument or order". 132

The Banking Commission (1971) recommends that 'banking' definition "should cover
also the business of accepting deposits by a person for the purpose of investment in
his own business such as manufacture or trade."

History of Banking in India

The development of 'Banking' is evolutionary in nature. There is no single answer to
the question of what is banking because, a bank performs a multitude of functions and
services, which cannot be comprehended into a single definition. For a common man,
a bank means a storehouse of money, for a businessman it is an institution of finance
and for a worker it may be a depository for his savings. It may be explained in brief,
as "Banking is what a bank does." But it is not clear enough to understand the subject
in full. The Oxford Dictionary defines a bank as "an establishment for the custody of
money which it pays out on a customer's order". But this definition is also not enough,

Banking (Bombay, Banking Commission, 1971), p. 56.
because it considers the deposit accepting and repayment functions only. The meaning of the bank can be understood only by its functions just as its fruits know a tree. As any other subjects, it has its own origin, growth and development. During the period following the Second World War, a number of important developments in Indian banking have taken place. The banking structure... is very much stronger and considerably more sophisticated as compared to what it was at the end of the war.  

During the Second World War, there was mushroom growth of bank offices. The number of bank offices increased from 1951 in 1939 to 5335 in 1945. The growth was primarily quantitative, unplanned and uncontrolled, like the wild growth of plan in a jungle. Ultimately, some of these were bound to die under the shadow of others. During 1939-45, on an average a bank failed every sixth day. Banking by its very nature greatly relies on public confidence. The frequent failure of banks shook the faith of depositors. This endangered the banking structure as in this field the weak could weaken the strong; the collapse of weak itself weakened the other institution.

Indian banking system, over the years has gone through various phases after establishment of Reserve Bank of India in 1935 during the British rule, to function as Central Bank of the country. Earlier to creation of RBI, the Imperial Bank of India was looking after the central bank functions. With the 5-year plan having acquired an important place after the independence, the Govt. felt that the private banks may not extend the kind of cooperation in providing credit support, the economy may need. In 1954 the All India Rural Credit Survey Committee submitted its report recommending creation of a strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread all over the country. The recommendations of this committee led to establishment of first Public Sector Bank in the name of State Bank of India on July 01, 1955 by acquiring the substantial part of share capital by RBI, of the then Imperial Bank of India. Similarly during 1956-59, as a result of re-organization of princely States, the associate banks came into fold of public sector banking.

Another evaluation of the banking in India was undertaken during 1966 as the private banks were still not extending the required support in the form of credit disbursal, more particularly to the unorganized sector. Each leading industrial house in the country at that time was closely associated with the promotion and control of one or more banking companies. The bulk of the deposits collected, were being deployed in organized sectors of industry and trade, while the farmers, small entrepreneurs, transporters, professionals and self-employed had to depend on money lenders who used to exploit them by charging higher interest rates. In February 1966, a Scheme of Social Control was set-up whose main function was to periodically assess the demand for bank credit from various sectors of the economy to determine the priorities for grant of loans and advances so as to ensure optimum and efficient utilization of resources. The scheme however, did not provide any remedy. Though a no. Of branches were opened in rural area but the lending activities of the private banks were

---

not oriented towards meeting the credit requirements of the priority/weaker sectors.

While the 1970s and 1980s saw the high growth rate of branch banking network, the consolidation phase started in late 80s and more particularly during early 90s, with the submission of report by the Narasimham Committee on Reforms in Financial Services Sector during 1991.

In these five decades since independence, banking in India has evolved through Four distinct phases

A Foundation phase can be considered to cover 1950s and 1960s till the nationalization of banks in 1969. The focus during this period was to lay the foundation for a sound banking system in the country. As a result the phase witnessed the development of necessary legislative framework for facilitating reorganization and consolidation of the banking system, for meeting the requirement of Indian economy. A major development was transformation of Imperial Bank of India into State Bank of India in 1955 and nationalization of 14 major private banks during 1969.

B Expansion phase had begun in mid-60s but gained momentum after nationalization of banks and continued till 1984. A determined effort was made to make banking facilities available to the masses. Branch network of the banks was widened at a very fast pace covering the rural and semi urban population, which had no access to banking hitherto. Most importantly, credit flows were guided towards the priority sectors. However this weakened the lines of supervision and affected the quality of assets of banks and pressurized their profitability and brought competitive efficiency of the system at low ebb.

C Consolidation phase: The phase started in 1985 when RBI, which saw marked slowdown in the branch expansion, took a series of policy initiatives. Attention was paid to improving housekeeping, customer service, credit management, staff productivity and profitability of banks. Measures were also taken to reduce the structural constraints that obstructed the growth of money market.

D Reforms phase The macro-economic crisis faced by the country in 1991 paved the way for extensive financial sector reforms which brought deregulation of interest rates, more competition, technological changes, prudential guidelines on asset classification and income recognition, capital adequacy, autonomy packages etc.

Indian Banking System

Indian banking system comprises Reserve Bank of India, other apex banking institutions such as NABARD (Agriculture Financing), National Housing Bank (Housing), Export Import Bank of India (Export-Import), Commercial Banks (Public Sector Banks, Private Sector Banks, Foreign Banks) Regional Rural Banks, Co-operative Banks, Development Financial Institutions such as IOBI, ICICI, IFCI etc. and other financial intermediaries (LIC, GIC, UTI etc).

The commencement of the process of planned economic development in 1950-51
meant that the Indian economy had to achieve certain predetermined targets in terms of the rate of growth of national income. This required stepping up the rate of savings. Effective mobilization savings and investing them in an appropriate manner in the various sectors of the economy. As the structure of financial institutions which existed then was not adequate from the point of view of mobilizing savings and channeling them in the desired manner to various sectors. One of the major tasks before the country was to develop this structure. Role of pillars to this structure was to be performed by banks. Change was the demand of the period. It was the price of survival and the banking system as the fulcrum of the economic system was ready for the changes.

The most striking feature of the changing banking scene has been the decline in the number of commercial banks and a very remarkable rise in the number of branches. A number of small banks, which had developed at small towns were absorbed into larger banks with the result that as the number of smaller banks declined the number of branches of bigger banks increased. The number of banks decreased from 566 at the end of 1951 to 86 at the end of June 1971.

Not satisfied with 'Social Control' Government of India nationalized 14 major commercial banks with effect from July 19, 1969. The measure of nationalization of the commercial banks was taken with a view to achieve certain social objectives. The banks were nationalized "in order 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 and for matters connected therewith or incidental thereto". 135 Six more banks were nationalized on April 14, 1980, bringing the number of nationalized banks to 20 and public sector banks to 28.

**Development of Banking in India**

Banking in India is indeed as old as Himalayas. But, the banking functions became an effective force only after the first decade of 20th century. To understand the history of modern banking in India, one has to refer to the "English Agency Houses" established by the East India Company. These Agency Houses were basically trading firms and carrying -on banking business as part of their main business. Because of this dual functions and lack of their own capital (Agency Houses depend entirely on deposits for their capital requirements) they failed and vanished from the scene during the third decade of 18th century.

Banking is the kingpin of the chariot of economic progress. As such its role in expanding economy of a country like India can neither be underestimated nor overlooked. The success of Indian planning depends among other things, on the smooth and satisfactory performance of the role by banking industry. During the Second World War there was mushroom growth of bank offices. Ultimately some of these were bound to die under the shadow of others. Failure of number of banks and partition of the country were two major jolts to Indian banking industry in the forties. In the post-independence era first major development was the enactment of the

---

135 The preamble of the Banking Companies (Acquisition and Transfer of Undertakings) Act. 1970
Banking Regulations Act, 1949. Setting up of State Bank of India by taking over of Imperial Bank in 1955 followed it. State owned banks were brought under the umbrella of State Bank of India as its subsidiaries in 1960. Later on 14 major commercial banks were nationalized in July 1969 and 6 banks were nationalized in April 1980. As a result, at present, there are 28 public sector banks in India, i.e., 20 nationalized banks, SBI and its’ seven subsidiaries. Nearly these public sector banks conduct 95 per cent of the banking business.

Many factors have influenced the banking structure in India. Among them are economic crisis, war, constitutional authority and fiscal issues. During the colonial period very little money circulated. The opening of English agency house which carried on banking business in addition to their commercial and trading activities at Calcutta and Bombay in the 18th and early 19th centuries marked the beginning of banking on modern lines in India. The agency houses were followed by commercial banks, first with unlimited liability and subsequently with limited liability. About this time, the government introduced saving banks with a view to encouraging. Saving among the middle and working classes. Early in the present century, cooperative societies with their superstructure of cooperative banking came into existence.\(^{136}\)

The first joint stock bank established in India was in the Bank of Hindustan founded in 1770 by the famous English agency house of Messrs Alexander and Co. The need for organized banking system was felt very early in the nineteenth century, and Bank of Calcutta was established in 1806. The East India Company issued a Charter in 1809 converting this bank into State-aided Presidency Bank and renamed it as the Bank of Bengal. Presidency Banks were created under similar charters in Bombay (1840) and Madras (1843) with share capital of Rs.50 lakhs and Rs.30 lakhs respectively. Both the Banks were given the rights to issue currency notes with some restrictions similar to those placed on the Bank of Bengal. The East India Company laid the foundations for modern banking in the first-half of nineteenth century,

\[(i)\] Bank of Bengal in 1809  
\[(ii)\] Bank of Bombay in 1840  
\[(iii)\] Bank of Madras in 1843

These banks are also known as "Presidency Banks" and they functioned well as independent units. These three Banks played vital role in the development and regulation of commercial banking system till the Act No amalgamated them in 1921. XLVII of 1920, forming the Imperial Bank of India. The Imperial Bank of India functioned as bankers' bank as well as bankers to government from its inception up to 1935, when its functions were transferred to the Reserve Bank of India, under the Reserve Bank of India Act of 1934.

During the last part of 19th century and early phase of 20th century, the 'Swadeshi Movement' induced the establishment of a number of banks with Indian Management. For example, Punjab National Bank Ltd. in 1895, The Bank of India Ltd. in 1906 Canara Bank Ltd. in 1906, The Indian Bank Ltd. in 1907, The Bank of Baroda Ltd. in

\(^{136}\) Bombay, Reserve Bank of India, July 1954.)
The Central Bank of India Ltd. in 1911 and many other banks were established on the same line. But most of the weak banks went bankrupt due to wrong policy decisions taken by management and due to severe banking crisis during 1913-18, the period of World War 1. However, the stronger and well-managed banks like those mentioned above survive crisis. Indian Joint Stock Banks were classified under four groups:

In 1920, the "Imperial Bank of India Act" was passed for amalgamating the three presidency Banks. As such, the 'Imperial Bank of India' was established in 1921. It was, power to hold government funds and manage the Public debt. The branches were functioning as clearing houses.

In 1955, the 'State Bank of India Act' was passed. Accordingly Imperial Bank nationalized and 'State Bank of India' emerged with the objective of extension of bar facilities on a large scale, specifically in the rural and semi-urban areas and for various other public purposes.

The banking system in India experienced a radical transformation over a short span of time since the Nationalization of 14 major banks in 1969. The introduction of social control measures was the first major step towards a major shift in the objective and style of banking in the country. Before this in the year 1955, the nationalization of Imperial Bank of India took place and it was renamed as the State Bank of India. The reason behind its nationalization was to create a strong integrated state-sponsored commercial banking institution with an effective machinery of branches scattered all over the India.

