CHAPTER III
SOCIAL ROLE OF BANKS IN INDIA

In this chapter an attempt is made to trace the history of banking in India to identify how banks responded to social responsibility. Stating as economic enterprises concerned with the mobilisation of deposits and lending for profits, banks have evolved into one of the major catalytic agents of socio-economic development of the nation. However, in the aftermath of economic reforms, it seems they have taken a U-turn. Social concerns are relegated to background and more emphasis is laid on profitability, competitive advantage and technology management.

The Three Eras and Three Responses

The history of banking is briefly outlined to find answers to the questions.
(i) When did commercial banks in India assume social responsibilities?
(ii) Why did they accept to play a social role?
(iii) What was their social response?

The historical description is made by classifying the period into three eras viz.
• Commercial era
• Social era
• Competitive era

The SR responses corresponding to these eras are:
• Banking
• Progressive
• Bargaining

Table III.1 presents an overall view of the events in these eras that led banks to accept the different social responsibilities.
Competitive Era: Bargaining Model

In the beginning, banks were concerned with the problem of credibility and stability. They were more Conservative in their approach and tried to justify their economic role to a large extent. The events of major importance are described here:

**Genesis**

Prior to the establishment of RBI in 1935, the financial system in India had dual control of currency by the government and credit by the Imperial Bank. Hilton Young Commission (1925) pointed out the inherent weaknesses of the system.

<table>
<thead>
<tr>
<th>Era</th>
<th>Focus</th>
<th>Events</th>
<th>SR response</th>
<th>Emphasis</th>
<th>Type of banking</th>
<th>Beneficiaries</th>
<th>Role</th>
<th>Process</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial pre-nationalisation (before 1969)</td>
<td>Organisation</td>
<td>1955-SBI was set up</td>
<td>Bargain -ing</td>
<td>Profitability</td>
<td>Class</td>
<td>Industrialists</td>
<td>Commercial</td>
<td>Manual</td>
<td>Confidence in institution</td>
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<td>1962-The Deposit Insurance Scheme</td>
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<td>1965-Credit Authorisation Scheme</td>
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<td>1969-14 banks nationalised</td>
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<td>1970-Lead bank scheme</td>
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<td>1972-DRI Scheme</td>
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<td>1975-Regional Rural Banks setup</td>
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<td>1978-20 point economic programme</td>
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<td>1976-Integrated Rural Development plans</td>
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<td>1983-Self employment scheme</td>
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<td>1986-SETUP</td>
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<td>1989-Service Area Approach</td>
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Table III.1 – Changing Role of Banking
In compliance with the recommendations of the commission, in January 1927, a bill was introduced to establish a Central Bank of India. Later the Central Banking Enquiry Committee made a recommendation in favour of creation of a Central Bank. The recommendation states:

"a Central or Reserve Bank of India shall be created at the earliest possible date to facilitate development of banking facilities in India" (Sekhar, 1982, p.354).\(^1\)

Consequently a bill was introduced and The RBI started functioning from April 1, 1935. After Independence the RBI was nationalised by Govt. of India and from Jan 1, 1949 the RBI started functioning as a state-owned and state controlled Central bank.

**SBI to act as agent of RBI: (1955)**

The Rural Banking Enquiry Committee 1950 made a case for integration of Princely banks. It stated one strong, integrated, state sponsored, statepartnered, commercial banking institution was of the prime need of the country. (Nigam, p.45)\(^2\). The Govt. of India nationalised the Imperial Ban of India, which was established in 1921 by the amalgamation of three presidency banks (Bank of Bengal, Bank of Baroda and Bank of Madras). By State Bank of India Act 1955 and SBI came into existence with effect from July 1, 1955. Later under the purview of State Bank of India. The nationalization of Imperial Bank of India heralded the entry of public sector into commercial banking. This was one of the significant steps taken by the Government of India in the process of public ownership and control of the commanding heights of the national economy and of its strategic sectors in accordance with the Parliament’s mandate of December 1954 for the adoption of a socialistic pattern of society. (Rangaswamy 1985, p.9).\(^3\)
Deposit Insurance Scheme (1961)

In the first two decades after Independence, the commercial banks had grown considerably in stability and strength. The Co-operative movement had made an impressive progress during the same period. However, the failure of Palai Central Bank and many other small banks had shaken the confidence of the public in the banking system. To restore the confidence of the public, the Government of India passed a bill in 1961 'The Deposit Insurance Bill 1961 and brought the corporation into being in 1962'.

