CHAPTER- 3

HISTORY OF BANKING IN INDIA AND BRIEF PROFILES OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

3.1 Brief history of banking in India prior to 1969

The Indian banking system has undergone major changes in the past fifty years. Structural, financial and geographical changes have taken place in Indian banking system. The banking activity has now reached the common people. Looking back the history of Indian banking system, it is observed that Indigenous Bank was an old form of Indian banking system.

Money lending operation in India was found in the Vedic period i.e. 2000 to 1400 B.C. In the Buddhist period, ample evidence of the existence of sresthis or bankers has been obtained. They were mainly engaged in lending money to traders, to merchant adventures for going to foreign countries, to explorers to extract valuable materials from forests and to kings for meeting financial difficulties due to war or other reasons against the pledge of movable or immovable property or personal surety.

From the writings of few Muslim historians, European travelers, State records and the Ain-i-Akbari it is reported that under the early Muslim and Mughal rulers in India indigenous bankers played a major part in lending money, financing internal and foreign trade and giving financial assistance to rulers during periods of stress.

The indigenous bankers were usually known as kothiwals, sarafs, shroffs, seths, chettis or mahajans. They varied in their size from petty money-lenders to substantial shroffs who carried on large and specialized business. They used to grant loans against all kinds of securities such as gold, jewellery, land, promissory notes, hundies etc. they also lent against personal credit of the borrowers.

The East India Company established banks on Western lines in India. As a result, banks and Government treasuries were established. Indigenous bankers with reduced resources with a smaller scale of business could not compete with the commercial banks.

In spite of the progress of the join-stock banks, indigenous bankers still carried on a large amount of banking business throughout India. Because, area of work of join-stock banks was restricted to metropolitan areas and important commercial centers. But work of indigenous bankers was still concentrated in rural areas.
The first joint-stock bank under European management in Calcutta known as the ‘Bank of Hindustan’ was established in 1770 by Alexander & Co., one of the leading Agency Houses. This was the first bank to issue notes. This bank went into liquidation in 1832 with the fall of the Agency House of Alexander & Co.

Thereafter, East India Company established three Presidency Banks in India. ‘The Bank of Bengal’, the first of the Presidency Banks was established in 1806 as ‘The Bank of Calcutta’ and received its charter as ‘The Bank of Bengal’ in 1809. Other two Presidency Banks ‘The Bank of Bombay’ and ‘The Bank of Madras’ were established in 1840 and 1843, with a share capital of ₹50 lakh and ₹30 lakh respectively. East India Company contributed ₹3 lakh in each case and obtained the right to appoint some of their directors.

The Imperial Bank of India Act, 1920 was implemented by amalgamating three Presidency Banks into the ‘Imperial Bank of India’ in 1921. It had right to hold government funds and manage the public debt and not to issue currency. The branches of this bank were performing their functions as clearing houses.

It was anticipated that the Imperial Bank should gradually be developed into a full-fledged Central Bank. In fact, it performed certain central banking functions such as banker to Government. But after the establishment of Reserve Bank it ceased to function as a central bank. It functioned purely as a commercial bank.

On the basis of the recommendation of the Hilton Young Commission of 1926, the Reserve Bank of India Act was passed in 1934 to establish a Central Bank in the country as a share-holders’ bank. Reserve Bank of India commenced its operation on 1st April 1935. It was originally constituted as a private shareholders’ bank with a fully paid-up share capital of ₹5 crore. In order to bring integration between its policies and those of Government it was nationalized on 1.1.1949.

Revolutionary changes were found in the Indian banking structure after Second World War. Many banks began to open branches in different places. The banks started investing funds on government securities. But till the time of independence, Indian banking system was not sound even if there were hundreds of small banks under unscrupulous management. In 1949 Banking Regulation Act was passed with a view to restructure commercial banks in India. For the first time, the Act introduced the licensing system for banking business. This Act gave extensive controlling powers to the Reserve Bank of India and the Government over the commercial banks. It had laid down rules and regulations for the opening of banks, their branches and minimum capital required for opening a bank etc.
In 1955, the State Bank of India Act was passed. Rural Credit Survey Committee recommended that the Government should establish a strong state-owned commercial bank which would undertake rapid expansion of banking facilities in rural areas. The State Bank of India (Subsidiary Banks) Act was passed in September 1959, enabling the State Bank of India to take over eight state-owned or state-associated banks as its subsidiaries. The eight subsidiaries of State Bank of India were as follows: (i) The State Bank of Bikaner (ii) The State Bank of Jaipur (iii) The State Bank of Indore (iv) The State Bank of Mysore (v) The State Bank of Patiala (vi) The State Bank of Hyderabad (vii) The State Bank of Saurashtra and (viii) The State Bank of Travancore.

3.2 Nationalization of Indian banks and their progress after nationalization

The banks are viewed as the custodians of savings and considered the powerful institutions to provide credit. They mobilize the resources from all the sections of community by way of deposits and provide them to industries and others by way of granting loans.

Soon after independence, the demand for nationalization of banks in India was raised by some leading members of the Congress party, the socialist and communist parties. The nationalization of the Reserve Bank in 1949 was the first step in this movement. Another important event was the passing of the Banking Regulation Act in 1949. This Act gave extensive controlling powers to the Reserve Bank and the Government over the joint stock banks.

It was observed that the growth of Indian commercial banking was too slow and deficient in many respects. Commercial banks were mainly managed by big business houses. So concentration of wealth and economic powers were in the hands of a few industrialists and monopoly business in banking system was followed. Banks directors were related to big business houses. They utilized banks’ resources by granting of loans to the companies in which they had interests. Thus, the resources of banks were misused.