**Features of Banking**

From the views of above authorities, we can derive the following basic characteristic of Banking:

(i) Deal in money:
(ii) Deposits
(iii) Deal with credit:
(iv) Commercial in nature:
(v) Nature of agent

**Banking and The Indian Economy**

Money or finance is an important and necessary factor for economic development. Though finance is by no means a substitute for real resources, it has a crucial role in the economic development of the country. Its importance lies in the fact that it places at the command of those who have the technical skill and entrepreneurial talent but lack in other means to acquire the capacity missing factors necessary for development. Money has been compared to a road over which all the produce of a district passes to the markets but which does not itself produce a single blade of anything. Financial institutions play the role of bridging the gap between those who have money or savings and those who need it. A sound financial infrastructure consisting of a spectrum of financial institutions of diverse types is a necessary
precondition for affecting the transfer of funds from savers to investors. This facilitates the process of economic development through capacity creation and income generation.\footnote{Organization for Economic Co-operation and Development (DECO), Productivity Measurement (Vol. III, Paris, 1966, p. 18.)}

Commercial banking institutions, essentially for short-term purposes, represent the segment of capital and money market dealing with lending and borrowing of funds. Commercial banks act as financial intermediaries, i.e., intermediaries of savings and investment. Savings intermediation is a process by which flow of savings of the community is allocated to finance investment in the economy. This process brings about consistency between the asset preferences of the households, the ultimate savings units, and the liability preferences of business firms, the fundamental investing units, Bank, although a financial intermediary, does not act like an agent who puts a borrower in touch with a lender. According to Crowther 'It collects money from those who have to spare or who are saving it out of their income and it lends this money out to those who require it. This is valuable and necessary in any community.\footnote{Crowther G.; An Outline of Money (Rev. Ed.). Thomas Nelson and Sons Ltd., London. 1951. P. 23.}

In any economy banking sector plays a vital role for overall development of agriculture, small business and different industries. In the pre-nationalization period few people who were serving their vested interest for their personal gains had managed bank.

To avert this with a view to make banking sector, “Socially Purposive” organization. Mrs. Indira Gandhi nationalized 14 major banks on 14 July 1969. In the beginning of 80's career with banking was a charming and prosperous one, but Government's policy led employees to be distracted with the banking operation and by the beginning of 90's almost all the banks were on the verge of massive losses.

In the year 1992, Dr. Man Mohan Singh introduced liberalization and foreign banks are allowed to have their presence in the nation, which led indigenous banks to be competitive and emphasis is placed on better and satisfactory customer services. Whatsoever the policy is framed unless it is applied properly by the employees it won't be fruitful. Hence sense lies in having a satisfied workforce with a positive attitude towards their job as well as the organization.

However the role of commercial banks is not limited to savings and investment intermediation; they are the main instruments of credit creation. The role of commercial banks in economic development is exemplified by their principal function of credit creation. Banks are repositories of savings, and not safe deposits vaults. The unique function of the banker and the one that makes him important is the provision of convenient machinery by which people can make payments to each other without having to walk round to each other's house with bags of coins. And in providing this mechanism he also provides, or creates money itself. He has discovered the secret, for which medieval alchemist strove, of manufacturing money but credit creation is only an instrument and just a part of the process of furthering economic growth. A lot will
also depend upon how the credit is utilized.

The importance of commercial banks in the process of economic development has been recognized by all and sundry. Commercial banks play an important role in all economies. The role becomes more important in planned or developing economies like India. Really speaking, it is difficult to imagine, how an economic system will function with services of banks. Banking Industry is the blood vascular system of our economy. It has a positive role to play in the economic development of the country as repositories of people's savings and purveyors of credit, especially as the success of economic development depends on the mobilization of resources and their investment in an appropriate manner.

In a country like India, constitutionally committed to socialistic pattern of society-banks have important role to play, i.e., in the reduction of regional disparities,

**Role of Banks in Economic Development**

The role of banks in the process of economic development is as under:

A. Banks act financial intermediaries: Banks are the dominant financial intermediaries. They act as the spinal cord of financial sector for transfer of financial resources from the persons/household/businesses having high propensity to save, to the entrepreneurs who can make most efficient use of the capital. While this ensures on the one hand that the person saving the fund need not be the entrepreneur who has to invest to earn a reasonable return, on the other hand, the entrepreneurs charged with ideas and risk taking capacities are not handicapped for lack of capital. The recent rise of breed of first generation entrepreneurs to form largest corporate empires is a fine testimony to the phenomenon that behind every major enterprise, there has been one or more banks aiding their development.

B. Further banks provide a system of making payment and fund transfer without involving actual movement of large ash. Efficiently of an economy depends to a large extent on the efficiency of the payment system adopted by the banking system.

C. Banks also play a very important role in size transformation by collecting funds from large no. of savers and by lending bulk funds for large projects, which in the absence of financial intermediation would not have been possible.

D. Similarly banks also ensure risk transformation and maturity transformation of funds.

E. Direct correlation between economic growth on the one hand and financial growth driven by the dynamism of financial sector in general and banks in particular, on the other.

F. The important role of banks in creation of money, which creates the demand for goods and services. The deposits with banks create credit and credit used for payment of goods and services create further deposits.

G. The role of banks as a catalyst of social development, as emerged in India in the late sixties with the nationalization of banks. It may be recalled that it is this role of banks in India which led the banks towards various poverty alleviation program. The special schemes adopted by banking system in India
for weaker section of the society, such as DRI, IRDP, PMRY and other special schemes for relatively isolated segments of society like tribal have had considerable positive impact in changing the shape of rural economy in India.

H. Finally, the role-played by banks in facilitating promotion / broad basing of entrepreneurial activity - an essential condition for all-round rapid economic growth.

Role of Reserve Bank and Other Banking Constituents.

Central Bank in any country has come to regard itself as the engine of an economic growth, rather than a stabilizing agency. In the present circumstances the promotional or developmental aspect of the country, Central Bank has come to be considered more crucial. As a matter of fact central Bank"; has established in the country for the twin purposes, the accelerating economic growth and to generate the banking system to meet the needs of priority sectors in the country. The latter aim can be accomplished through proper regulation and control of commercial banking policies. The Central Bank of the country has To control and regulate currency and credit in the country, for this and Other purposes the Reserve Bank of India established in 1935 which marks the beginning of a new era in the history of Indian banking.

The Reserve Bank of India has played a pivotal role in the development of our country. The other banking constituents like commercial banks also come under the control of the Reserve Bank of India, under the acts of banking. The each bank should obtain a license for carrying on the business of banking in India. No commercial bank can open a branch without the prior permission of the Reserve Bank of India. The Reserve Bank of India has been given wide powers of supervision, inspection and control over the activities of banks.

The Reserve Bank of India's record as promotional agency is quite impressive. It established the Banker's Training College in Bombay and set-up for its own staff a training college at Madras in 1963. This has encouraged many commercial Banks to establish similar colleges either individually or jointly. It has taken an active interest in improving the quality and standard of banking personnel by sponsoring, organizing and conducting training courses for different categories of bank employees.

The Reserve Bank of India has played a wide role in the development of our economy as well -it has given incentive to follow the commercial banks' program. The Reserve Bank of India has given constant endeavor to support development with stability and to ensure that the production effort of Industry is not hampered by the lack of finance. The establishment of the "Industrial development banks" of India (A wholly owned subsidiary of Reserve Bank India) follows closely on the heels of the stagnant capital market. Another innovation is setting up by the Reserve Bank of India, the Agricultural Re-finance Corporation on July 1st 1963 for providing re-finance facilities to eligible financial institutions against medium and long-term credit granted by them for growth of Indian agriculture.

The Reserve Bank of India has been able to provide liberal finance to the central and provincial government for the execution of various projects under the five-year plans.
for economic development.

The Bank has actively worked for the rapid growth of the Indian banking system by innovating many more schemes like the establishment of export, credit guarantee corporation and being a central Bank of developing country the Reserve Bank of India has actual role to play viz. to regulate the volume of bank credit and also to promote economic development.

As regard the assistance to the commercial banking sector, the Reserve Bank of India has been fairly liberal. The Reserve Bank of India has proved a "Light House" for other banking constituents. These banks have been playing a crucial role in enriching the economic and social life of the nation allover the world. In the modern economy bankers are to be considered not merely as "dealers in money" but more realistically the "Leaders in development" similarly banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development.

In the context of the country's economic development the Reserve Bank now performs a variety of development, and promotional functions. The bank's responsibilities comprise the development of a stronger banking system for catering to the needs of the important and mainly un-organized sector of agriculture and small-scale Industry. Broadly speaking the operations of the commercial Banks are headed by Reserve Bank of India in the sphere of rural area remained very much important. The All India Rural Credit Survey Committee observed that rural credit was unable to feed the rural sector. The Reserve Bank Of India has been assigned a crucial role in this scheme of integrated credit. The Reserve Bank Of India is now providing short term, medium term and long term credit on an extended and liberal scale for the rural people.

The expanding role of the Reserve Bank of India in the Industrial finance is yet another new feature in the armory of central banking. The bank has played an active part in the establishment of special agencies for the provision of Industrial finance. The Industrial finance institutions are financed by the Reserve-Bank of India, which participates in the share capital of the various state finance corporations.

In the wake of implementation of the plans, the with the Reserve Bank of India has rightly been called upon to bears The additional responsibilities of providing necessary finance to meet the government's deficit. The rising Scale of investment and Lays under the plans increasing government's expenditure and the supply of "created" money by the Reserve Bank of India have been the outstanding features of the country.

The commercial banks, which are closely associated with Reserve Bank of India, have also played a significant role in the nation's economic development. Banking has been acknowledged as an instrument or vehicle for bringing about socio-economic change in the country. As such banks are no longer regarded merely as lending institutions but as development agencies. To achieve this objective they have taken up the role of prime moves in the process of development. Their task is not merely to follow the heels of development but to set pace for it. They are serving along with Reserve Bank of India as important catalysts in the economic and social transformations of the country, commercial banks, co-operative banks and finance corporations are the
sectors which are playing active player in the role of economic development. These financial institutions are financed and guided by the Reserve Bank of India and with their discretionary powers these financial constituents work jointly.

Agriculture Re-finance Corporation the Rural Banks land development ban and the co-operative credit societies and other banks greatly depend on the assistance of the Reserve Bank of India.

**The Banking Industry: An Overview**

The Indian banking system operated primarily in the private sector. The basic inability of the banking sector to help develop the economy and serve the society to the desired level led to a demand for restructuring of the banking industry. A beginning was made in 1965 to link bank credit with national planning. Later, in 1968, a scheme of Social Control on banks was introduced with a view to achieving a wider spread of bank credit and directing a larger volume of credit to priority sectors, such as agriculture and small-scale industries. Subsequently, increased political pressures led to the passing of Banking Laws (Amendment) Act of 1969 by the Parliament. Consequent to this, 14 large commercial banks with deposit levels of Rs. 500 million and above were nationalized on July 19, 1969. Thus a major segment of the banking system was brought under the direct control of the state. Prior to this, the Imperial Bank of India came under Government control in 1955 under the name 'State Bank of India' (SBI).

Even among the banking circles there were diverse views on nationalization. The Indian Banks' Association (IBA), which represents the employers of commercial banks in the country, was against nationalization. In a letter by the then Chairman of IBA it was clearly indicated that the Association wanted the Government to reconsider nationalization. From the employees' side, the largest trade union, the All India Bank Employees Association (AIBEA), whole-heartedly welcomed nationalization. In fact, AIBEA had as early as 1964 asked the Government to take over private banks.

After nationalization, banks were directed to open new branches in hitherto un-banked areas so that banking facilities could be available even to the poorer sections of the society. This led to a rapid expansion of bank branches. The increase in the number of branches after nationalization also resulted in the corresponding increases in deposit, credit and employee strength. After nationalization, banks embarked on systematic employee selection processes. As a result of this, banks started getting well-qualified employees as clerks and officers.

In the year 1980, the Government of India decided to further extend its direct control over six more banks, thus bringing the total number of public sector banks to 28 (20 nationalized banks, and 8 banks in the SBI group including seven subsidiaries).

---

139 Letter of the Chairman of IBA, K.M.D. Thakery addressed to the Prime Minister of India, and quoted in N. Kumar, *Bank Nationalization in India*, Lalvani Publishing.


There are diverse criticisms and comments about the performance of public sector banks during the last two decades. On the positive side, as a result of the increase in the branch network in the country, banking services have been made available to a much larger segment of society. Several million people in agriculture and small-scale industries, who were hitherto denied access to the banking system, started to benefit from the industry. On the negative side, the major complaints about banks centered on poor customer service, inefficiency of operational procedures, etc. The increased number of employees provided increased union strength, which, it is alleged, led to undesirable restrictive practices. It was also emphasized that the increased strength of unions was primarily responsible for the long-drawn strikes and other forms of union militancy during the seventies. The over-protection provided by the unions to employees invariably had undesirable effects, and restrictive practices emerged in the process. For example, it became almost impossible for banks to make even employee transfers.\(^{142}\)

With a view to improving services and efficiency, in the latter half of the eighties, banking were subjected to partial deregulation. As a sequel to this, a committee was appointed by the Government in 1991 under the chairmanship of M. Narashimham to look into the financial sector reforms. The report of this committee, among other things, recommended restructuring of banks, bringing transparency in the balance sheets, reduction in directed lending’s, liberal branch licensing, stopping further nationalization and establishing parity between private and public sector banks. Although the opposition parties in the Parliament and trade unions outside criticize the report, the present trend is towards gradual implementation of several of these recommendations. It is a fact that the financial performance of most of the banks was not very satisfactory. This trend continued till 1994. However, the 1994-95 bank balance sheets show better performance and upward trends.