Credit Authorisation Scheme (1965)

The growth of the Indian banking system which was inadequate and deficient in many respects with its operational principles biased towards large industry and affluent sections of the society had led to the demand for reorientation of banking system in India. In November 1965, a beginning was made in the direction of bringing credit activities of banks more in alignment with the plan policies in the form of Credit Authorisation Scheme. The scheme directed scheduled banks to secure prior approval of the RBI for granting any fresh credit limit of Rs. One crore or more to any single party or any limit that would raise the total limit sanctioned to such parties by the entire banking system to Rs. One crore or more on secured and/or unsecured basis.

Social Era: Progressive Model

The social era was marked by the introduction of social control and nationalisation. Slowly, there was an increase in the social role. They became progressive assuring social responsibilities for promoting and sustaining social and economic development of nation.

The basic objective of the social control policy was 'to ensure in the immediate future an equitable and purposeful distribution of credit within the resources available keeping in view the relative priorities of development needs'. (RBI. 1967)
The determination of priorities for lending and investment among various sectors of the economy and an adequate followup of these by the banking system is also considered as important. It is with these objectives National Credit Council was set up in February 1968. Consequently on the recommendations of the study groups the concept of priority sector was evolved which included the following:

1. Agriculture
2. Small Scale Industries
3. Road and water transport operators
4. Retail trade and small business
5. Professionals and self-employed
6. Education
7. Exports

The Banking Laws (amendment) which came into force on Feb. 1, 1969 sought to provide for organisational changes in the reconstitution of the Board of Directors to facilitate effective implementation of the scheme.


At the time when social control had not completed even six months of its implementation, the decision to nationalize 14 major commercial banks which had not less than Rs.50 crores was taken. The drastic step was initiated to orient the policies of banks with far more control than was available under social control policy. The limited and selective operations of commercial banks before nationalization were depicted in Tables III.2, and III.3. The growth rates in branches and deposits were considered unsatisfactory from the point of view of the large unbaked areas, untapped rural deposits and canalization of advances to affluent sections of society. Further, 86% of the funds in 1969 were made available to commerce and
industry alone. The backbone of the economy viz., agriculture was neglected.

The broad aims of nationalisation expressed by the then former Prime Minister Smt. India Gandhi were "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 objectives" (RBI, 1970 p.61)\textsuperscript{5}

Later consistent with the policy of achieving social objectives, through another ordinance called "Banking Companies *Acquisition and Transfer of Undertakings) ordinance 1980, six more scheduled commercial banks which had not less than Rs.200 crores of deposits as on March 14, 1980 were also nationalised.

Credit Guarantee Scheme: (1969 & 71)

To promote an increased flow of bank credit to the priority sectors, it was felt necessary to provide some form of insurance cover to banks as the risk of default was bound to high as a result of the shift in favour of unorganised, small and scattered sectors. For this purpose, Credit Guarantee Scheme for small scale industries was introduced in 1969 and Credit Guarantee Corporation of India was established in 1971. Later in July 1978, the Deposit Insurance Corporation took over the Credit Guarantee Corporation and was renamed as "Deposit Insurance and Credit Guarantee Corporation".

Lead Bank Scheme (1970)

The Lead Bank Scheme was introduced by Government of India/RBI towards the close of 1969 with the objective of providing banking services in rural/tribal areas, opening of bank offices in the unbanked and under banked areas, assessing the credit requirement-particularly of the weaker sections of the society and building a system which would be
complementary and supporting the Government's efforts for rapid economic development taking district as a unit. As a result of this, massive branch expansion of banks took place in the country. This has resulted in bringing down the average population per branch from 65000 in June 69 to less than 13000 by Dec. 1987 (Varshneya, 1988 p.6).