The lending policy of the commercial banks was highly discriminatory. They did not grant credit for the interest of the nation or for the development of the priority sectors. Their major advances were distributed among large and medium-scale industries and big and established business firms. They did not give attention to the requirements of priority sectors like agriculture, small-scale industries, exports etc. Bank finance was also supplied to some antisocial or undesirable activities like hoarding, black-marketing, speculation etc.

To overcome these deficiencies radical changes were needed in the structure and functioning of commercial banks. In this respect, a new banking policy was initiated by the
Congress Government in 1967, described as the ‘social control of banks’. The concept of ‘social control’ was in fact, introduced by the AICC Resolution on the eve of the Fourth General Elections. ‘Social Control’ of banks was deemed to be a midway between complete social ownership, i.e. nationalization and maintenance of the status quo. According to the AICC Resolution, social control means greater participation of banks under the effective guidance of the State in the mobilization of deposits and allocation of credits to the socially desirable sectors of the economy, which would ensure enlarged material benefits to the nation at large.

Government took several steps to exercise control over banks to make banking more purposeful, more dynamic and more helpful to the common man. These steps are discussed as follows:

A) A National Credit Council (N.C.C) at an all-India level was established in December 1967. It was basically designed as an instrument of credit planning. The National Credit Council consisted of representatives from large, medium and small-scale industries, agriculture, cooperative sector, trade and bankers and professional accountants. The Finance Minister was its Chairman and the Governor of the Reserve Bank was vice-chairman. It started its function from February 1968. The main functions of the N.C.C were:

(i) to assess the demand for bank credit from different sectors of the economy.
(ii) to determine priorities for granting loans and advances for investment, considering the availability of resources and the requirement of the priority sectors, particularly, agriculture, small-scale industry and exports.
(iii) to co-ordinate lending and investment policies as between commercial banks and the specialized agencies with a view to ensuring an optimum and efficient utilization of resources and
(iv) to tackle other related issues as may be referred to it by the chairman or the vice-chairman of the Council.

B) The Banking Laws (Amendment) Act was passed in December 1968 as legislative measure for social control over banks and came into effect from 1.2.1969. Main provisions of this new Act are discussed below:

(i) The majority of directors of a Bank had to consist of persons having special knowledge or practical experience in any of the areas such as accountancy, agriculture and rural economy, banking, co-operative, economics, finance, law, small-scale industries etc.
(ii) Bigger banks had to be managed by whole time chairman possessing special knowledge and practical experience of working in a banking company or in finance, economics or business administration.

(iii) At least two directors had to possess special knowledge and practical experience in respect of agriculture, rural economy and co-operation.

(iv) The banks were also prohibited from making any loans or advances, secured or unsecured to their directors or to any companies in which they had substantial interest.

(v) The Reserve Bank was, however, empowered to appoint, remove or terminate the services of the chairman, any director, the chief executive officer or any other officer or employee of a bank, under specific circumstances.

(vi) All foreign banks were to set up an advisory board consisting of Indians and conduct their lending policies and activities under the guidance of such an advisory board.

(vii) The Government had power to take over any bank in the country, without resorting to legislation, in the interest of depositors and better provision of credit.

C) In order to enlarge the commercial banks’ role in agricultural finance, the Agricultural Finance Corporation Ltd. was set up in 1968.

D) The RBI also introduced changes in the branch expansion policy, as guided by the N.C.C for extending banking facilities to wider areas including rural areas of India.

However, the social control measures were not able to achieve the desired social and economic objectives. Therefore, the Government of India nationalized fourteen major Indian banks each having deposits of ₹ 50 crore and above on 19th July 1969. No foreign banks were taken over. The names of 14 banks taken over by the Government under the Banking Companies (Acquisition & Transfer of Undertakings) Act of 1969 are:

1. The Central Bank of India Ltd.
2. The Bank of India Ltd.
3. The Punjab National Bank Ltd.
4. The Bank of Baroda Ltd.
5. United Commercial Bank Ltd.
6. The Canara Bank Ltd.
7. The Dena Bank Ltd.
8. The United Bank of India Ltd.
9. The Syndicate Bank Ltd.
10. The Union bank of India Ltd.
11. The Allahabad Bank Ltd.
12. The Bank of Maharashtra Ltd.
13. The Indian Bank Ltd.
14. The Indian Overseas Bank Ltd.

On April 15, 1980, Government took over another six private sector banks whose reserves were more than ₹200 crore each. The six banks taken over by the Government under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 are:

1. The Andhra Bank Ltd.
2. Corporation Bank Ltd.
3. The New Bank of India Ltd.
4. The Oriental bank of Commerce Ltd.
5. The Punjab and Sindh Bank Ltd.
6. The Vijaya Bank Ltd.

In 1993, New Bank of India merged with Punjab National Bank. As a result, the total number of public sector banks including SBI and its associates are 27.

3.3 Reasons for Nationalization of Banks:

Bank nationalization in India had to face many criticisms. However, many persons and authorities have given many reasons for the nationalization of major commercial banks.

A) The then Prime Minister, Smt. Indira Gandhi:

According to the opinion of the then P.M, Smt. Indira Gandhi, private sector banks were nationalized (i) to remove control of few; (ii) to provide adequate credit facilities to agriculture, small industry and exports; (iii) to give professional bent to bank management; (iv) to encourage new classes of entrepreneurs and (v) to provide adequate training as well as reasonable terms of service to bank staff

B) Other opinions of protagonists of nationalization:

(i) The Revenue Issue: Nationalization of banks would enable the Government to obtain all the large profits of the banks as its revenue.