A large part of the agenda for reforms in the financial system relates to the problems facing the public sector commercial banks, which have dominated commercial banking in India since nationalization. The goal of nationalization was to extend the reach of banking and financial services to all parts of the country and to all sections of the society. It also aimed at widening the net of resource mobilization. There is no doubt that public sector banks have responded to these challenges and have built an impressive network, offering a wide range of financial instruments and services.\(^{143}\)

Even though there are significant achievements, they have been accompanied by serious shortcomings as well. The quality of customer service has not kept pace with modern standards and changing requirements. Banks have also not kept pace with the revolutionary changes in computer and communication technologies. This has affected the speed and quality of services. It has also militated against prompt decision-making, and improved productivity and profitability.

The concern for efficiency, productivity and profitability became much more


important as the pace of movement towards economic liberalization increased. The IMF /World Bank prescribed conditionality as a part of the structural adjustment processes provided the necessary framework in this regard. These efforts are primarily directed to push Indian economy into the global market. This globalization process does have its impact on banking and finance in India.
2. STRUCTURE OF BANKS IN INDIA

Introduction - Un-Organized And Organized Sector

Banking structure in our country is related to two main factors, the organized and unorganized sector. The organized sector exists mainly in urban areas while unorganized is in rural regions. India is essentially rural in character and outlook. Nearly for fifth of its population, which is preponderantly, Illiterate Lives in the rural areas, largely un-connected by any means of transport. It is but natural that the banking habit should be conspicuous by its virtual absence in the countryside, where units of organized banking in. small volumes exist. Agriculture the main vocation of the majority of the population is an organized individualistic and risky enterprise, which in absence of adequate supply of money, depends largely on the vagaries of nature.

Next comes the sizable sector represented by small and cottage Industry, which generally suffer from the lack of external aids whether scientific, economic, and advisory of financial. To present a general picture of the Indian banking system is indeed not an easy task. The indigenous sector comprising the numerous moneylenders and indigenous bankers who constitute even today the largest component of our country's credit machinery.

At the base of the credit machinery are the village moneylenders who have been for centuries providing finances to the vast multitude of borrowers for purposes of consumption as well as production. The indigenous banks come next that finance for trade and Industry. The moneylenders have been very effective financial agencies for credit in rural areas. The money lenders and their relations with their creditors were not limited up to economic sphere but in cultural and other social activities, they came together. The money lenders were the only agencies who used to pay credit without knowing object of taking the loan. The indigenous banks did not practice to provide credit for un-productive purposes. The villagers ultimately went to the moneylenders. The treatment of the moneylenders was not hidden from anyone. Their mischievous economic behavior was likely to protest against, but the villagers were simple, poor and un-organized. They lack substitute for their financial requirement. The lack of transport, means of communication and information, the most important was their illiteracy made them weaker in finance.

During this century moneylenders and indigenous bankers through their sphere of activity are being curtailed. They continue to be important agency in rural and semi-urban areas of country. The growth of commercial and co-operative banking shared the market of moneylender and indigenous banks. The credit needs of the rural and urban people are also met. Partly by credit co-operation the progress of credit co-operatives could not finish completely the moneylenders, but the magnitude of their business could check the moneylender's activities to a greater extent. The existence of rural banks in rural regions has entered sharply. The impact of these rural banks is greater on rural people, and we can say that these banks have succeeded in removing the moneylender's effect from the rural regions.
The organized sector is confined mainly to towns and cities. The commercial banks constitute the most homogenous group of financial institutions. The exchange banks are also very strong and effective. They are engaged mainly in foreign trade. The state Bank Of India is a well organized bank and functions as a government agency. In urban areas, no other agencies met with success as commercial banking have. The indigenous banks which were organized in their functions used to operate in cities. The demand-requirement and economic activities were far different from rural people. The industrial development export import and some other work of economic and social importance were very large for urban people, therefore commercial banks which originated for the work of credit agencies afterwards developed as an economic beneficiary agency.

For urban people the functions of banking are well organized. They have their constitution under which they work. The system of banking is under provision, the management cannot take any arbitrary decision, they are not the supreme power, and the manager or officers also work under certain rules and regulations. The work of commercial banks is quite systematic and provides services to their consumers.

After the nationalization of banks, all the banks have come under the social control, hence their aims are not only to gain profit but for public welfare. The operations of banks are based on the laws, regulations, and on fixed attitude. If the question of judicial arises, they cannot avoid the rules for their individual benefits. The democratic based pattern shows equality and uniformity in working and in other matters.

**Banking Systems**

The structure of banking differs from country to country depending upon their economic conditions, political structure and financial system. Banks can be classified on the basis of volume of operations, business pattern and areas of operations. They are termed as systems of banking.

The **commonly identified systems** are:

A. Unit Banking  
B. Branch Banking  
C. Correspondent Banking  
D. Chain Banking  
E. Group Banking  
F. Pure Banking  
G. Mixed Banking  
H. Relationship Banking  
I. Arrow Banking  
J. Universal Banking  
K. Regional Banking  
L. Retail Banking  
M. Wholesale Banking  
N. Private Banking

We will take the branch banking in detail as it was adopted by England in India before Independence and which has also been adopted by India after Independence.
Branch Banking

The Banking system of England originally offered an example of the branch banking system, where each commercial bank has a network of branches spread throughout the country. In the initial stages of banking development, each bank in England consisted of a single office with few branches. In the process of evolution, banking organization developed in the direction of branch banking.

Most of the Indian Banks are falling under this category. They are having large number of branches. All the Public Sector banks, i.e., nationalized banks and State Bank of India and its subsidiary banks put together have nearly 60,000 branches. Banks in India require a license from Reserve Bank of India under Banking Regulation Act to open a branch as well as to start a bank itself. Thus, branch banking consists of a few big banks with numerous branches spread over wide geographical areas. These branch banks operate under their head offices. Branch banking is also known as "de-localized banking". In India, the State Bank of India has emerged as one of the biggest banks with large number of branches all over the country resulting in aggregate outstanding advances. 144

Advantages of Branch Banking

(i) **Benefits of large scale operations:**
   A branch bank has all the advantages of large-scale operations. It has large resources when compared to a unit bank. It can appoint experts paying high salary and it can use modern mechanical devices in its offices for efficient working.

(ii) **Wider spreading of risks:**
    A branch bank operates over a wide area with different types of economic development. The losses of branches of one region if any can be set off against the profit of branches in other regions. In this way this risks are distributed geographically. Thus, its capacity to withstand times of depression is more than that of unit banks.

(iii) **Efficient management:**
     The branch banking system makes for greater efficiency in management. The staff members of a branch bank are more efficient and more experienced when compared to those of a unit bank. The head office arranges transfers of staff from branch to branch. Each staff member has the opportunity to work in various branches, understanding men and matters of different localities. Besides the above, the expertise at head office will be made available to all branches. In this way, the system of branch banking ensures efficient management.

(iv) **Economy in remittance:**
    Branch banking has the benefit of economy in remittance of funds. As it has branches in different localities, it need not physically transfer cash from one

144 Annual report of SBI, 1999
place to another. It can provide remittance facilities to its customers by mere transfer entries in the books of its branches. It makes the operation easy, quick and cheap.

(v) **Economy of cash reserves:**
Branch banking has the merit of economy of cash reserves. Cash can be transferred from one branch to another whenever necessary. Therefore, branch can operate with lower cash balances and they avoid large amount of idle reserves/balances.

(vi) **Diversification of deposits and assets:**
Under branch banking system, there is greater diversification of deposits and assets because of wider geographical coverage. Diversification here means that a bank need not specialize in any particular area or particular industry. Deposits are mobilized from the area where savings are in plenty and loans are extended in the areas where funds are scarce and interest rates are high.

(vii) **Uniformity in interest rates:**
Branch banking system ensures uniformity in interest rates. Uniformity in banking policies and easy transfer of funds to places where there is demand, results in uniform interest rates.

**Indian Banking Structure**

The structure of Indian Banking can be classified as under:

1. Central Bank-Reserve Bank of India.
2. Commercial Banks.
   (a) Banks in Public Sector
      (i) State Bank of India.
      (ii) Subsidiaries of State Bank of India.
      (iii) Nationalized Banks.
      (iv) Regional Rural Banks.
   (b) Banks In Private Sector.
      (i) Scheduled Banks incorporated in India.
      (ii) Non-Scheduled Banks.
      (iii) Foreign Banks.
3. Banks in the co-operative Sector.
   Co-operative Banks

---

145 Mathur, O.P., Public Sector Banks In India's Economy: A Case Study Of State Bank, New Delhi Publishers (P) Ltd.
STRUCTURE OF FINANCIAL INSTITUTIONS IN INDIA

Commercial Banks  Cooperative Banks  Development Banks

Financial Institutions

State  State Land
Public  Private Development
Sector  Sector Banks

IFCI, ICICI, IRCI
SIDCS, LIC, GIC
NABARD, EXIM
ECGC, UTI, SFCS

Central
Primary Agricultural
Credit Societies

Scheduled  Non-Scheduled

State Bank  SBI Associates  Nationalized  Regional Rural
(1)        (7)          Banks (20)          Banks

Fig. 34
List Of Banks

A  Apex Institutions:
   1 Reserve Bank of India
   2 National Bank for Agriculture and Rural Development
   3 National Housing Bank
   4 Export Import Bank of India

B  Commercial Banks
   Public Sector Banks - 27
      SBI and associates
      1 State Bank of India
      2 State Bank of Hyderabad
      3 State Bank of Indore
      4 State Bank of Patiala
      5 State Bank of Saurashtra
      6 State Bank of Mysore
      7 State Bank of Travancore
      8 State Bank of Bikaner & Jaipur

C  Nationalized Banks - 19
   1 Allahabad Bank
   2 Andhra Bank
   3 Bank of Baroda
   4 Bank of India
   5 Bank of Maharashtra
   6 Corporation Bank
   7 Canara Bank
   8 Central Bank of India
   9 Dena Bank
   10 Indian Bank
   11 Oriental Bank of Commerce
   12 Indian Overseas Bank
   13 Punjab & Sind Bank
   14 Punjab National Bank*
   15 Syndicate Bank
   16 Union Bank of India
   17 United Bank of India
   18 UCO Bank
   19 Vijaya Bank

*New Bank of India merged with PNB on 04.09.93

D  Private. Banks (old and new)
   1 Bank of Madura
   2 Bank of Punjab
   3 Bank of Rajasthan
   4 Bareilly Corpn Bank
   5 Benaras State Bank
   6 Bharat Overseas Bank
   7 Catholic Syrian Bank
   8 Centurion Bank
9 Development Credit Bank
10 Dhanalakshmi Bank
11 Federal Bank
12 Global Trust Bank
13 ICICI Bank
14 IDBI Bank
15 IndusInd Bank
16 J & K Bank
17 Karnataka Bank
18 Karur Vysya Bank
19 Lakshmi Vilas Bank
20 Lord Krishna Bank
21 Ratnakar Bank
22 Sangli Bank
23 SBI Commercial & International Bank
24 South Indian Bank
25 Tamilnad Mercantile Bank
26 Times Bank
27 United Western Bank
28 UTI Bank
29 Vijaya Bank

Branches of Foreign banks
1 ABN Amro
2 Abu Dhabi Commercial
3 Amex
4 ANZ
5 Bank of America
6 Bank of Bahrain & Kuwait
7 Bank International Indonesia
8 Bank of Nova Scotia
9 Bank of Tokyo
10 BNP
11 British Bank of Middle East
12 Citi Bank
13 Commerzbank
14 Credit Agricole
15 Credit Lyonnaise
16 Duestche Bank
17 HSBC
18 Mashreq Bank
19 Oman International
20 Sanwa Bank
21 Societe Generale
22 Sonali Bank
23 Standard Chartered Bank