Differential Rate of Interest Scheme (DRI) (1972)

The DRI scheme which was implemented with effect from March 25, 1972 was a step in the direction of diverting bank credit to the desired sections or weaker sections of the society. Under the scheme, bank advances are made at 4% and loans are provided for both working capital and term capital for a period not exceeding five years. Instructions are given to banks to route not less than 2/3 advances of under the scheme should be routed through their rural and semi-urban branches. The main objective of this is to help the borrowers to raise their present economic level through a productive endeavour within a period of two years.

Formation of Regional Rural Banks (1975)

On the recommendations of the Banking Commission and working group appointed by the Government of India under the Chairmanship of Sri M. Narasimham, the Regional Rural Bank's ordinance was promulgated by the President on September 26, 1975 to grant loans and advances to small and marginal farmers and agricultural labour, co-operative societies, agricultural processing societies, primary credit societies, farmers service societies, small entrepreneurs and persons of small means engaged in trade, commerce or industry or any other productive activities. Each public sector bank was expected to sponsor a regional rural bank by subscribing to an extent of 35% of its total paid up capital and the balance is shared by Central Govt. with 50% and the respective State Government with 15% of contributions to share capital. The Regional Rural Banks started functioning from October 2, 1975.
III.2 GROWTH INDICATORS OF BANKING IN INDIA DURING 1950 – 69

<table>
<thead>
<tr>
<th>Year (at the end)</th>
<th>No. of Branches</th>
<th>Deposits Rs.</th>
<th>Advances Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>2757</td>
<td>858</td>
<td>460</td>
</tr>
<tr>
<td>1955</td>
<td>2854</td>
<td>1017</td>
<td>623</td>
</tr>
<tr>
<td>1960</td>
<td>4166</td>
<td>1870</td>
<td>1167</td>
</tr>
<tr>
<td>1969</td>
<td>8262</td>
<td>4646</td>
<td>3599</td>
</tr>
</tbody>
</table>

Source: RBI, Statistical Tables relating to Banks, 1969

III.3 PATTERN OF LENDING BY COMMERCIAL BANKS TO DIFFERENT SECTORS DURING 1951-68.

(Figures in percentages)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1951</th>
<th>1956</th>
<th>1961</th>
<th>1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>34.0</td>
<td>37.0</td>
<td>50.8</td>
<td>67.5</td>
</tr>
<tr>
<td>Commerce</td>
<td>36.0</td>
<td>36.5</td>
<td>28.6</td>
<td>19.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.1</td>
<td>2.0</td>
<td>3.0</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Percentages to total advance

20 Point Economic Programme (1975 and 1980)

Another important programme which had a broad coverage of various issues related to development and formed the character for development action had been the 20 point economic programme. Under this programme, adopted by the Government of India in 1975, banks were asked to introduce novel schemes to assist weaker sections of the society. Subsequently, the RBI appointed two study groups in 1980 and in 1982 to look into the modalities of implementation of the priority sector lending and 20 point economic programme by banks.

Integrated Rural Development Programme (IRDP) (1978)

Apart from the notable contribution to the volume of rural credit, the public sector banks were increasingly involving themselves as partners in the process of planning of rural development. On the other hand, the Government both at Central and State levels also introduced several programmes under Removal of Poverty programmes. These include Intensive Agriculture Development Programme (1966), Small Farmers Development Agencies (1969), Drought Prone Areas Programme (1970), Food for Work Programme (1977) etc. In April 1978, an Integrated Rural Development programme was started covering many of the above schemes (Tripathi, 1958). The main objective of this programme is to take the poorest of the poor families (each with an annual income of less than Rs.3500/- from all sources) above the poverty line and creating substantial additional opportunities for employment in rural areas.

Self-employment Scheme (1983)

This scheme was introduced in 1983, to provide every year credit facilities to 2.5 lakh educated unemployed in the age group of 18-35 who are Matriculates (or its equivalent) and above except in cities with more than one million population as per 1981 census. The credit facility extended is by way of composite loan not exceeding Rs.25000 to an eligible entrepreneur and the loan component is repayable in three to
seven years depending on the nature and profitability of venture with a moratorium of six to eighteen months. The composite loan is given at a concessional interest of 10% in backward areas and 12% in other areas.