(ii) The Safety Issue: Nationalization of banks would safeguard and promote the interests of depositors. As a result, public would deposit their surplus money for investment in banks.
(iii) The Monopoly Issue: All major private banks in India were controlled by one big business house or the other or jointly by a few of them. Consequently, concentration of wealth and economic power was in the hands of a few industrialists. The director of banks had close connections with numerous companies of big business houses and they used to finance the companies in which they had interests. Nationalization of banks was desirable to prevent all such malpractices for the greater highly interest of the society.

(iv) The Use Issue: The huge unlisted money would get the necessary channelization for use effectively for developing the country.

(v) The Credit Issue: Private commercial banks adopted traditional approach in their credit policy which was not conducive to a rapid, balanced development of all the sectors of our economy. Most of the bank credits were granted to industry for financing inventory holdings rather than for its expansion. Nationalization of banks was considered as important matter to allocate bank finance for the needs of Indian economic development or a rational perspective.

(vi) The Priority Issue: Private Banks did not grant bank credit for the purpose of national interest and development of priority sector. Bank credit was not granted to needy farmers or small-scale industrialists or to new entrepreneurs. Thus, nationalization of banks was desirable for the benefit of the priority sector under the schemes of planned economic development of the country.

(vii) Rural Issue: Private sector banks were not interested in opening their branches in semi-urban and rural areas. Their activities were largely confined to urban areas and mostly in metropolitan cities. After nationalization, disparity in the spread of banking facilities would be removed and rural banking would receive a big push through public sector banking.

(viii) The Service Motive Issue: By nationalization commercial banks would change their function from profit motive to service motive in order to achieving the goal of socialism.

(ix) The Equality Issue: After nationalization, wide disparities in the salaries in different commercial banks would be removed. Before nationalization top executives of some private banks received unduly high salaries than their counterparts in the public sector.

(x) The Tax Issue: The All India Bank Employees Association contended that nationalized banks would check the incidence of tax evasion and black money.
3.4 Criticisms against nationalization of banks

Various criticisms against nationalization of banks were also raised by various experts, political leaders and authorities. These were much of confusions about the nationalization of banks as regards effectiveness of fund management, political interference in disbursement of loans, low profitability etc. Some others severely criticized that nationalization of bank would destroy the overall banking business in the country. Because of laxity in government control, banks would not function properly, credit creation and deposit mobilization would be hampered and common people would be unhappy with the nationalized banks for their inefficient work and lack of future growth.

3.5 Banking sector reforms in India and growth of new private sector banks

After nationalization, Indian banking system made considerable progress both functionally and in terms of geographical coverage. Despite a massive rise in deposit mobilization and in extending the credit facilities, public sector banks suffered from low profitability over the years. Several public sector banks (PSBs) and financial institutions became financially weak and some PSBs incurred losses year after year. Low profitability of PSBs in India was generally caused due to two factors- (i) declining interest income and (ii) increasing cost of operation for banks. PSBs had to keep high proportion of their deposits with RBI in Cash Reserve Requirement (CRR) and Statutory Liquidity Requirements (SLR) and earn relatively low rate of interest. Further, they had to allocate a major portion of their deposits to priority sectors under social banking at a lower rate of interest. Even, at least 1% of the total deposits had to be lent to the weaker sections of the community at a low concessional rate of interest of 4% only. As a result, quantum of income earned by them was lower. Above all, the public sector banks were forced by the Government to lend in agriculture and other priority sectors to insolvent parties who were not in a position to repay their dues. Consequently, their loans became doubtful debts commonly known as non-performing assets (NPAs).

Uneconomic branch expansion, heavy recruitment of employees, growing indiscipline and inefficiency of the staff due to trade union activity, low productivity, heavy salary bill etc. caused rise in costs of operation of PSBs. For these reasons, on the one side PSB’s low interest income and on another side, their mounting expenditures, profitability was reduced. Besides these, the major causes for poor profitability were political and administrative interference and control of their working by the Government, poor work culture and general
indifference to customer services and vicious trade union activity which periodically paralyzed the banking system.

In the post-liberalization period, there was an ardent need to bring about structural changes in the Indian banking system so as to make it economically viable and competitively strong. Therefore, Government of India set up a High Level Committee with Mr. M. Narasimham, a former Governor of RBI as chairman to examine all aspects relating to the structures, organizations, functions and procedures of the financial system. Based on the recommendations of the Narasimham Committee, the first phase of Financial Sector Reforms was initiated in 1991. The second phase of Banking Sector Reforms was initiated in 1998.

The main objective of banking sector reforms was to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. As the Indian banking system had become predominantly Government owned by the early 1990s, banking sector reforms essentially took a two-pronged approach. First, the level of competition was gradually increased within the banking system while simultaneously introducing international best practices in prudential regulation and supervision tailored to Indian requirements. In particular, special emphasis was placed on building up the risk management capabilities of Indian banks while measures were initiated to ensure flexibility, operational autonomy and competition in the banking sector. Second, active steps were taken to improve the institutional arrangements including the legal framework and technological system. The supervisory system was revamped in view of the crucial role of supervision in the creation of an efficient banking system.

The Narasimham Committee recommended that the Government should reduce the SLR from the present 38.5% of the net demand and time liabilities of banks to 25% over the next five years. As a result, banks could utilize their funds for allocation to agriculture, industry, trade etc. It also recommended that RBI should rely on open market operations increasingly and reduce its dependence on CRR. The Committee proposed that:
(i) CRR should be progressively reduced from the present high level of 15% to 3 to 5%.
(ii) RBI should pay interest on impounded deposits of banks above the basic minimum at a rate of interest equal to the level of bank’s one year deposits.