Development Banks
1 Industrial Development Bank of India (IDBI)
2 Industrial Finance Corporation of India (IFCI)
3 Industrial Credit & Investment Corporation of India (ICICI)
4 Industrial Reconstruction Bank of India (IRBI) now HBI
5 Small Industries Development Bank of India (SIDBI)
6 State Financial Corporations
7 State Industrial Development Corporations
8 State Small Industries & Export Corporations
9 State level Development Banks
10 Land Development Banks in States

F Other financial Institutions:
1 Life Insurance Corporation of India (UC)
2 General Insurance Corp. of India (GIC)
3 Unit Trust of India (UTI)
4 Discount & Finance House of India (DFHI)
5 Securities & Exchange Board of India (SEBI)
6 Infrastructure Development Finance Corporations (IDFC)
7 Boards for Industrial & Financial Reconstruction (BIFR)
8 Primary Dealers (Govt. Securities) - (PDs)
9 Satellite Dealers (SDs)

G Guarantee Corporations
1 Deposit Insurance and Credit Guarantee Corporation
2 Export Credit Guarantee Corporations

H Housing Development & Financing
1 Housing & Urban Development Corporation (HUDCC)
2 Housing Developments and Finance Corp. (HDFC)

I Rating Agencies:
1 Credit Rating Information Services of India Ltd. (CRISIL)
2 Investment Information and Credit Rating Agency (HCRA)

3 Credit Analysis & Rating Agency (CARE)

Types /Classification Of Banks

Today is the age of specialization and we can find specialization in all fields’
including banking. The banks have specialized in a particular line of finance. Various
types of banks have developed to suit the economic development and requirements of
the country. The principal banking institutions of a country may be classified into the
following types:

(i) Central Banks
(ii) Commercial Banks
(iii) Industrial or Development Banks
(iv) Exchange Banks (Authorized dealers in foreign exchange)
(v) Co-operative Banks
(vi) Land Mortgage Banks
(vii) Indigenous Banks
(viii) Savings Banks
(ix) Supranational Bank
(x) International Banks
1. Central Banks

Central Bank is the bank of a country - a nation. Its main function is to issue currency known as 'Bank Notes'. This bank acts as the leader of the banking system and money market of the country by regulating money and credit. These banks are the bankers to the government; they are bankers' banks and the ultimate custodian of nations foreign exchange reserves. The aim of the Central Bank is not to earn profit, but to maintain price stability and to strive for economic development with all round growth of the country. There is now hardly any country, which does not have a Central Bank of its own. It acts as a great engine of growth of a State. In India, the RBI was established in 1935 and this Bank has since been functioning as the Central Bank of the country (this is not to be confused with 'Central Bank of India', which is only a commercial bank). The Central Bank of different countries is known by different names like Reserve Bank in India, Bank of England in U.K., Federal Reserve System in U.S.A., etc.

a. Reserve Bank of India

At the head of the Indian Banking structure is the Reserve Bank of India which as the Central banking institution of the country, was brought into existence by the Reserve Bank of India Act 1934 (6th March 1934). It started functioning in April 1935 with a share capital of Rs. 5 crores divided into shares of Rs 100 each fully paid-up. Originally a shareholders' bank it was nationalized on 1st January 1949 by the Reserve Bank of India Amendment Act 1948.

It is entrusted with all the powers and functions, which modern central banks have. Some of these are derived from Reserve Bank of India Act 1934 and others from Banking Regulation Act 1949. This Bank is an autonomous body. It administers and controls the entire banking operations of our country.

Reserve Bank of India is having the following departments.

(1) Issue Department.
(2) Public Accounts Department.
(3) Public Dept Office.
(4) Securities Department.
(5) Exchange Control Department.
(6) Department of Administration.
(7) Services Board.
(8) Department of Accounts and Expenditure.
(9) Department of Banking Operations and Development.
(10) Secretary's Department.
(11) Department of Non-Banking Companies.
(12) Legal Department.
(13) Inspection Department.
(14) Premises Department.
(15) Estate Department.
(16) Economic Department.
(17) Statistics Department.
(18) RPCD.
Reserve Bank of India:

The Major functions, which the R.B.I. performs, are as under:

Central Banking Functions

(a) Issue of currency notes:
(b) Credit Control:
(c) Government Bank:
(d) Bankers' Bank
(e) Custodian of Foreign Exchange Reserve:

(2) Commercial Banks

A line of demarcation between and among these banks may be drawn. The commercial banks distinguish themselves from the financial corporations on the ground that the former (commercial banks) are engaged in regular and continuous borrowing through deposits from public on various types of accounts such as, current, savings, fixed deposits, etc. and lend money to finance the working capital requirements of corporate sector; while the latter (financial corporations) raise their resources through share capital, bonds and debentures at certain intervals according to their needs and provide medium and long-term finance to industrial organizations. The commercial banks also invest a part of their funds in the purchase of securities in certain industrial and financial corporations on a long-term basis.

Commercial banks may be distinguished from cooperative banks in the sense of objectives. In the case of cooperative banks the service motive dominates, while a commercial bank is expected to function on astute principles of profitability and liquidity. Finally the commercial banks differ considerably from indigenous bankers and moneylenders in the sense that the former belong to organized sector and is modernized, while the latter belong to unorganized and traditional banking sector.

A bank, which undertakes all kinds of ordinary banking business, is called a commercial bank. It is so called because it provides money and credit for commercial and trade activities. They receive short and medium term deposits from the public and grant short-term loans, and advances. They supply working capital to industries and enable them to carryon production and manufacturing activities. They grant loans and advances on the stocks of agricultural commodities, industrial goods, etc. They discount internal and foreign bills and thereby finance the International trade. They also perform certain agency services such as collection of cheques, dividends, interest on investments, issue of drafts, letter of credit, Travelers' Cheques, Investment Advisory Services, etc. A Commercial Bank may be defined as a person or a body corporate or an Institution, which transacts the business of accepting deposits of money from the public and lends money to the needy persons for productive purposes. The commercial banks are handling various types of commercial transactions on behalf of their customers. These are controlled and administered under the Banking Regulation Act, 1949.
There are various categories of commercial banks in India:

(i) The nationalized or public sector banks. These are wholly owned and controlled by the Government of India. Fourteen major commercial banks were nationalized in July 1969 and the six others were nationalized in the year 1980. In all, there are 20 commercial banks, which have been nationalized so far. The main objectives of nationalization of these banks were that the flow of credit should go to the weaker and neglected sectors of society and also opening of banks' branches in rural and semi-urban areas.

(ii) Non-nationalized scheduled commercial banks-These are private banks which have been listed in Schedule II of the Reserve Bank of India. Though these are private banks, yet their operations are controlled by the Reserve Bank of India.

Non-scheduled private banks-These are purely private bankers and moneylenders which are though not listed in the schedule- of Reserve Bank, yet they are undertaking banking operations in the country.

Objectives Of Commercial Banks And Banking Regulations

Before the nationalization of 14 banks in 1969, the financial requirement of small, indigenous bankers and private banks largely met small-medium industrial units and other commercial and non-commercial institutions. These sources of finance were inadequate both in their capacity to lend and in their geographical coverage through organizational network. Moreover, these sources of industrial and non-industrial finance were indifferent to the needs of the industry and objectives of socio-economic policies of the government. Moreover, the nature and need for term loan and working capital finance being indifferent in nature, need for public financial institutions or public banks for meeting the long-term financial requirement within the framework of socio-economic, policies of the government was quite obvious.  

As a result of the partial nationalization of commercial banks in 1969, the country's wheels started moving on the road of socioeconomic development. According to the radio broadcast (on the evening of July 19, 1969) and, later on, the statement issued in the Indian Parliament by the then Prime Minister, the main objectives of nationalization of commercial banks may be specified as follows:

(i) Expansion of bank credit to priority sectors, which had hitherto been neglected;
(ii) The removal of control by a few big business people and industrialists over banks;
(iii) The giving of a professional bent to bank management by appointing professional bankers; and
(iv) The provision of adequate training as well as reasonable terms of service for bank staff for ensuring efficient and effective service to the public.

Thus major banks were nationalized "in order 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 and for matters connected therewith or incidental thereto."

---

146 Desai, Basant, Principles Of Bank Management, Himalayas Publishing House, Bombay
147 India. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, Preamble
Functions of Commercial Banks

One of the main functions of commercial banks and a distinguishing feature that separates them from other financial institutions is the ability to create money. This is accomplished by the lending and investing activities of commercial banks in cooperation with the Reserve Bank of India. Paul Einzig rightly observes "economic planning is unthinkable without monetary management and monetary management is doomed to failure without economic planning." A commercial bank of a country coordinates financial management including monetary management with the planned process of development.

The primary function of commercial banks is to provide facilities for the pooling of savings and making them available for economically and socially desirable purposes. The saver is rewarded for the payment of interest on his savings. These pooled funds are made available to businessmen and industrialists who may use them for the expansion of their productive capacity and to consumers for such items as housing and consumer goods.

Second, commercial banks perform the function of providing for a payments mechanism. Most of the cheques in the country are cleared through them. Now-a-days banks have employed computers and other sophisticated equipments to speed the clearing process, reduce costs, and improve accuracy.

Thirdly, they perform the function of extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Bank lending makes possible the financing of the agricultural, commercial and industrial activities of the country. Fourthly, increased incomes have made possible the accumulation of wealth, which in turn has contributed to the growth of the trust services of commercial banks. They perform other activities associated with the issuance and redemption of stocks and bonds.

Fifthly, commercial banks provide facilities for the financing of foreign trade. As foreign trade has increased throughout the world, so have the foreign banking services of commercial banks. The financing of foreign trade by commercial banks contributes to a free flow of trade between countries and at lower prices than if these services did not exist.

Sixthly, the safekeeping of valuables is an important function of the commercial banks. They have vaults that are difficult to enter even by the best of burglars and thieves and have established a record of proper custody.

Finally, the commercial banks encourage entrepreneurial ability. By doing so, they help generate more employment and ensure better and fuller utilization of productive resources including human ones.

---

149 C.R. Whittlesey, "Lectures in Monetary Management" (Bombay, University of Bombay, 1960), p. 9.
Other Functions

(i) *Agency functions i.e.* to act as an Agent of Government, Local Authorities, or persons.
(ii) Issue, contract and negotiate Public Loans.
(iii) Carry, underwrite; issue, manage the capital issues;
(iv) Guarantee and Indemnity business
(v) Acquiring, holding and dealing in property for advance.
(vi) All other things, which are incidental to promotion of business as, specified by the Central Government’s lawful business of banking.

Autonomy for Commercial Banks

Based on the recommendations of an RBI in house Committee (covering the aspect of autonomy package structuring and choosing the profitable banks), which was submitted during 1996, a number of public sector banks have attained the status of autonomy. At the Bank Economist Conference in Oct 1997, the autonomy issue was in focus as most if not all bankers demanded full autonomy for bank Boards immediately, as in their views the banks can stand up to increasing market competition only if they have freedom to take decisions. It was suggested that the RBI should concentrate only on macro policy guidelines and instruction and entirely give up micro management and eschew appetite for issuing instructions for detailed individual case-to-case supervision. The regulatory authority should lean heavily on off site inspection. In fact, in alignment with the spirit of autonomy, managing and running the business of banking should be left entirely to bank management/board.

Freedom

The Boards of banks are allowed to

(a) Create new posts in senior positions without obtaining govt. approval
(b) Determine the compensation norms and time duration of officers on deputation abroad
(c) Determine the entertainment allowance for their officers.
(d) Conduct direct recruitment for senior positions between scale IV and VII for specialized jobs like the computers department
(e) Decide the posting norms in rural and semi urban branches for scale I and II officers
(f) Decide the minimum criteria for promotions and recruitment to the officer cadre (h) enjoy the freedom to go in for branch expansion and licensing without seeking RBI approval and (i) have the option of campus recruitment from leading management institutions.

It should be understood that there is a clear line of distinction between autonomy and ownership. Till now decisions are being take by RBI on behalf of the owners, be it the govt. or part owning by shareholders.

Expansion and Operations of Commercial Banks

Thus the business of commercial baking is very broad and far-reaching. There are more than 50,000 branch managers, besides other officers of managers in 50,000 branches of commercial banks. Branch expansion of commercial banks continued at a
faster pace with emphasis on opening of branches in un banked areas. The total number of commercial bank offices in the country rose from 8,321 in July 19, 1969 to 48,932 on February 28, 1985.