**Self-Employment Programme for Urban Poor (SEPUP) (1986)**

In Sept. 1986, the Government of India introduced a new poverty alleviation scheme for urban poor called Self Employment Programme for Urban Poor. It covers all cities and towns with a total population exceeding 10,000 and not covered by IDRP. An assistance of not exceeding Rs.5000 with a subsidy of 25% of the loan with lower interest rate is granted. The loan is granted to one beneficiary for every 300 population.

**Service Area Approach (1989)**

The service area approach was the most important policy initiative taken after 1969 to improve the credit delivery system in India, thereby enabling bank branches to operate effectively as instruments of rural development. The service area approach has five important aspects such as:

i) Identification and allocation of service area for each branch of the bank.

ii) Survey of villages for assessing the potential for lending activities

iii) Preparation of credit plan on annual basis for the service area by each branch

iv) Co-ordination between credit institution and field level development agencies on the other

v) System of continuous monitoring of progress in the implementation of plans (Ammanayya. 1990, p.19).
POST NATIONALISATION PERFORMANCE:

The Post-Nationalisation of commercial banks is shown in the Table III.4 and III.5. According to these tables, these has been a tremendous growth in terms of branches, deposits and advances. The number of bank branches increased from 8262 in 1969 to 65294 by 2000. The deposits of banks also registered an enormous growth over the years. The deposits which were Rs.4646 crores in 1969 rose to Rs.742094 crores by 2000. The advances during the same period also went up considerably. The sector wise analysis also indicate a drastic change. The amounts outstanding to agriculture, industry and others also showed improvements. The outstanding amount to agriculture which was Rs.1071 crores in 1975 rose to Rs.43568 crores by 2000. The advances to industry have also improved considerably.
III.4 GROWTH INDICATORS OF BANKING IN INDIA AFTER NATIONALISATION
(RS. IN CRORES)

<table>
<thead>
<tr>
<th>Year (at the end)</th>
<th>No. of Branches</th>
<th>Deposits Rs.</th>
<th>Advances Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>8262</td>
<td>4646</td>
<td>3599</td>
</tr>
<tr>
<td>1991</td>
<td>60220</td>
<td>201199</td>
<td>121865</td>
</tr>
<tr>
<td>1995</td>
<td>62367</td>
<td>386859</td>
<td>211560</td>
</tr>
<tr>
<td>2000</td>
<td>65294</td>
<td>742094</td>
<td>395811</td>
</tr>
</tbody>
</table>

Source: RBI, Statistical Tables relating to Banks.

III.5 PATTERN OF LENDING BY COMMERCIAL BANKS AFTER NATIONALISATION
(Rs. In crores outstanding)

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1071</td>
<td>16626</td>
<td>24948</td>
<td>43568</td>
</tr>
<tr>
<td>Industry</td>
<td>5777</td>
<td>50846</td>
<td>96211</td>
<td>213779</td>
</tr>
<tr>
<td>Others</td>
<td>3167</td>
<td>36840</td>
<td>89780</td>
<td>202644</td>
</tr>
<tr>
<td>Total</td>
<td>10015</td>
<td>104312</td>
<td>210939</td>
<td>460081</td>
</tr>
</tbody>
</table>

Source: RBI, Statistical Tables relating to Banks.
Indian economic policy has been put on a new trajectory since the middle of 1991. The new trajectory reverses the contents and drifts of a number of economic policies of the earlier period. The rationale of the U-turn in the new economic policies is that the old set of policies had landed the economy in a syndrome of crises in balance of payments, exchange rate management, fiscal and monetary policies and domestic resources allocation pattern. The most visible sign of the country's economic crisis was its extremely low foreign exchange reserves of Rs.2400 crores which was reached in early 1991. The reserves were just enough to buy from abroad only three weeks requirements. The situation became even more precarious when international agencies lowered the country's credit rating. Another significant crisis which forced the Govt. to initiate drastic changes in the economic policies was increase in the burden of national debt which exceeded 60% of GNP by 1991. The Banking system had a significant proportion of unviable and bogus assets and the monetary system had become subservient to the direct and indirect consequences of large and growing fiscal deficits. These events along with other economic and non-economic activities have forced the Government to go for a drastic change in the economic policies to introduce revolutionary changes in the fields of agriculture, industry, trade and service sectors.