The Narasimham Committee recommended that the system of directed credit programmes should be gradually phased out. It also recommended that priority sector should be redefined to include only the weakest sections of the rural community such as small and marginal farmers, the tiny sector of industry, small business and transport operators, village
and cottage industries and rural artisans and other weaker sections. The directed credit programme for this “redefined” priority sector should be fixed at 10% of the aggregate bank credit, subject to taking a review after three years.

Another major element of the Banking Sector Reforms has been the introduction of prudential norms. Reserve Bank of India advised all commercial banks (excluding foreign banks) on November 7, 1985 to introduce the Health Code classification indicating the quality (or health) of individual advances in the following eight categories, with a health code assigned to each borrowal account: 1. Satisfactory 2. Irregular 3. Sick viable 4. Sick-nonviable 5. Advances recalled 6. Suit filed accounts 7. Decreed debts and 8. Bad and Doubtful debts.

Based on the risk-weighted assets of the banks, the prudential norms also prescribe the minimum capital to be maintained. The BIS (Bank for International Settlements) appointed a Committee in 1988 to suggest Capital Adequacy and Risk Management measures for international banks. This Committee is also known as ‘Basel Committee’. Narasimham Committee recommended the adoption of BIS norms on Capital Adequacy for the Indian banks. This Committee observed that the capital adequacy ratios of Indian banks were generally low and some banks were seriously under capitalized. The banks in India should conform to the international standards. These regulations would enhance transparency and accountability in the operations of the banks thereby compelling them to pay greater attention to the quality of lending.

One of the major objectives of banking sector reforms had been to enhance efficiency and productivity through competition. So this Committee recommended that RBI should permit the setting-up capital and other requirements as may be prescribed by the RBI and the maintenance of prudential norms with regard to accounting, provisioning and other aspects of operations. These guidelines are aimed at to ensure that new banks made themselves financially viable and technologically up-to-date from the start. They should start their functions in a professional manner, so as to improve the image of commercial banking system and to win the confidence of the depositing public. New private sector banks such as UTI Bank Ltd. (now Axis Bank Ltd.), HDFC Bank Ltd., IDBI Bank Ltd., ICICI Bank Ltd. etc. started their functions and performed efficiently with public sector banks. There should be no difference in the treatment between public sector banks and private sector banks.

The Committee recommended that the Government should allow foreign banks to open offices in India either as branches or, where the Reserve Bank considered it appropriate, as subsidiaries. They should conform to or fulfill the same or similar social obligations as the Indian banks. Foreign banks and Indian banks should be permitted to set up joint ventures
particularly in regard to merchant and investment banking, leasing and other newer forms of financial services. But for setting up of new private sector banks and new offices of foreign banks in India, existing public sector banks would have to face competition within their industry. Therefore, this would improve profitability and also efficiency of banks.

The most disheartening problem facing commercial banks all over the world recently is the mounting pressure of non-performing assets (NPAs) which are adversely affecting the profitability, liquidity and solvency position of banks and thus posing challenge to their ultimate survival. Since the banking sector reforms, NPAs have become the most critical factor governing the performance of banks. The Committee suggested the Government to take different actions for quick recovery of NPAs.

A Corporate Debt Structuring (CDR) mechanism had been implemented in 2001 to provide a timely and transparent system for restructuring of large corporate debts with the banks and financial institutions.

Indian banking system had been over-regulated and over administered. It was thus recommended that a strong system of supervision was essential for a sound banking system. The supervision should be based on an alert mechanism for monitoring compliance with prudential regulations and directives of the Reserve Bank and other regulatory agencies. RBI set up a Board for Financial Supervision (BFS) in November 1994, as the apex supervisory authority with an Advisory Council under the chairmanship of the Governor to strengthen the supervisory and surveillance system of banks, financial institutions and non-banking financial companies. The CAMEL model is introduced which evaluated banks’ Capital Adequacy, Asset Quality, Management, Earnings and Liquidity. This system covered the mandated aspects of solvency, liquidity and financial/operational health of banks. With the passage of time, financial sector supervision was expected to be based on risk-oriented. So, it was expected that the risk-based supervision (RBS) approach would be more efficient than the traditional approach. By adopting these powers of RBI, the operations and the operating environment of the banking sector would be regulated and supervised.

To facilitate the banking business and to foster the growth of banking habit, two other institutions have been set up. The deposit insurance and credit guarantee corporation of India undertakes the twin functions of extending the insurance cover to the depositors in the banks and protect the interest of banks by providing guarantees in respect of advances granted by them to small scale industries and the priority and neglected sectors of the economy. The Export Credit Guarantee Corporation (ECGC) provides protection to the banks in respect of risks inherent in financing the export trade.
With the setting up and growth of all these institutions, Indian banking and financial system may be claimed to have the first set up comparable to any advanced as shown in the following chart:

**CHART SHOWING INDIAN BANKING SYSTEM**

**CENTRAL BANK & MONETARY AUTHORITY**

- Reserve Bank of India
- Apex Banking Institutions
  - Industrial Development Bank of India
  - Small Industries Development Bank of India
  - NABARD
  - EXIM Bank
  - National Housing Bank

**BANKING INSTITUTIONS**

- Commercial Banks
  - Public Sector Banks
    - Indian Old Banks
    - Foreign New Banks
  - Private Sector Banks
  - Indian New Banks
  - Local Area Banks

- Regional Rural Banks
  - State Bank Group
    - Subsidiary Companies
  - Nationalised Banks
    - Subsidiary Companies

- Co-operative Banks
  - State Co-operative Banks
  - Development Bank
  - Central/District Co-operative Banks
  - Primary Credit Societies
3.6 Brief Profiles of Selected Public Sector Banks (PSBs) in India:

In this section an attempt has been made to highlight in brief the history and background of selected PSBs in India under the study.