Formerly Imperial Bank of India, converted into 'the State Bank of India under the Special Act passed for the purpose, called the State Bank of India Act, 1955. It is the biggest public sector commercial Bank. The share capital of State Bank is contributed by the Government and partly by the public. This Bank is next to R.B.I. and is undertaking most of government business.

State Bank of India

The State Bank of India, which is the biggest commercial Bank, is a class by itself. Prior to the inauguration of the Reserve Bank of India in 1935, it performed certain central banking functions, in particular, acting as banker to Government. It was then known as Imperial Bank of India, having been formed in 1921 by the amalgamation of Bank of Bombay, Bank of Madras and Bank of Bengal, which were known as Presidency Banks. The passing Of the State Bank of India Act, 1955, nationalized the Imperial Bank and the State Bank of India came into existence I from the 1st July 1955.

The nationalization was the result of the acceptance by the Government of India of the recommendation made by the All India Rural Credit Survey Committee for the creation of 'one strong integrated, State-sponsored, State-partnered, Commercial Banking institution with an effective machinery of branches spread over the whole country'.

Organization of the State Bank of India

The State Bank has an authorized capital of Rs. 20 crores and an issued paid-up capital of Rs. 5.6 crores. The Reserve Bank of India, insurance, holds the shares of the State Bank Companies and the general public who were formerly shareholders of the Imperial Bank of India. The State Bank is managed by the Central Board of Directors consisting of 20 members, including a chairman and a vice-chairman partly appointed by the Union Government and the Reserve Bank of India and partly elected by the shareholders (six of them) other than the Reserve Bank of India. The Central Board supervises and directs the affairs and business of the State Bank of India and in this it is guided by the business principles as well as public interest. Besides the Central Board, the State Bank of India has Local Boards wherever it has a local head office.

The State Bank of India performs all the Commercial banking functions, which the Imperial Bank of India performed before, viz., receiving deposits, advancing and lending, making investments, and so on. Besides, it also acts as the agent of the Reserve Bank of India at all places in India where it has a branch and where the Reserve Bank of India has no branch. Apart from these normal functions which the State Bank of India has' inherited' from the Imperial Bank of India, it has been required to play a special role in rural credit, namely, promoting banking habit in the rural areas and catering to their credit needs.

There are Seven subsidiaries of State Bank of India viz :

State Bank of Bikaner & Jaipur
State Bank of Patiala
State Bank of Mysore
State Bank of Travancore
State Bank of Saurashtra
State Bank of Indore
State Bank of Hyderabad

(3) Industrial / Financial /Development Corporations or Investment banks

An Industrial Bank is one, which specializes by providing loans' and fixed capital to industrial concerns by subscribing to share and debenture issued by public companies. They play an important role in the establishment and growth of industries. Investment banks supply the block capital required for the acquisition of fixed assets, etc. They provide long-term loans and credits for periods varying between 5 and 15 years for industries to acquire fixed assets. They may serve as catalytic agents in mobilization of capital in other forms of assistance such as, underwriting, guarantee, etc. These banks are nowadays grouped as 'Development Financial Institutions'. These banks are very popular in Germany and Japan. In India, we have several Industrial Finance Corporations in addition to the "Industrial Development Bank of India". Both, Development Financial Institutions and Commercial banks, nowadays, finance infrastructure development activities, which include construction of transport facilities, building of power-supply stations, etc.

Industrial Development Bank of India (IDBI)

This Bank was established on 1st July 1964 under the special Act called the Industrial Development Bank of India Act, 1964 as a wholly owned subsidiary of Reserve Bank. Later on, the ownership was transferred to the Central Government with effect from 16th February 1976. It is the principal financial institution for co-ordinating the activities of various institutions engaged in financing, providing or developing industry in conformity with national priorities.

Financial assistance to large scale industrial concerns, particularly in circumstances where normal banking accommodation is in appropriate or, recourse to capital issue method is impractical.
Objectives & Functions

To serve as the apex institution for term finance for industry, to coordinate the working of institutions engaged in financing, promoting or developing industries and to assist in the development of these institutions.

- To plan, promote, and develop industries to fill gaps in the industrial structure in the country.
- To provide technical and administrative assistance for promotion or expansion of industry.
- To undertake market and investment research and surveys also technical and economic studies in connection with development of industry.

There are various schemes of IDBI for financial assistance to industries. These are

1. Direct Assistance to industrial concerns by way of long term loans and advances.
2. Refinancing industrial loans granted by the scheduled commercial banks and other financial institutions for the period ranging from 3 to 25 years.
3. Soft loan scheme, under which IDBI guarantees loans raised by industrial concerns, in the open market.
4. Technical development fund scheme, under which IDBI provides technical and managerial assistance to an industrial concern for promotion, management or expansion of any industry.
5. The Bills Rediscounting Assistance Scheme, under which the IDBI accepts, discounts or rediscounts bills of exchange, promissory notes, hundis etc.
6. Seed capital assistance scheme, under which IDBI subscribes to shares, bonds and debentures issued by industrial concerns as well as underwriting the new capital issues.
7. Export Finance Scheme, granting refinance for export loans between 6 months to 10 years given by a scheduled/co-operative bank or any other financial institution.
8. Overseas investment finance scheme
9. Development Assistance Fund Scheme, under which IDBI undertakes research and surveys in the fields of investment and marketing.

The Industrial Finance Corporation of India (IFCI)

It is one of the specialized financial institutions set up in the year 1948 under the special Act of Parliament, to provide financial assistance to public companies for a period not exceeding 15 years and to guarantee the loans raised by industrial concerns in the open market. The Industrial Finance Corporation of India provides financial assistance to large-scale industrial concerns, particularly in circumstances where normal banking accommodation is in appropriate or recourse to capital issue method is impractical. Only the public Limited Companies and Co-operative Societies are eligible to get assistance from the Institution.

The Industrial Finance Corporation is
(i) Guaranteeing loans raised by industrial concerns.
(ii) Underwriting the issue of stock, shares, bonds or debentures by industrial
concerns.
(iii) Granting loans or advances to or subscribing to debentures of industrial concerns.
(iv) Acting as agent for the Central Government and or with its approval for the IBRD in respect of loans sanctioned by them to industrial concerns and
(v) Extending guarantee in respect of deferred payments by importers who are able to make such arrangements with foreign manufacturers.

The Industrial Finance Corporation of India has sponsored Risk Capital Foundation to meet the seed capital requirements of entrepreneurs who have other abilities but no finance to launch a project. It also sponsored Management Development Institute, which has made a good beginning in the field of management education in the country.

National Bank for Agriculture and Rural Development (NABARD)

The NARARD is an apex. The above Bank is a broad-based Institution set-up by the Government of India under a special Act of Parliament in the year 1982 for the purpose of promoting the overall agricultural, SSI, Cottage and Village industries, handicrafts and other rural crafts and other allied economic activities and development. The Bank looks after the entire financing to Agriculture in our country and helps in implementing the policies and programs of the Government by allowing refinance facilities to the various rural credit agencies like the Regional Rural Banks, State Co-operative Banks, State Land Development Banks and the commercial banks.

It serves as a refinancing institution for institutional credit such as long term, short term for the promotion of activities in rural area. The Bank will also provide direct lending to any institutions may be approved by the Central Government. The Bank has close links with Reserve Bank of India.

The NABARD provides short-term credit to State Co-operative Banks, Regional Rural Banks etc. It provides medium term credit for periods between 18 months and 7 years for Agriculture Rural Development, SSI etc. It can also provide long-term loans for periods not exceeding 25 years. Medium and Long term advances are provided to Land Development Banks, Regional Rural Banks, Co-operative Banks, and Commercial Banks etc. Amongst the various Schemes of NABARD, are the 'Refinancing Schemes' for agriculture and allied industries under which the loans granted to small and marginal farmers, landless laborers and other farmers by the Co-operative Banks, Regional Rural Banks and the Commercial Banks, are refinanced by the NABARD. There is another scheme called the 'Automatic Refinance Scheme', under which all loans granted by the various rural credit agencies are automatically refinanced to the extent of 90% of the amount of loan granted to the borrowers under the IRDP Scheme. There is another scheme called the 'Farm Mechanization Scheme' under which all loans granted for purchase of agricultural machinery such as tractors, power trailers etc. are refinanced by the NABARD to the extent of 75% of the net amount of loan granted (loan minus subsidy). There is yet another Scheme called the 'Bio-Gas Scheme' under which the bank loans granted for the purpose of Gobar Gas Plants are refinanced up to 75% of the net amount of bank loans. The NABARD, also
grants refinance under the 'Schematic Lending' Scheme in which the farm-related activities like the, poultry, cattle-breeding, dairy-farming, Sheep-rearing, Camelling etc., financed by the various rural credit agencies," are refinanced on the basis of projects prepared basically at the block level.\(^{150}\)

The NABARD forms Vikas Volunteer Vahini (VVV) in various places, which aims to bring about an awareness of the principles of development through credits in the minds of rural people and to inculcate in them repayment ethic.

**The Industrial Credit and Investment Corporation of India (ICICI)**

It was set up in the year 1955 to provide financial assistance to industrial concerns in the private sector for the purpose of formation, expansion and modernization or to provide technical and managerial help. The Industrial and Investment Corporation was incorporated with its headquarters at Bombay for specific purpose of assisting the industrial enterprises within the private sector.

ICICI is
(i) Assisting in the creation, expansion and modernization of such enterprises.
(2) Encouraging and promoting the participation of private capital, both internal, and external in such enterprises.
(3) Encouraging and promoting private ownership of industrial investments and the expansion of investment markets and in particular by:
   (a) Providing finance in the form of long or medium term loans or equity participations.
   (b) Sponsoring and underwriting new issues or shares and securities.
   (c) Guaranteeing loans from other private investment sources.
   (d) Making funds available for investment by revolving investment as rapidly as prudent.
   (e) Furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical and administrative services to Indian Industry.

**Industrial Reconstruction Bank of India (IRBI)**

The Industrial Reconstruction Bank of India (IRBI) was set, up during 1971. It is an all India institution with its headquarters at Calcutta. The primary objective of the Corporation is to revive and 'or revitalize industrial units which have closed down or likely to face closure but show promise of viability of being operated economically with suitable assistance and subject to sufficient safeguards. Its function includes the restructuring of the management, providing technical and managerial guidance either through its own staff or by helping in procuring suitable personnel from the market acting as a catalyst in securing assistance from other banks and financial institutions and Government agencies.

---

\(^{150}\) Basu, S.K., Commercial Bank And Agricultural Credit, A Study In Regional Disparity In India, Allied Publications, New Delhi.
Industrial Reconstruction Corporation Of India (IRCI)

It was set up by the Government of India in the year 1971 under the Companies Act, for the purpose of nursing sick industrial units and help them to get over their problems created on account of lack of 'managerial competence, paucity of raw-materials, labor unrest etc. Thus it provides assistance in various forms like term loans, guarantees, technical; managerial and marketing guidance and services to sick industrial units.

State Financial Corporations (SFC)

These are set up respectively in the various states of India, like Delhi Financial Corporation, Haryana Financial Corporation, Punjab Financial Corporation, UP. Financial Corporation etc. These are state agencies and extend financial assistance to industrial concerns set up in their respective states. These corporations provide financial assistance to small and medium-sized industrial concerns. SFC can also accept Public deposits and can grant loans and advances to all industrial concerns up to a maximum period of 20 years besides guaranteeing or underwriting 'and subscribing to share capital of the concerned industrial unit.

At the time of establishing the Industrial Finance Corporation, the Central! Government had contemplated to create separate financial corporation for the states. The Industrial Finance Corporation meets the financial requirements of the public limited companies and co-operative societies with a view to help the small-scale and medium sized industries. State Financial Corporations were established by the State Governments.

Function

(1) Granting loans or advances or subscribing to debenture hkes of industrial concerns.
(2) Guaranteeing loans raised by industrial concerns on such terms and conditions as may be mutually agreed upon and
(3) Under writing the stock, shares, bonds and debentures,

State Industrial Development Corporations (SIDC)

The SIDCs are wholly owned by the State Governments. However, from the point of legal status, some are set up as corporations under special statutes and some as public or private limited companies. These are established by the respective State Government to grant loans and advances, subscribing to shares, debentures and bonds of industrial concerns and promoting the joint sector enterprises with the State Government

Functions

(a) Grant of financial assistance.
(b) Promotion and management of industrial concerns.
(c) Provision of Industrial sheds/plots and
(d) Promotional activities such as identification of project ideas, selection' and training of entrepreneurs, provision of technical assistance during project implementation etc.