The New Economic Policy:

The new economic policy has four important features viz., a) Liberalisation b) privatisation c) globalisation and d) stabilisation. The new economic policy provides freedom to the entrepreneur to enter any industry, produce any product and earn any amount of money through liberalisation process. Privatisation implies giving market orientation make the economy to be guided by the phrases like 'core competencies', 'competitive edge', and 'customer satisfaction'. Giving global thrust is yet another aspect of the new economic policy through the Indian economy is made open to the challenges of global markets. Stabilisation efforts to
concentrate on bringing down the price level to a single digit level, reducing fiscal deficit, avoiding wasteful expenditure and to improve productivity.

The objectives of self-reliance, growth and social justice were put to severe test with the economy being spurt in the securities scam and other irregularities which took place in the financial sector. There is also a pressing need for correcting the irregularities in the financial system and also to make the operations of the financial services industry to run on the lines of prudential regulation with autonomy and flexibility of operations.

Indian banks can not be complacent hereafter. They have to face competition from within and without. There are four clear segments that can be witnessed in the banking industry. They are:

a) Public sector banks with massive branch expansion and huge fund base.
b) Old private sector banks with many branches and reasonable existing business base.
c) Technology drive new generation private banks wanting to develop niche markets
d) Foreign banks with their own clientele bases.

Table III.4 presents the competitive structure

<table>
<thead>
<tr>
<th>Type</th>
<th>Banks</th>
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</thead>
<tbody>
<tr>
<td>Public sector banks</td>
<td>SBI, Andhra Bank, Syndicate Bank</td>
</tr>
<tr>
<td>Old private sector banks</td>
<td>Vysya Bank, Bank of Madhura</td>
</tr>
<tr>
<td>Technology driven new bank</td>
<td>ICICI Bank, Global Trust Bank</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>Citi Bank, Grindlays Banks</td>
</tr>
</tbody>
</table>
New approach to Banking

The technology driven, competitive situation requires a reorientation of philosophies and practices on the part of Indian banking industry. The approaches and major concerns are as outlined in Table II.5 and Figure III.

Table III.7 Approaches and Concerns of Banking Industry

<table>
<thead>
<tr>
<th>Approach</th>
<th>Focus</th>
<th>Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudent banking</td>
<td>Organisation</td>
<td>Improve productivity  Improve profitability</td>
</tr>
<tr>
<td>Strategic banking</td>
<td>Industry</td>
<td>Secure competitive strength</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gain competitive edge in performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acquire creative intelligence</td>
</tr>
<tr>
<td>Social banking</td>
<td>Society</td>
<td>Improve customer satisfaction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Serve different stakeholder groups.</td>
</tr>
</tbody>
</table>

Prudent Banking

To withstand the competition banks have to be more rational, cautious and calculative in their approach. They have to ensure that their foundation remains sound and that the desire to grow fast and play same league as their competitors, does not, in the least, detract their attention from principles of sound and prudent banking. Towards this, Narasimham committee (1981 and 1998) recommended the following.


The financial system of the Indian economy has been thoroughly revisited and a number of recommendations made to strengthen the financial system of the country by the Narasimham committee Reports I & II which were submitted on November 16, 1991 and April 23, 1998 respectively. A summary of the recommendations given can be presented here. 13

❖ Reputed banks may enhance capital through public issues
❖ No bar on new private sector banks
❖ Liberal policy towards foreign banks
Four-tier banking structure
Abolition of dual control
Depoliticisation of chief executives’ appointments
Lower SLR to 25 percent
Phasing out of concessional interest rates
New system for provision of debts
Transparent balance sheets
Special tribunals for recovery of dues
Scrapping of branch licensing
No further nationalisation of banks
RBI should be more liberal in allowing foreign banks to open branches.

The second report which was submitted in 1998 covered the following aspects.¹⁴

1) Banking reforms which were already being taken up in the areas of improving the productivity, efficiency and profitability of the banking system on the one hand and providing it greater operational flexibility and functional autonomy on the other. Several policy measures like asset classification criteria, transparency of the balance sheets, income recognition measures, reduction of SLR and CRR were reviewed.