3.6.1 History and Background of State Bank of India (SBI)

State Bank of India is the largest state-owned banking and financial services company in India. In addition to the banking services, the Bank through its subsidiaries, provides a wide range of financial services, which include life insurance, merchant banking, mutual funds, credit card, factoring, security trading, pension fund management and primary dealership in the money market.

The Bank operates in four business segments, namely Treasury, Corporate/ Wholesale Banking, Retail Banking and Other Banking Business. The Treasury segment includes the investment portfolio and trading in foreign exchange contracts and derivative contracts. The Corporate/ Wholesale Banking segment comprises the lending activities of Corporate Accounts Group, Mid Corporate Accounts Group and Stressed Assets Management Group. The Retail Banking segment consists of branches in National Banking Group, which primarily includes personal banking activities, including lending activities to corporate customers having banking relations with branches in the National Banking Group.

SBI provides a range of banking products through their vast network of branches in India and overseas, with over 16,000 branches. The bank has 156 overseas offices spread over 32 countries. State Bank of India was incorporated in the year 1955. The Government of India nationalized the Imperial Bank of India in the year 1955, with the Reserve Bank of India taking a 60% stake, and name was changed to State Bank of India. In the year 2001, the SBI Life Insurance Company was started by the Bank. They are the only Bank that have been permitted 74% stake in the insurance business. During the year 2005-06, the bank introduced 'SBI e-tax' an online tax payments facility for direct and indirect tax payment. It also launched the centralized pension processing. As of March 2010, the Bank had 12,496 branches and 21,485 Group ATMs.

3.6.2 History and Background of Punjab National Bank (PNB)

Punjab National Bank is a state-owned commercial bank located in New Delhi. The Bank is one of the Big Four Banks of India. They offer banking products, and also operate credit card and debit card business, bullion business, life and non-life insurance business, and gold coins and asset management business. They are recognized as the Bank offering highest levels of customer satisfaction in Delhi and Chennai.
The Bank has the largest domestic network of 4997 offices, including 46 extension counters among Nationalized Banks. All their branches offer Core/ Centralized Banking Solution (CBS) along with a variety of financial products catering to different market segments. They have international presence in 9 countries, with a branch at Kabul, 2 branches in Hong Kong, representative offices at Almaty, Dubai, Shanghai and Oslo, a wholly owned subsidiary in UK (with 5 branches), and a joint venture with Everest Bank Ltd, Nepal.

Punjab National Bank was nationalized in July 1969 along with 13 other banks. In the year 1986, they acquired Hindustan Commercial, which added Hindustan's 142 branches to the Bank's network.

3.6.3 History and Background of Bank of Baroda (BOB)

Bank of Baroda is one of the leading commercial banks in India. The Bank's solutions includes personal banking, which includes deposits, gen-next services, retail loans, credit cards, debit cards, services and lockers; business banking, which includes deposits, loans and advances, services and lockers; corporate banking, which includes wholesale banking, deposits, loans and advances and services, and international business, which includes non-resident Indian (NRI) services, foreign currency credits, ECB, offshore banking, export finance, import finance, correspondent banking, trade finance and international treasury.

The Bank offers services, such as domestic operations and Forex operations. They also offer rural banking services, which include deposits, priority sector advances, remittance, collection services, pension and lockers. They also offer fee based services such as cash management and remittance services. The Bank is having their head office located at Baroda and their corporate office is located at Mumbai.

Bank of Baroda was incorporated on July 20, 1908 as a private bank with the name The Bank of Baroda Ltd. The Bank was established with a paid up capital of Rs 1 million and was founded by Maharaja Sayajirao III of Baroda. In the year 1910, the Bank opened their first branch in the city of Ahmedabad. In the year 1919, they opened their first branch in Mumbai City. In the year 1953, the Bank opened first international branch at Mombasa, Kenya.

3.6.4 History and Background of Bank of India (BOI)

Bank of India is a state-owned commercial bank with headquarters in Mumbai. The Bank provides a wide range of banking products and financial services to corporate and retail customers. The bank provides specialized services for businesses (dealing in foreign exchange), NRIs, merchant banking, etc. They also have specialized branches that deal in asset recovery, hi-tech agricultural finance, lease finance and treasury, and small scale
industries. The Bank offers products such as mutual funds, venture capital, depository services, bullion trading and credit cards.

The Bank operates in three business segments, namely Treasury Operations, Wholesale Banking Operations and Retail Banking Operations. The Bank is having their presence at 29 locations in 18 countries across four continents. They are having 3101 branches in India spread over all states/union territories including 141 specialized branches. These branches are controlled through 48 zonal offices. Bank of India was incorporated on September 7, 1906 by a group of eminent businessmen from Mumbai. The Bank was started with one office in Mumbai, with a paid-up capital of ₹ 50 lakh. The Bank was the first in India promoted by Indian interests to serve all the communities of India.

3.6.5 History and Background of Canara Bank (CB)

Canara Bank (Canbank) founded as 'Canara Bank Hindu Permanent Fund' in July of the year 1906 at a small port in Mangalore, Karnataka, by late Sri. Ammembal Subba Rao Pai, a philanthropist, this small seed blossomed into a limited company as 'Canara Bank Ltd.' in 1910 and became Canara Bank in 1969 after nationalisation. The Bank has undergone various phases in its growth path over hundred years of its existence. The growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. The Bank has expanded its domestic presence, with 2678 branches spread across all geographical segments. Apart from 111 specialized service branches, the Bank has 195 Extension Counters.