At present there are 26 State Industrial Development Corporations.
National Small Industries Corporation (Nsic)

It was established in the year 1955 as a private limited company, to promote and protect the small industries by granting them term-loans for purchase of machinery and equipment on hire purchase as well as for working capital.

Export Import Bank Of India (Exim Bank)

This bank was established in the year 1981 under special Act called Export-Import Bank of India Act, 1981, to act as the principal financial institution for co-coordinating the working of banks and other institutions engaged in financing export and import of goods and services and to control the country's international trade. This bank gives refinace for loans and advances granted by banks and other financial institutions for the purpose of import of goods and services. It may also discount or re-discount the bills of exchange and other negotiable instruments drawn in connection with import and export trade, in India or outside India, and also underwrite, guarantee or participate with any Government, Bank or Financial Institution for the purpose of import and export of goods.

(4) Exchange Banks (Authorized Dealers in Foreign Exchange)

These are foreign-based banks and owned and managed by foreign companies. The examples of them are Grindlays Bank, City Bank, Chartered Bank, Bank of America etc. These types of banks are primarily engaged in transactions involving foreign exchange. They deal in foreign bills of exchange import and export of bullion and otherwise participate in the financing of foreign trade. They do a number of incidental services such as opening of letters of credit, issue of Foreign Currency Drafts and Travellers' Cheques and supply of information about foreign customers. They provide credit and loans in foreign currency and also accept deposits in Foreign Currency. They require huge capital and trained staff, as it is a risky business. They maintain branches in foreign countries at important trade centers. In the past foreign banks operating in India would deal in foreign exchange and were known as exchange banks. Nowadays, many Indian banks deal in foreign exchange with special authorization from Reserve Bank of India and known as Authorized Dealers in Foreign Exchange. As per Foreign Exchange Regulation Act banks dealing in Foreign Exchange related activities requires the permission of Reserve Bank of India. This is applicable to both Indian and Foreign Banks.

Main functions of Exchange Bank

(i) Transfer function-Transfer of foreign exchange between the Countries. 
(ii) Credit function-Foreign bills and letters of credit. 
(Hi) Hedging function...i.e. assuming exchange risks by forward dealings. 
(iv) Financing of Domestic Trade.
(5) Co-operative Banks

These are the banks formed by people on the principle of ‘self-help and mutual help. The members of the bank are its shareholders and the Registrar, Cooperative Societies and the Reserve Bank control the entire activities of co-operative banks. These banks extend financial assistance to members only. They grant short-term loans to the agriculturists for purchase of seeds, harvesting and for other cultivation expenses. They accept money on deposit from and make loans to their members at a low rate of interest. The members of the bank are its shareholders and the Registrar, Cooperative Societies and the Reserve Bank control the entire activities of co-operative banks. The different types of Co-operative Banks are as under:

1. Primary Co-operative Banks or Urban Co-operative Banks
2. District Co-operative Banks
3. State or Apex Co-operative Banks

The Urban Co-operative Banks are established at a particular place only and the jurisdiction of their operations is limited to a particular urban area only. The District Co-operative banks have their jurisdiction within the whole district whereas the State Co-operative Banks have the jurisdiction throughout the State. There are 28 State Cooperative Banks. The object of State Co-operative Banks is to form Credit policies, Co-ordinate and guide the working of Central Co-operative banks, arrange financial accommodation from them and serve as clearing house of finances and information. The Central Co-operative banks in India are the federations of all types of Co-operative societies functioning in their areas of operation, their main objective being to arrange the supply of finances to their constituent co-operation. The also supervise the working of the rural credit societies and ensure a satisfactory implementation of the recognized policies. There are 349 Central Co-op. Banks. There are 92,600 primary Agricultural Co-operative Societies and they are the most important institutions in the Co-operative Credit structure. The Primary Agricultural Co-operative Societies are extending short term Agricultural Credit.

Regional Rural Banks

Regional Rural Banks were set up as institutions which would help fill regional and functional credit gaps, help develop the activities of the Weaker Sections, have a localised and familiar with local problems and better capacity to mobilise deposits and access to Central money markets and a modern outlook. Every regional Rural Banks with 12,600 branches. Every big public sector commercial bank has sponsored a Regional Rural Bank for extensively carrying out the financing of agriculture in the respective lead district. These banks are responsible for overall rural development in their respective region. It was in the year 1972 that the Banking Commission recommended the establishment of a chain of rural banks in addition to the rural branches of commercial banks. Accordingly, the subsidiaries of the commercial banks were set up and named as Regional Rural Banks, with the objective of providing credit and other banking facilities to the weaker sections of rural society, small entrepreneurs and the tribal. The share capital of each of the Regional Rural
Bank has been contributed by the Central Government and partly by the State Government concerned and the sponsoring commercial bank. The operational procedures followed by the Regional Rural Banks are very simple and any borrower may get a loan within a week’s time.

The Regional Rural Banks are the new banking institutions, which have been added to the Indian banking scene since October 1975. Up to the end of June 1983, 142 Regional Rural Banks with a network of 6,413 branches have been opened in the states of the Indian Union. The Government of India in terms of the provisions of the Regional Rural Banks act 1976 has established these Banks. The distinctive feature of a Rural Bank is that, it is a separate body corporate with perpetual succession and common seal; it is very closely linked with the commercial Banks, which has sponsored the proposal to establish it. The central Government while establishing a Rural Bank at the request of the commercial Bank specified the local limits within which it should operate. The rural bank may establish its branches or agencies at any place within the notified area.

The necessity of Rural Banks was felt because the credit agencies the cooperative banks and the commercial banks, lacked in certain respects in meeting the needs of the rural areas. The weaknesses of these institutions in this regard may be summed up as follows:

(1) The cooperative credit structure is weak so far as the managerial talent and post credit supervision and loan recovery are concerned. These institutions have not been able to mobilize adequate resources.

(2) The commercial banks are basically urban-oriented.

Therefore the need was felt for a new institution, which was intended to be locally based, rural oriented and commercially organized Rural Bank carries the normal banking on business, i.e. the business of banking was granting of loans and advances, particularly to small and marginal farmers and agriculture labors, whether individual in groups and or cooperative societies. The granting of Loans and advances particularly to artisans, small Enterprises and persons of small or industry or engaged in trades, commerce productive activities within the notified area of Rural Bank, facilities are provided.

In discussion of the role of banks in rural development it is now common to refer to the phenomenal increase in the number of rural branches, and in the volume and spread of rural deposit and rural loans since the nationalization of banks. No doubt figures are impressive and perhaps, in no other country has so much been achieved in so short a time. It is never less true to say that great deal remains to be done and the core problems of rural development are still to be tackled and solved.

Those who are concerned with rural development are aware of disparities bewildering complexities and arising from our continental size and the varying agro ecological and social-cultural conditions. Rural development means the development of the rural people nearly 50% of which are below the poverty line. The economic activity, which is a permanent base and will move it above the poverty line. It is not an easy task, and in hostile agro-ecological condition only innovative technologies and
management methods will be worthwhile for development. It is in this context, it is
to be considered how the rural bankers can become development bankers. The Siva
Raman Committee explained the meaning of development banking.” The basic
concept of development banking is that credit is consciously used, as lever of
development is different from lending against individual application as and come.
Development- Banking assumes when they anticipation and adoption of a plan of
action. It calls for initiative and energetic involvement on the part of the bank
developing the potential opportunities of the un development under developed sect-
ions or sectors, strategic input of credit. The development banker has to ensure.

(1) That this credit institution will have tailor made loans according to the needs
of specific areas and specific target groups.
(ii) That the loans are linked to the credit worthiness of the purpose rather than to
credit worthiness of the person.
(iii) That the Loans will be disbursed as part of overall integrated program which
provides necessary backward and forward linkages.
(iv) The loans are disbursed in kind to the extent possible towards the agreed
package of inputs and extension service.

Regional Rural banks have attracted considerable public and attention aroused high
expectations for weaker section of the society for the rural development by the end of
March, 1983 there were 141 RRB's covering 246 districts geographically, they have
covered almost all the districts in the less developed states/regions etc. where sizeable
credit have been found to gaps exist. The. RRB's are now an integral part of the rural
credit system. The RRB's completes the credit demand of the rural people.
Recognizing that RRBs are mainly intended to help weaker sections, with little or no
security to support, considerable attention needs to be paid to intensify supervision
over implementation of the schemes for income ensuring generation of incremental
income and prompt repayment The RRBs have represented that. Their effectiveness in
an area would get strengthened if they were allowed to extend credit facilities.

The major objective of RRB's is to develop the rural economy by providing credit and
other facilities for agriculture, trade, industry, and other productivity activities, in the
rural areas particularly to the. Small/marginal farmers, agriculture labors, artisans and
small entrepreneurs while RRBs as scheduled banks carry on "banking" business, their
operations are some what limited because of the fact their loans are confined only to
the weaker sections of the community. Nonetheless they accept all types of deposits
and also render their banking services consistent with the needs of the area and their
capability. The RRBs therefore, have done a lot of work for rural people. RRBs have
expanded their branches for achieving the objects.

The RRBs are working efficiently in the rural areas for various other economic
programs like employment to rural people the farm mechanization scheme, financing
to sheep and goat development schemes financing to Gobar Gas plant, Bee Keeping,
Dairy development etc.
(6) Land-mortgage Banks (Presently known as Agriculture and Rural Development Banks)

They are agriculture development banks. The Land-mortgage banks supply long-term loans for a period up to 15 years for development of land to improve agricultural yields. They grant loan for permanent improvements in agricultural lands. They create negotiable bonds out of real estate like land, buildings, etc. They raise funds by floating debentures and by borrowing from the government. The Agriculture Finance Corporation was the first Indian Institution to set up finance for development of Agriculture. The National Bank for Agriculture and Rural Development (NABARD) was constituted by the Government to promote rural development. There are 19 State Land Development Banks. The State Land Development Banks raises the fund through share capital, issue of debenture, grants and subsidies from State Government.

They give medium and long-term loans through its own branches or through the Primary Land Development Banks for Agriculture and its allied activities. There is 1007 State Land Development branches and 885 Primary Land Development Banks.

(7) Indigenous Banks

The Central Banking Enquiry Commission defined an indigenous banker as an individual or firm accepting deposits and dealing in indigenous lending of money to the needy. They form unorganized part of the banking structure, i.e., these are unrecognized operators in receiving deposits and lending money. These are operating as private persons like Shroffs, Mahajans, Village Money; lenders etc. In India the Marwaris, the Multanis, the Jains, the Sowcars, the Nattukottai chettiar are some of the leading indigenous bankers who charge high rates of interest on their lending's. In rural areas, they still provide substantial finance to agriculturists and small traders.

(8) Savings Banks

These are institutions, which collect the periodical savings of the general public. Their main object is to promote thrift and saving habits among the middle and lower income sections of the society. They have certain restrictions on number of withdrawals in a year to discourage spending. In almost all countries, postal authorities also run savings bank accounts and their working is regulated by the government. The first savings bank was started in Hamburg in 1765. In India, we have postal savings accounts. These days separate savings banks as such are very rare. In India, all commercial banks have savings accounts. The minimum balance, which is required to be kept in the accounts, differ from banks to banks. RBI determines the rate of interest payable on the accounts by banks. Presently it is 4.5 per cent per annum. Co-operative banks are normally allowed to pay an additional 0.5 per cent interest per annum. Government of India determines interest rate on savings accounts with post offices.

Post Office Saving Bank

The Post offices, in India, provide the facility of opening saving bank accounts in the name of an individual singly or jointly with others or in the name of a minor. The
minimum initial deposit is Rs.5/- like that in a bank account and the interest is paid presently at the rate of 5.5 % per annum on the credit balance lying in the aforesaid account. The cheque facility is also available in post office saving bank account. However, the interest paid on post office savings bank accounts is exempt from income tax. Though it carries little more interest, as compared to commercial banks' saving account, yet, the operations are comparatively cumbersome in post office savings bank accounts. For opening the post office saving bank account, the necessary printed account opening form has to be obtained from the local post office and after completing the same, it should be got introduced from a person known to the post office or a person already saving an account with them.