2) The committee also made a note of changes that took place in the macro environment resulting in reduction of fiscal deficits, subsidence of inflationary pressures etc.

3) The committee has taken a strong view of strengthening the financial system by drastically reducing the overall proportion of net NPA’s to the total portfolio of the financial system.

4) The committee made an account for institutional strengthening for the reduction of NPA’s in the form of creation of Asset Reconstruction Fund. Action on strengthening the foundations of providing services in the areas of mutual funds, securities trading and factoring was also initiated.
5) Having recognised the international phenomena of mergers in the banking industry, the committee also favoured the merger of weak banks with strong banks to facilitate the rehabilitation of weak banks.

6) The committee having witnessed the modern banking trends in the world in the fields of informational technology and instant electronic funds transfer systems also initiated its recommendations in this direction. The entry of new private sector banks, more foreign banks have created competitive environment for the existing banks to adopt newer technology and to provide innovative and creative services.

7) One of the more significant recommendations aimed at improving the flexibility and autonomy of banks was that relating to the depoliticisation of appointments to the boards of banks and of their chairmen. A high degree of professionalism needs to be introduced as much at the board level as in management.

8) Another major issue for consideration is that related to the arrangements for regulation and supervision. Regulation should appropriately be concerned with the formulation of policy with regard to prudential norms, capital adequacy etc., while the function of supervision should be regarded as the instrumentality for ensuring that the regulatory norms are compiled with.

Banking Sector Reforms – An evaluation:

Indian banks are looking up today towards operational efficiency, improved productivity, profitability with the reforms being implemented in the banking sector by the Central Government and RBI. The reforms in the banking sector have already been completed in the first phase and entered into the second phase. The first phase of reforms improved the financial health of the banking system and progress is quite impressive in creating the necessary base for sound and vibrant banking system. A similar view has been expressed by many economists, academicians and bankers. According to D. Mishra, the reforms have not only taken firm roots, but also yielded significant results. The reforms will continue to
strengthen the banking system and promote competitive efficiency. The major areas of reforms introduced in the banking sector can be explained as under:

a) Prudential Accounting norms:

The RBI first undertook to clean up the banks' balance sheets. Emphasis was laid on transparency and disclosure keep in in view accepted international accounting standards. Effective from 1992-93 the banks were directed to took the income on advances based on record of recovery. Now an asset is treated as "Non-performing asset" (NPA) as and when interest is overdue for at least six months. Based on the status of an asset as NPA, it is required to be classified as standard, substandard, doubtful and loss assets and appropriate provisions to be made. A doubtful asset has been defined as one which has remained as NPA for a period exceeding 2 years and provisions are required at 100% of the unsecured portion and 20% to 50% in respect of secured portion over a period of 3 years. The period for reckoning a NPA as doubtful would get shortened to 18 months by March 31, 2001. Banks are required to write off the entire loss assets or make 100% provision therefor. Banks are required to create provisions on Government guaranteed NPA's from April 1, 2000. A general provision of 0.25% on standard assets has to be made for the year ending March 31, 2000. The new standards have focussed banks' attention to issues of credit risk and loan recovery.

b) Capital adequacy norms:

The clean up process of the balance sheet was accompanied by strengthening of their capital base through introduction of Capital Adequacy Norms (CAN). The RBI prescribed capital adequacy norms in line with Basle committee's recommendations. The size of the balance sheet is no more important unless it is adequately supported by capital. Again the two banks with the same size are required to
compute the capital requirement depending upon the higher or lower risk of their assets portfolio. For this purpose the capital is divided into 2 tiers and risk weights are given to each of the items of the assets. Tier-1 consists of Core capital and Tier-2 consists of supplementary capital. The banking companies (Acquisition and Transfer of undertakings) acts were amended to enable the strong public sector banks to access capital market. The strong banks and weak banks were identified with the help of performance indicators which cover key areas viz., performance parameters, management, capital and customer service. A minimum target of 9% CRAR to be achieved by the year 2000. The target should be raised to 10% for the year 2002.

c) Reduction of SLR and CRR:

A major plank of financial sector reforms in the objective of reduction of reserve requirements, both SLR and CRR to 25% and 10% of the net demand and time liabilities of banks in the coming years. Concomitant with phased reduction of reserve requirements, the RBI has pursued a policy of market related interest rates on Government Securities. This has thrown open new vistas in investment management of the banks. The asset pattern of banks is bound to undergo a change and would be influenced by risk-reward perception of individual banks. In the new environment the banks have to give serious thought to yield on securities and all the more to the emerging market risks.

d) Deregulation of lending rate:

Deregulation of lending rate is a progressive step taken by RBI. Lending rate for credit limit above Rs.2 lakhs were freed from regulation. Each bank is free to fix its Prime Lending Rate (PLR), but they have to apply PLR uniformly in all its branches depending on the credit standing, risk perception with regard to the borrowers. The
deregulation of lending rates will stimulate healthy competition among banks and spur competitive efficiency.

e) Credit delivery system:

Several measures have been initiated to boost the credit delivery system of banks. The norms for bank lending for working capital have been revised under which banks are free to decide the level of inventory holding and receivables. Banks can organise syndication of credit in respect of prime borrowers. Banks can now undertake para-banking activities like equipment leasing, hire-purchase finance, factoring services. Other steps in this direction are introduction of agricultural cash credit system, enhancement of limit for housing loans, imparting flexibility in margin in respect of loan against deposits.

f) Debt Recovery Tribunal:

Loan Recovery rate in respect of banks in India has been low and it effects their profitability. In this context "Recovery of Debts due to banks and Financial Institutions Act, 1993" was passed in Parliament to facilitate expeditious adjudication of recovery of loans due to banks and financial institutions. The Act is applicable to debt amounts of Rs.10 lakh and above. The tribunals will deal with applications within six months and cut down delay significantly. Few special Debt Recovery Tribunals were set up with an appellate tribunal set up at Bombay. The Tribunals would assist banks to reduce their NPA level and improve recycling of funds.

g) Disclosure of defaulting borrower:

The RBI formulated a scheme for disclosure of information in respect of defaulting borrowers of banks and financial institutions with balance outstanding of Rs. One crore and above from the banking system. A list of suit-filed accounts with outstanding of Rs. One crore will be made public on an annual basis, for the information of banks.
financial institutions. The objective of this scheme is to alert the bankers at the time of sanction and renewal of credit and to improve the recovery climate.

h) Supervision of Banks:

The banking system in our country is subjected to inspection under Sec.35 of the Banking Regulation Act 1949. On the recommendations of the Narasimham Committee, a Board of Financial Supervision has been set up under the aegis of the Reserve Bank with the Governor as the Chairman and the Deputy Governor as the Vice-Chairman. A separate department viz., Department of Supervision has been set up in Dec. 1993 to assist the Board. The Advisory Council of the Board includes persons of eminence and excellence in the public field. The Board has also laid considerable emphasis on the need to tone up the internal control systems. The banks have been advised by the RBI to constitute an Audit Committee of Board to ensure efficacious and timely follow up of bank's internal/audit reports.

i) Banking Ombudsman scheme:

The RBI announced the Banking Ombudsman Scheme 1995 with an objective to ensure expeditious and inexpensive resolution of customer complaints other than credit. If a customer's grievances are not resolved to his satisfaction by the bank within a time limit of two months, he could approach the bank within a time limit of two months, he could approach the Banking Ombudsman for redressal. To begin with three such Ombudsman have been appointed in Bombay, New Delhi and Bhopal.

j) New private sector banks:

With an objective to inculcate competitive efficiency in the banking system, entry of private sector banks with a minimum start-up capital of Rs.100 crore with promoter's contribution of 25% thereof has been
allowed by the RBI. UTI Bank Ltd., became the first private sector bank to be set up under the new guidelines, followed by five other banks. Emphasis is laid on the fact that these banks will be professionally managed so as to make them financially viable a right from their inception.

The thrust on productivity and profitability has been evident in the measures taken by banks to reduce staff size, and improve output indicators like deposit per employee, advances per employee, business per employee etc. The Verma Committee recommended voluntary retirement scheme (VRS) for atleast 25% of the staff as well as freeze on wage hike atleast for 5 years.