3.6.6 History and Background of Union Bank of India (UBI)

Union Bank of India is one of the largest state-owned banks in India and is listed on the Forbes 2000. The Bank's business segments include Treasury Operations, Retail Banking Operations, Corporate Wholesale Banking and Other Banking Operations. They offer various types of deposits such as savings bank deposits, current deposits, current and savings account (CASA) deposits, and term deposits.

The Bank's advances portfolio includes large corporate advances; micro, small and medium enterprises advances; agriculture advances, and retail advances. Their retail advances include home loan, vehicle loan, education and other retail loans. Union Bank of India was originally incorporated on November 11, 1919 in Mumbai with the name The Union Bank of India Ltd. In July 19, 1969, the Bank was nationalized and the name of the Bank was changed to 'Union Bank of India'. Pursuant to nationalization, the Bank sponsored four regional rural
banks in 1972. In the year 1975, Belgaum Bank Ltd, a private sector bank was amalgamated with the Bank.

3.6.7 History and Background of Central Bank of India (CBI)

Central Bank of India, a public sector banking institution is one of the oldest and largest commercial banks in India. The bank has their branches in 27 States and four Union Territories in India. The Bank's main business is taking deposits, lending money and making investments. They also offer a wide range of general banking services to our customers, including credit cards, debit cards, cash management and remittance services and collection services. Central Bank of India was incorporated on December 21, 1911 as The Central Bank of India Ltd and was founded by Sir Sorabji Pochkhanawala. In May 1, 1929, the Bank incorporated The Central Bank Executor and Trustee Company Ltd (now known as Centbank Financial and Custodial Services Ltd) as a subsidiary of the Bank to undertake the trustee and executor business and act as executors, administrators and trustees and executes private and public trusts, including, religious and charitable trusts.

In the year 1969, the Bank was nationalized along with 13 other major commercial banks and the Bank is currently owned by the Government of India. The Bank was renamed as Central Bank of India. The Bank introduced the credit card in the name 'Centralcard' in the year 1980. In the year 1984, Indo-Zambia Bank Ltd, a joint venture Bank was incorporated under the laws of the Republic of Zambia, which carries out banking activities in Zambia. Central Bank of India was conferred with the 1st Award under National Awards for Excellence in MSE Lending based on their outstanding performance in lending to Micro and Small Enterprises during the year 2007-08. As on March 31, 2010, the Bank has 3577 branches, 34 Satellite offices and 192 Extension Counters. Out of the 3577 branches, there were 1388 rural branches, 898 Semi-urban branches, 683 urban branches and 608 metropolitan branches.

3.6.8 History and Background of Syndicate Bank (SB)

Syndicate Bank is one of the major public sector banks in India. The Bank provides a range of financial products and services to the retail customers, including housing loans, retail trade loans, vehicle loans, consumer loans, education loans, mortgage loans and investment loans. They also offer other services, such as TeleBanking, short messaging service banking and data warehousing.

The Bank delivers their products and services through their extensive branch network, extension counters, ATMs, phone banking and the Internet. As of March 2008, the total branch network of the Bank was 2,169, comprising of 644 rural, 492 semi urban, 508 urban
and 52 metro branches. The Bank has 21 specialised SME branches, 11 extension counters, 9 satellite offices and 1 SB sub office. The Bank also has an overseas bank in London. Syndicate Bank was established in the year 1925 in Udupi, Karnataka by Upendra Ananth Pai, T M A Pai and Varman Kuduva. The business of the Bank was commenced on November 10, 1925 with the name Canara Industrial and Banking Syndicate Ltd. In the year 1928, the Bank opened their first branch at Brahmavar in Dakshina Kannada. In the year 1946, they opened 29 branches in a single day in rural areas.

In the year 1953, the Bank took over the assets and liabilities of two Local Banks, namely Maharashtra Apex Bank Ltd and Southern India Apex Bank Ltd. In the year 1957, they opened their 100th branch at Ilkal in Karnataka. In the year 1962, the Bank entered into foreign exchange business by opening Foreign Exchange Department at Mumbai.

3.6.9 History and Background of Oriental Bank of Commerce (OBC)

Oriental Bank of Commerce (OBC) was started in Lahore, Pakistan in 19th February of the year 1943, made a modest beginning under its Founding Father, Late Rai Bahadur Lala Sohan Lal. OBC is a public sector bank engaging in monetary intermediation of commercial banks, saving banks and discount houses.

In 1947, the Bank had to face the holocaust of partition. Branches in the newly formed Pakistan had closed down and the Registered Office had shifted from Lahore to Amritsar. In the year 1951, the registered office was relocated to Delhi. It was nationalized in April of the year 1980. In the year 1998, the bank had joined hands with Citibank to launch OBC co-branded credit card. OBC had set up special branch and asset recovery branch, one each at Delhi and Mumbai in the year 1999. The Bank had opened specialised branch for women entrepreneurs in the year 2002 and also in the same year OBC made tie up with Corporation Bank to share each other's ATM network. For the purpose of Centralised Banking Solution (CBS, OBC had joined hands with Infosys Technologies Ltd and Wipro Ltd in the year 2003. during the same year 203, the Bank and Small Industries Development Bank of India (SIDBI) had agreed to work on projects in the field of small-scale, infrastructure and service areas.