**Unit Trust Of India (UTI)**

It was established in the year 1964 as an investment trust of the Government of India, to pool the savings of people by selling the units to general public and paying the dividend on units under the various saving and investment schemes sponsored by it.

(9) **Supranational Banks**

Special Banks have been created to deal with certain international financial matters. World Bank is otherwise known as International Bank for Reconstruction and Development (IBRD), which give long-term loans to developing countries for their economic and agricultural development. Asian Development Bank (ADB) is, another Supranational Bank, which provides finance for the economic development of poor Asian countries. They generally provide finance at concessional interest rates and for long-term needs. These institutions are the creations of World bodies promoted by various countries or central banks of different countries. The European Central Bank established in June 1998 by countries in the European Union is another example of Supranational Bank.

(10) **International Banks**

International Banks are those, which are operating in different countries. While, the registered office/head office is situated in one country, they operate through their branches in other countries. They specialize in Banking business pertaining to foreign trade like opening of letters of credit, providing short-term finance in foreign currency, issue of performance guarantee, arranging foreign currency credits, etc. They are the main traders in International Currencies like US 'dollars', Japanese 'Yen', the newborn European Currency 'Euro', etc. They also perform Currency Risk Management functions for clients. These banks are also known as Multinational Banks since, they operate from many countries. These banks make possible the flow of money / credit from one country to another country. They help grow international trade.

From the above, it can be understood that the classification of banks cannot be rigid. We find that banks are providing finance in more than one field that is why, it is rightly said that they are "Departmental stores of Finance".
Organizational Set-Up of Banks

An important factor influencing the efficiency and effectiveness of the personnel management is the organization. Any program of economic or fiscal development, and of reform and reconstruction in any of the public services, can only succeed if it is supported by machinery and methods established under sound principles of personnel management. A study of the organizational set-up is therefore essential.¹ An organization is a means to an end in itself. It is an instrument devised to put together people's efforts and materials for the fulfillment of some defined purposes or goals. An organization may be defined a human resource system which brings participants in the system into working order so that they form a coherent functioning whole. One of the United Nations publication has defined it as a "a human resource system with a life of its own, which is designed to achieve specific goals through division of labor and integration of efforts, often striving to attain the highest possible level of efficiency, or maximum performance."

An administrative organization therefore has to be carefully designed in order to enable it to discharge its functions in an effective way. Personnel working in the commercial banks can better achieve results, if they are supported by adequate machinery and methods established under second principles. In order to make it possible for people to work efficiently towards accomplishment of its goals, deliberate structures of roles must be designed and maintained. An organization therefore, embraces structures as well as human beings. The management should not busy itself with merely the framework, but should pay more attention to the people who make up the organization and those for whom its services are intended. It is essentially a network of human relationships geared towards the achievement of set of goals and objectives.

With a view to providing an idea of the organizational set-up of the Central Bank of India, we will be discussing a five-tier structure, namely, Board of Directors, Head Office, Zonal Office, Regional Office and Branch Office. The Central Bank of India has a very large organizational structure. It controls a huge number of branches, which spread all over the country. The organizational set-up of the Central Bank of India is explained as below:

Board Of Directors

Depositors, stockholders, and regulatory authorities look to the Board of Directors far policy decisions and management ability that will result in the safety of funds and banking operations. The, Board of Directors is at the apex of the line of organizational hierarchy. The Government of India appoints its members. This board consists of representatives of the depositors, public sector employees, economists, agriculturists, etc. In fact, they represent the interest of the people from all sectors of the economy. Before nationalization, this board enjoyed a lot of powers. All the administrative powers were vested in it. This is to say that it dictated the tone of the administration of

the bank. But the story is no longer the same they have to toe the guidelines laid dawn
by the Reserve Bank of India, which also monitors its activities. This board no longer
function independently in matters of policy-making, credit-functioning on higher
managerial decisions. However, they are vested with the powers of general
supervision, directions and management of the business operation and branches of the
bank. The board also carries out periodic review of the bank and offers directions and
suggestion’s Board of Directors is not directly concerned with the day-to-day
operations of its tasks since it delegates authority to various officer but the directors
are ultimately responsible for the success of the operations of the bank. The liabilities
and responsibilities of bank directors are large, to be sure, but they are not of such
magnitude as to prevent the participation of capable and interested individual in bank
management.

Head Office

Next to the Board of Directors in the organization is Head Office. In the Central Bank
of India, several officers are responsible for the management functions. The mast
important is the Chairman. The Chairman and Managing Director is pasted at the
Head Office, which is located in Bombay. The government appoints him. Next in
command after the Chairman and Managing Director is the Executive Director. There
are also four General Managers who' are in charge of the following four departments-
Personnel Department, Operations Department, Planning and Development
Department, and finally Credit Department. Then is one Deputy General Manager
who' is in charge of Audit and Inspection. In addition, there is one Chief Vigilance
Officer. Under these General Managers are 14 Assistant General Managers who'
perform various tasks in their departments. Head office exercised a centralized
authority. In many areas it controlled branches directly. Regional offices were granted
limited authority in matters of sanctioning credit proposals. Area offices virtually had
no executive authority excepting the developmental work. Reviewing as the domain
of head office only and it was done through various Controllers of branches organized
region-wise. The system worked before nationalization, because branch banking was
not very intensive and banks used to do restricted business only.

The same organization structure continued even after nationalization and in many of
the nationalized banks it is still continuing, excepting that some more powers were
delegated at some of the lower levels. We now discuss the organizational set-up of the
Head Office.

Personnel Department

A General Manager who’ is assisted by four Assistant General Managers-namely
mams this department

(1)  Assistant General Manager (Industrial Relations and Policy)
(2)  Assistant General Manager (Human Resources Development),
(3)  Assistant General Manager (General Administration Development),
(4)  Assistant General Manager (Staff Administration Division).

This department takes care of recruitment, training, promotions, transfer, selections,
placement and other personnel matters. It also looks into the issues of manpower planning and employer-employee relations. It is the functions of this department to see that opportunities for individual advancement is given to the employees of the Bank at the appropriate time.

This Unit has the duty to see to the personnel matters at the regional level. It determines vacancies and also recommends transfer of employees. Traveling and leave allowances are to be claimed through this department.

Operations Department

A General Manager who is assisted by three Assistant General Managers heads this department. These are:

Assistant General Manager (Operations),
Assistant General Manager (Foreign Division), and
Assistant General Manager (Central Accounts).

This department is in charge of rules, procedures and war king of all the branches; this is to say that this department frames the rules guiding all the branches. Through the foreign division, the department develops export business of this bank and also identifies potential export deals in the country and abroad so as to encourage the bank's export credit. The opening of foreign exchange department at the branches for the purpose of meeting export and foreign exchange requirements is the duty of operations department.

Planning and Development Department

A General Manager, under whom there is an Assistant General Manager, heads this department. This department is in charge of overall planning and development of the bank. It formulates annual business plan of the bank and also monitors the performance of the Zones and Regions. It also has the responsibility of opening new branches or branch extension counters.

Credit Department

This department is headed by a General Manager and is subdivided into six units each headed by an Assistant General Manager. They are: Assistant General Manager (Unit Cells), Assistant Genera) Manager (South and East), Assistant General Manager (Recoveries), Assistant General Manager (North Central), Assistant Genera) Manager (Western 1), and Assistant General Manager (Western-2). This department is in charge of revitalizing sick units. It also has the responsibility of recovering loans, etc., owned to the bank. It also sanctions advances.

Vigilance Department

A Chief Vigilance Officer heads this department. It is the duty of this department to detect and investigate cases of fraud. It also suggests ways to plug the loopholes for fraudulent acts.
Department of Audit and Inspection

Headed by a Deputy General Manager, this department carries out periodic audit and inspections of the branches and administrative offices. It also prepares audit reports and gives directions to the Branches.

Zonal Office

As already pointed out, the Central Bank of India maintains five-tier organizational structure. After the Head Office follows the Zonal Office. A Zonal Manager who was formally known as Assistant General Manager heads each Zone. There are a total of 50 regional offices. Under the Zonal Manager, there are two Chief Managers, namely, Chief Manager Personnel; and Chief Manager Credit.

Personnel Department

This department headed by a Chief Manager is bifurcated or organized into four units, each headed by an officer. These officers are: Deputy Chief Officer (Law), Chief Officer (Personnel), Chief Officer (Operations and General Administration Department), Deputy Chief Officer (Establishment). This department is in charge of personnel matters in the Zone. It determines vacancies and Forwards the same to the employment exchange for the purpose of filling the same up. Furthermore, this department frames rules and procedures relating to personnel in the Zone. It has the responsibility of providing stationeries, furniture, etc.

Credit Department

A Chief Manager heads this department. Under him are four officers who are assigned different duties. These officers have the following designations:

(a) Chief Officer (Credit Internal)
(b) (b) Chief Officer (Credit External)
(c) Chief Officer (Planning and Development)
(d) Chief Officer (Rural Development).

This department of Credit is responsible for processing and sanctioning of advances. It also takes the charge of planning the bank's business and monitoring the performance of the branches with regard to branch expansion, deposits mobilization, credit deployment and profitability. Besides, it looks after the lending policies of the bank particularly in regard to the priority sector lending.

Regional Office

As already stated the Central Bank of India has 50 Regional Offices each under the control of a Regional Manager. The Regional Manager sees to the working of the branches under his jurisdiction. A Deputy Chief Officer organizes the regional office under five units each headed. These are:
Operations/General Administration Development (UNIT)

A Deputy Chief Officer heads this unit. This unit maintains the rules and procedures of this region. It also sees to the general working of administration. It supplies stationeries, furniture, etc., to the branches under the region.

Credit Unit

Headed by a Deputy Chief Officer, this Unit processes and sanctions advance at the regional level.

Planning/Development Unit

It is the duty of this unit to see to the planning and developmental activities in the concerned region. It monitors the performance of the region. It can suggest expansion or opening of new branches.

Rural Development Unit

Manned by a Deputy Chief Officer, this unit sees to the rural development by granting loans and advances to priority sectors.

Branch Office

In branch banking the chief administrative officer of a branch is usually the Manager. The position of a Manager is similar to that of bank General Manager, and the responsibilities vary with the size of the branch and the amount of business conducted. A branch Manager's immediate supervisor is the Assistant General Manager from whom flow authorities, instructions and regulations that emanate from the head office.

In the organizational hierarchy of the Central Bank of India, the Branch Office is at the bottom. In all there are 2445 branches of the CBI, each headed by a Branch Manager.

The main defect of this fiver-tier system is that communication and control become more remote day by day with more and more expansion. The structure becomes rigid and unable to adapt itself to quick changes. The change, which has come upon the banking industry during recent years, has released tremendous energy. It has to be handled and directed towards realization of aspirations created in the mind of the public. This requires a flexible structure with properly delegated and defined decision-making levels. Ohlin suggested that sheer rapidity of social change requires greater organizational adaptability, which according to McNulty, depends upon built-in flexibility of the organization. But the organization structure we have now in most of the banks cannot just meet this great demand of flexibility necessitated by this historical change. One of the reasons behind reluctance of top management to reorganize the structure with proper delegation of authority and responsibility at all levels can be traced to the absence of a good information (feed back) system, which on the other hand depends upon a good organization structure. Unless, therefore, there is a good
organization structure there cannot be an efficient information system. And unless, the
top executive has some means of assuring himself that the delegated authority is being
used properly towards realization of enterprise goals, he will continue to be resistive
and nervous towards any idea of reorganization or delegation of authority. It is not
unlikely, therefore, to find in many of our banks that a dominant executive who has
since moved up higher in the ladder continues to make decisions for those positions
from which he was promoted.

Inferences

The Central Bank of India is an organization, set-up for creating money through its
lending and investing activities under the direction of the Reserve Bank of India. In
other words, it is a body with autonomy in its operations and at the same time being
accountable to the public.