3.6.10 History and Background of UCO Bank (UCO)

UCO Bank is a commercial bank and a Government of India Undertaking. The Bank offers a host of value added banking solutions to their customers, which includes international banking services, services for NRIs, loan schemes, deposit schemes and value added e-banking solutions. They also possess a host of branches authorized for direct tax collection in India. The Bank has 34 regional offices spread all over India.
UCO Bank head office is located in Kolkata. The Bank has 34 Regional Offices spread all over India. The bank has international presence with four overseas branches in two important financial centers in Singapore and Hong Kong and representative offices at Kuala Lumpur, Malaysia and Guangzhou in China. The bank also has a NRI corner to offer specialized services to its international customers.

UCO Bank was incorporated in the year 1943 as The United Commercial Bank Limited. In July 1969, the Bank was nationalized and 100 per cent ownership was taken over by the Government of India. Thereafter the Bank expanded rapidly. In December 30, 1985 the name of the Bank was changed to UCO Bank. During the year 2001-02, the Bank opened 1 new branch in Pune, and 5 new extension counters.

3.7 Brief Profiles of Selected Private Sector Banks (Pvt.SBs) in India:

In this section an attempt has been made to discuss the history and background of the selected Pvt.SBs in India for the study period.

3.7.1 History and Background of ICICI bank (ICICI)

ICICI Bank Ltd is a major banking and financial services organization in India. The Bank is the second largest bank in India and the largest private sector bank in India by market capitalization. They are a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. The Bank and their subsidiaries offers a wide range of banking and financial services including commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking and treasury products and services. They offer through a variety of delivery channels and through their specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

ICICI Bank Ltd was incorporated in the year 1994 as a part of the ICICI group with the name ICICI Banking Corporation Ltd. The initial equity capital was 75.0% by ICICI and 25.0% by SCICI Ltd, a diversified finance and shipping finance lender of which ICICI owned 19.9% at December 1996. Pursuant to the merger of SCICI into ICICI, ICICI Bank became a wholly-owned subsidiary of ICICI. In September 10, 1999, the name of the Bank was changed from ICICI Banking Corporation Ltd to ICICI Bank Ltd.

3.7.2 History and Background of HDFC bank (HDFC)

HDFC Bank Ltd is a major Indian financial services company based in Mumbai. The Bank is a publicly held banking company engaged in providing a wide range of banking and
financial services including commercial banking and treasury operations. The Bank at present has an enviable network of 1,725 branches spread in 780 cities across India. They also have one overseas branch in Bahrain and two representative offices in UAE and Kenya. The Bank has two subsidiary companies, namely HDFC Securities Ltd and HDB Financial Services Ltd.

The Bank has three primary business segments, namely banking, wholesale banking and treasury. HDFC Bank Ltd was incorporated on August 30, 1994 by Housing Development Finance Corporation Ltd. In the year 1994, Housing Development Finance Corporation Ltd was amongst the first to receive an 'in principle' approval from the Reserve Bank of India to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

3.7.3 History and Background of Axis Bank (AXIS)

AXIS Bank is one of the fastest growing banks in private sector. The Bank operates in four segments, namely treasury, retail banking, corporate/ wholesale banking and other banking business. The treasury operations include investments in sovereign and corporate debt, equity and mutual funds, trading operations, derivative trading and foreign exchange operations on the account, and for customers and central funding.

The Bank's registered office is located at Ahmedabad and their Central Office is located at Mumbai. The Bank has a very wide network of more than 1042 branches (including 56 Service Branches/ CPCs as on June 30, 2010). The Bank has five wholly-owned subsidiaries namely Axis Securities and Sales Ltd, Axis Private Equity Ltd, Axis Trustee Services Ltd, Axis Asset Management Company Ltd and Axis Mutual Fund Trustee Ltd.

Axis Bank was incorporated in the year 1993 with the name UTI Bank Ltd. The Bank was the first private banks to have begun operations after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the specified undertaking of the Unit Trust of India (UTI - I), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and other four PSU insurance companies, i.e. National Insurance Company Ltd, The New India Assurance Company Ltd, The Oriental Insurance Company Ltd and United India Insurance Company Ltd.

3.7.4 History and Background of Federal Bank (Federal)

The Federal Bank Limited (FBL) (the erstwhile Travancore Federal Bank Limited) was incorporated with an authorised capital of rupees five thousand at Nedumpuram, a place near Tiruvalla in Central Travancore in 28th April of the year 1931 under the Travancore
Company's Act. Shri K.P. Hormis founded the Bank. It started business of auction-chitty and other banking transactions connected with agriculture and industry. The bank though successful in the earlier periods, suffered set backs and was on the verge of liquidation. As a largest traditional private sector bank in the country, FBL nurtured for more than seven decades, gaining the reputation of being an agile, technology savvy and customer friendly bank and mostly built wide network of branches, reaching out to cover all the major cities of the country.

The Bank was licensed under Sec. 22 of the Banking Companies Act, 1949 in 11th of July of the year 1959. FBL had floated several kuries one after another. It also introduced several new deposit schemes during the same period. The Bank embarked for a massive take over bids during the year 1964, which accelerated its growth horizontally and vertically. In that process it took over the assets and liabilities of the Chalakudy Public Bank Ltd, The Cochin Union Bank Ltd and The Alleppey Bank Ltd. The St. George Union Bank Ltd was merged with the Bank in the year 1965 and in the year 1968, The Marthandom Commercial Bank Ltd was amalgamated with the FBL.

3.7.5 History and Background of Jammu and Kashmir Bank (J&K)

Jammu And Kashmir Bank Limited (J & K) was incorporated in 1st October of the year 1938 and commenced its business from 4th July of the year 1939 at in Kashmir (India). The Bank was the first in the country as a state owned bank. It offers banking services under the three major divisions as Support services, Depository services and Third party services. Presently, the bank has more than 560 branches under its control to serve the customers across the country. According to the extended Central laws of the state, Jammu & Kashmir Bank was defined as a government of company as per the provision of Indian companies act 1956. In the year 1971, the Bank received the status of scheduled bank. RBI declared it as 'A' Class Bank in the year of 1976.

3.7.6 History and Background of Indusind Bank (Indusind)

Indusind Bank Ltd is one of the new generation private sector banks in India. The Bank's business lines include corporate banking, retail banking, treasury and foreign exchange, investment banking, capital markets, non-resident Indian/high-net-worth individual banking, and information technology. The Bank business divisions include Retail/ Consumer Banking, Consumer Finance, Global Markets Group, Corporate & Commercial Banking, Transaction Banking Group and Investment Banking.

IndusInd Bank Ltd was incorporated in the year 1994 and was promoted by Mr Srichand P Hinduja, a leading Non-Resident Indian businessman and head of the Hinduja
Group. The Bank started their operations with a capital amount of ₹ 1,000 million among which ₹ 600 million was donated by the Indian Residents and ₹ 400 million was raised by the Non-Resident Indians. The company is a pioneer in launching internet Banking. They are rated as one of the Top Performing Banks in various survey reports.

3.7.7 History and Background of ING vysya bank (ING Vys)

ING Vysya Bank Ltd is the prominent Bank in India, formed with the Vysya Bank Ltd, a premier bank in the Indian Private Sector and ING Group, a global financial powerhouse of Dutch origin, in the year 2002. With their core Banking Solution, IT oriented products and focused Retail Banking and Wholesale Banking Services, the Bank aims for sustainable growth to benefit all the stakeholders, clients, employees and society at large.

The Bank was originally incorporated on March 29, 1930 as The Vysya Bank Ltd. In the year 1948, the Bank acquired the status of Scheduled Bank. Since then the Bank has grown in size and stature and has reached the coveted position of number one private sector bank in India. Since then the Bank has grown in size and stature and has carved a distinct identity of being India's Premier Private Sector Bank. Subsequent to acquisition of stake in the Bank by ING Group NV in August 2002, the name of the Bank was changed from Vysya Bank Ltd to ING Vysya Bank Ltd. In the year 1987, the Bank incorporated the Vysya Bank Leasing Ltd for leasing and merchant banking activities along with Karur Vysya Bank Ltd. In the year 1990, they incorporated Vysya Bank Housing Finance Ltd for housing finance activities.

3.7.8 History and Background of Karnataka Bank (K.Bnk)

Karnataka Bank Ltd, a premier private sector bank, is a leading 'A' Class Scheduled Commercial Bank in India. The Bank offers a total value package, a one-stop shop for all the banking needs. They provide Working Capital Finance, Term Loans and Infrastructure Finance to help the Business grow. The Bank operates in four business segments, namely treasury, corporate and wholesale banking, retail banking and other banking operations.

Karnataka Bank Ltd was incorporated on February 18, 1924 as The Karnataka Bank Ltd at Mangalore in Karnataka. The Bank was established to cater to the banking needs of the South Kanara Region. In May 23, 1924, the Bank obtained the certificate to commence business. In April 4, 1966, they received their license to carry on the banking business in India. In September 2010, the Bank launched a new product exclusively for women, i.e. the new saving bank account for women named KBL Vanitah to encourage saving habit among the womenfolk and also to allay the fear of managing their wealth.
3.7.9 History and Background of South India Bank (SIB)

One of the earliest banks in South India, South Indian Bank (SIB) came into being during the Swadeshi movement. It was incorporated on 1st March 1928 by the fulfillment of the dreams of a group of enterprising men who joined together at Thrissur to provide the people a safe, efficient and service oriented repository of savings of the community on one hand and to free the business community from the clutches of greedy money lenders on the other by providing need based credit at reasonable rates of interest. Now the bank accounts about the network of 520 branches, 17 extension counters and 260 ATMs.

3.7.10 History and Background of Karur Vysya Bank (K.Vys)

Karur Vysya Bank is a privately held Indian bank, headquartered in Karur in Tamil Nadu. The company operates in four business segments: treasury operations, corporate/wholesale banking operations, retail banking operations and other banking operations. The company's investments are categorized into three categories, held to maturity, held for trading and available for sale.

Karur Vysya Bank was incorporated on June 22, 1916. The Bank commenced their operations on July 1, 1916 in the aftermath of the First World War, with a view to revive agriculture, trade and industry in and around Karur. In January 17, 1927, they opened their first branch at Dindigul.

In the year 1952, the Bank became a scheduled bank. In the year 1963, Selvavridhi Bank Ltd was amalgamated with the Bank. Also, in the year 1964, Salem Shri Kannika Parameswari Bank Ltd and Pathinengrama Arya Vysya Bank Ltd, Kombai were amalgamated with the Bank. In the year 1965, Coimbatore Bhagyalakshmi Bank Ltd merged with the Bank. In the year 1980, the Bank got the license to deal in foreign currencies and to transact foreign exchange business. They established International Division for forex operations.

The Bank has set up a Disaster Recovery Site (DRS) at Cyber Pearl, Hi-Tech City, Hyderabad. The Bank is ensuring less than 30 minutes old data backup of the Primary Data Centre Databases at this DRS using a Disaster Recovery Automation Solution.