At the apex of the CBI management is the Board of Directors which has enormous
powers in influencing the operations of the CHI. Below it is the Managing Director of
the Head Office, located at Bombay, who is appointed by the Central Government.
Next to the Head Office are the 12 Zonal Offices each headed by a Zonal Manager.
Next to the Zonal Offices are 50 Regional Offices each under the control of a
Regional Manager. 2445 Branch Offices each headed by a Branch Manager follow
these offices. The operational function of the CBI has been divided according to
various principles of management. The most significant among these are:

(i) Unity of command, which is accomplished through a vertical relationships of
sharing of authority effected by delegation from the Chairman down the line, each
member being responsible to the one above.

(ii) The operational areas of the CHI have been divided according to the span of
control principle. The division of operations based on these principles has given the
CHI the following advantages:

(a) Utilizing the specific abilities of its employees:
(b) Securing the coordination and easing out problems of control and
communications; and
(c) Making smooth delegation of power and authority.

These points have helped the CHI to maintain itself as an integrated entity composed
of many parts yet every part forms a coherent functioning whole. Theoretically
this fact has been instrumental in fostering some efficiency in the operation of the
Central Bank of India.

Commercial banks in general are highly departmentalized. Departmentalization in
banking, as in other business organizations, results from the inability of one person to
do all the activities connected with one group of tasks. It is an outgrowth of a need to

152 Central Bank Zonal Office, Chandigarh. L "DeveJopment Administration: Current Approaches and
assemble the expertise that develops from an increasing volume and from the complexities of bank operations and the varied services rendered to customers. Departmentalization enables improved and expanded services to customers, develops more efficient officers and other employees, and reduces the costs of bank operations. The organization structure of a nationalized bank should be a decentralized three-tier system.
3. THE IMPACT OF GLOBALIZATION ON BANKS

The gradual implementation of the government strategies over the past three years have thrown the Indian banks into the arena of national and international competition. Public sector banks are being allowed to go to the market and raise funds to meet capital adequacy and reduce dependence on the government, thereby also providing a common level playing field. The government has recently relaxed restrictions to the entry of private sector bank resulting in a sudden growth of banks in the private sector. The Reserve Bank of India (RBI) has given clearance for starting a few new banks in the private sector. A number of organizations in the corporate sector are also entering the banking sector. The new banks like UTI Bank, ICICI Bank, Global Trust, Indus Bank, etc. are bringing in advanced technology, rendering better customer service and are launching newer products.

More foreign banks are allowed entry to operate in India. Recently the Government has in principle agreed to allow five new banks to open branches in India every year.\(^{153}\) The above developments are encouraging the banks to change their business profile and move beyond the traditional lending function and get on to newer financial services such as investments, funds management, merchant banking, venture capital, housing finance, consultancy, etc. Some have responded to the challenges by setting up subsidiaries or by instituting strategic alliances.

With so much vibrancy, Indian banks have no choice but to initiate new efforts. The strategy each one decides will obviously be different. Whatever be the strategy, banks will have to make sure that the available human resources will respond positively to their effort's and that the employment relations are conducive to face the onslaught of competition.

But winds of liberalization has brought fresh air and with the entry of foreign banks in India, greater need is felt for better customer service and a creating competitive edge to overcome competitors' strategy. All these have led the employees to talk in favor of work culture.

According to L.G.Kulkarni, "If people in banks are not attuned to the new meaning and the new culture, they will have no place in the emerging scenario."

In the changing global scenario banks in India will have to have clear objectives, such as:

1. Enhancing the efficiency of operations by employing high technology.
2. Enhancing asset quality and profitability of the bank.
3. Streamlining the structure in accordance with the changing environment.
4. Increasing staff involvement through HRD and training.
5. Projecting the image of bank as a socially responsive and viable organization.
6. Continuing to act as a financial intermediary while at the same time responding to the growing needs of the customer.

---

\(^{153}\) This is part of an understanding arrived at by members of WTO including India, Economic Times, July 28, 1995)
Bank executives essentially perform the duties of managers in their different assignments. To understand their role expectations in the development of the economic and social system of the country, it is essential that we know their profiles which could include basic features like their origin, family background, educational background, working pattern, achievement, motivation, acquisition of skills during training and on the job. This information will help in identifying the sources from which they are recruited providing them training in the abilities and skills which are essential for their success in their roles, creating a more conducive environment at their work places and motivating them for better performance in the changed scenario.

The changing role of managers include:

1- Exploring opportunities that are increasingly becoming global.
2- Customising at low costs.
3- Learning to manage and work in highly volatile environments, political and otherwise, and to scale down or scale up operations, according to need.
4- Learning to become part of the global intellectual chain.
5- Being less dependent on government, the role of which is being increasingly challenged in every sphere.
6- Realising that a job is no longer an entitlement or a right.
7- Being able to convert data into knowledge.
8- Looking at strategy as resource mobilization and resource leverage.
9- Developing capacity for knowledge in action.
10- Developing education, particularly management education for a framework for sustained change.

The present status of Job Satisfaction Level in Banks as inferred from preliminary work done on this line and various reports published in journals and magazines are very low. Reasons for such a declined graph of Job Satisfaction level are disinvestments policy of Govt., decentralization of functions, privatizing public sector banks in the hands of private institutions, permitting multinational banks in Indian market, and last but not the least, introduction of Information Technology without proper adequate means for coping with it and as a result Banking Industry has been unable to compete with the Private Banks.

Decentralization of functions in the banking sector is the need of the hour-says RBI Governor. The reasons stated by him for the decentralization of functions are that decentralization leads to division of labor as well as span of control, these elements foster the job involvement and job satisfaction level. The recent researches and studies have concluded that present job satisfaction level in banking industry is degrading day by day. As a result one can clearly notice the increase in the migration graph from public sector banks to private sector banks.

The RBI Governor Dr.Bimal Jalan, addressing bankers at Hyderabad on Dec’6’99 said decentralization of functions in the banking sector and strengthening the regional level offices was the need of the hour. He said, ideally, the central offices of banks should assume the role of policy-making body, while administrative and related aspects should be entrusted to the lower levels. He said such a strategy had been adopted even by Reserve Bank and it’s regional offices now have regional directors who look after all the activities of the apex bank Such a change was required keeping
in mind the productivity, job performance and job satisfaction level which when compared to private sector banks was found very low in public sector banks.

For the disinvestments Government has created a separate Department of Disinvestments. Disinvestments in other words mean privatizing or giving in the hands of public. Such a step is taken only when a particular industry is unable to maintain either it’s workforce or to maintain it’s employee’s job satisfaction level up to a certain standard. As Govt. is going for the disinvestments of its banking industry we can infer that present level of satisfaction is not up to the standard level.\textsuperscript{154}

More often if comparison is made between public and private sector employee one can easily notice the difference between their levels of satisfaction. Reason is that employee in private works with great zeal as he/she is aware of the fact more work and dedication is going to pay them back in terms of better opportunities and growth prospects while stagnancy is often experienced in govt. Sector.\textsuperscript{155}

To conclude it can be stated that both these banks' present scenario is a prospective and competitive one and employees are satisfied. Indian banking is undergoing a metamorphic transformation. In fact more changes have taken place in banking during the last one decade than during the preceding two centuries. The basic changes in the banking system are related to key changes being introduced in Indian Economy, viz. liberalization of the economy, globalization, technology explosion, consumer supremacy, profitability crunch and competitive pressure. Banking as acceptance of deposits for purposes of lending and investment has now changed.

**Organisational Re-Structuring In Indian Banks**

The traditional business structure of majority of public sector banks in India that specialize work and fragment processes, lacks creativity and flexibility, is unresponsive, has absence of customer focus, is obsessed with activity rather than result, suffers bureaucratic paralysis and sans innovation and marketing. This has been resulting in lower productivity, lower return on assets and lower profitability. With the competition amongst financial services players getting intense, many among these banks have been finding the going very tough. Some of the banks/institutions such as State Bank of India, Indian Banks' Association, Punjab National Bank etc. have already undertaken restructuring of their operations to ensure long term viability while many others are in the process of initiating such steps. The need for restructuring arises because the banks want to achieve more and more to ensure that the changing environment may not eclipse them (July 1999 issue of Banking events update carried this paper).

Restructuring can be defined as ‘fundamental rethinking and radical redesigning of’

\textsuperscript{154} State Bank Of India-Annual Reports

\textsuperscript{155} Mathur, O.P., Public Sector Banks In India's Economy: A Case Study Of State Bank, New Delhi Publishers (P) Ltd. Desai, Basant, Principles Of Bank Management, Himalayas Publishing House, Bombay
organizational structures, business processes & procedures and functional structures with the objective of achieving desired improvement in critical contemporary performance parameters such as return on working funds, spreads, profitability, quality of assets, capital adequacy, productivity etc. by moving at required pace and in the right direction. The restructuring must translate itself into higher revenues, lower costs, improved customer satisfaction, better financial strength, higher employee moral or a combination of these and essentially be reflected in the improved bottlenecks.

**Focus of restructuring**

Keeping with the above broader objectives, restructuring essentially focuses on the following:

A the customer and satisfaction of customer needs.

B the competition management to improve the market share and improve productivity.

C the process time reduction for better delivery chain management

D the cost cutting to improve spreads and return on assets.

E the change management

F the optimum utilisation of human and other resources.

**Implications**

Restructuring generally generates positive effect on the top-line and bottom line by increasing the revenue and/or decreasing the costs. Other intangible effects are:

A by delegating the decision making power to down the line management the organisation makes them more accountable and responsible. This leads to increased productivity and results in better quality of services, being offered.

B the organisation starts measuring its performance and that of the human resources in terms of contemporary parameters and not by the activities.

C the criterion for career path improvement within the organisation is changed from the one based on the performance only to the ability to take more responsible jobs.

D the role of managers is changed from supervisors to that of leaders.

E the role of the executives gets changed from mere scorekeepers, interested in achieving allocated targets than anything else, to that of visionary leaders.

F most importantly, management information system gets devised in such a manner that the information has to be captured only once and at the source, allowing no possible scope for missing data or redundancy and ensuring the availability of the data whenever it is needed for decision taking.

**Restructuring of banks**

RBI in consultation with Govt of India set up the Working Group headed by Mr. MS Verma, former Chairman of SBI, to suggest measures for revival of weak Public Sector Banks (PSBs). The group identified following 7 parameters for identification of banks' strength or weakness covering the aspects of solvency, earning capacity and profitability:
The 27 public sector banks have been evaluated by the committee on the basis of the parameters for the years 1997-98 and 1998-99 and have been categorized into five categories:

The group developed a four-dimensional comprehensive restructuring program covering:

(a) Operational restructuring (involving basic changes in the mode of operations, introduction of modern technology, resolution of problem of high non-performing assets and drastic reduction in cost of operations),

(b) Organizational restructuring (aimed at improved governance and enhancement of management involvement and efficiency),

(c) Financial restructuring with conditional recapitalisation and systemic restructuring (providing for legal changes and

(d) Institution building for supporting the restructuring processes. \(^{156}\)

**Conditional recapitalisation**

Further recapitalisation of weak banks should be accompanied by strict conditionality about the manner in which the funds can be deployed and their servicing. The recapitalisation should be under an agreement between the Govt. on the one side and the bank' Board of Directors, management and staff on the other side, laying restructuring goals. Recap is needed for the purpose of removing non-performing assets from their books, technology modernization, VRS cost, capital adequacy etc.

**Emerging Trends in Banking**

**Transparency through disclosures** - From time to time, RBI has enhanced the disclosure standards. The banks are likely to see bank balance sheet more transparent and allowing investors to make more informed judgements. From this year itself, the banks are required to reveal additional information on the maturity pattern of loans, investments, deposits, movements in NPAs and so on. Such disclosure may result in re-rating of banks by the investing public and rating agencies, which may bring additional pressures on their earning capacity.

**Privatisation** - In the 2nd phase of banking reforms, the govt. is in the process to bring its stake in PSBs to below 51%. Privatisation of the PSBs is considered as a solution to providing bank managements more operational autonomy and freeing them from the vigilance authorities. The privatization is likely to result in removal of the paralysis in the decision making caused by the behavior of investigating agencies. The PSBs will have to put in lots of effort in order to bring healthy work-culture, to meet the new expectation of the customers and shareholders.

**Rationalisation and re-sizing the work force** - Banks are likely to take steps in the direction of rationalisation of their work-force either by re-deployment or by offering the exist routes such as voluntary retirement scheme. The poor productivity in PSBs compared with their counterparts in the private sector, is matter of concern for the

\(^{156}\) Report of Working Group on restructuring of weak public sector banks submitted during Sept 1999