Strategic Banking

Liberalisation and globalisation policies required open system approach. Changes like convertibility of the rupee, market determined exchange rate system etc. pose new challenges.

Better risk management and new work culture are necessary. The emergent situation calls for an aggression laced with caution which require ability to identify, anticipate, manage and mitigate risks that are well known today as also those that will appear tomorrow. An altogether new work culture with the domination of IT products at work environment, concern for relationships instant transactions at global level become necessary. The three tasks of banking in this era are.

(a) Managing competition

It refers to acquiring competitive size and launching competitive measures. Competition is possible only among equals. As foreign banks are relatively large in size the challenge before the Indian banks is to acquire a competitive size. Mergers and acquisitions provide a quick step forward in this direction.
In the wake of changing client expectations and behaviour as well as emerging challenges, commercial banks will require to change the way they have been looking at product offerings, pricing, and delivery of services. For instance, the following measures seem to be the order of the day.

- Introduction of technology driven product lines
- changing from cost plus basis to seeking remuneration for value addition.

(b) **Technology management**

The enormous challenges in this new era can be met effectively only when the banking institutions also make knowledge an engine for growth. One may find knowledge management is concerned about.

♦ Creating new information by research and
♦ Managing existing information in people, process and physical resources.

Technological upgradation is a sine qua non for banking sector reforms, particularly to achieve better customer service, internal control, house-keeping and augmenting productivity and profitability. Concerted efforts have been made to achieve bank mechanisation and computerization both at macro and micro level on the lines recommended by Dr.Rangarajan committee. The committee on Technology issues relating to payment system, cheque clearing and securities settlement in the banking industry (Saraf committee) also make far reaching recommendations. In addition to these, a committee on Technology Upgradation in Banking sector was constituted with representation from the Government, RBI, Banks & Academic institutions connected with information technology. The Indian Financial Network (INFINET), a wide area satellite based Network using VSAT technology being jointly set up
by RBI and institute for development and research in banking technology at Hyderabad in June 1999. The RBI in co-ordination with Indian Bank's Association, banks and other sectors of the financial system is proactively dealing with the year 2000 problem. For this purpose a high level working group with members from banking, regulatory, supervisory and information technology departments of the RBI, representatives of IBA, commercial banks and the National Institute of Bank Management has been constituted.

Recent trends in banking in India:

The present scene of banking industry received a face lift with constitution of three important committees which can be summarised as under:17

a) Narasimham committee deserves mention in that as it was instrumental in forcing Indian banks to become globally competitive. It suggested measures like capital adequacy norms, income recognition, asset classification, entry of private sector banks etc., with more focussed private sector banks making a pitch for corporate accounts through better servicing public sector banks felt the first heat of competition.

b) The Khan committee was highly important in that it recommended the setting up of universal banks. Preference was given to financial institutions which could provide a whole range of corporate financial solutions under one roof, which could include term lending, working capital finance, project advisory services etc.

c) Verma Committee which recommended Voluntary Retirement Scheme in Banking Industry.

The changes that took place in Banking Industry in India.
1) Shift to universal banking:
The latest trend the world over is the move towards universal banking. There are instances like Deutsche Bank, Citi bank which provide a complete range of services under one roof. ICICI has emerged as the first financial institution in India which has made an attempt to convert itself into a truly universal bank. And it has skilfully exploited the mergers route to reach this end. The merger of ITC classic finance provided with a huge deposit base in the East while the merger of Anagram Finance provided ICICI with a huge retail network in the west. Another such move was the reverse merger of Centurion Bank into 20th Century Finance.

2) Enter Internet Banking:
The Internet facility has given another facelift to the banking services all over the world. It is estimated that by the year 2002 over 6 million customers will be banking via the Internet. There are a variety of ways that the Internet is going to affect the paradigm of banking industry in the future. India has just about made to the first transition from physical cash to anytime money and anywhere money. Even this trend is more pronounced among foreign banks operating in India and private sector banks. The public sector banks are still behind the technology race. Some private sector banks like ICICI bank are entering the realm of internet banking while other foreign banks are ready to join the race.

3) Anytime and Anywhere banking:
The networking of computerised branches enables customers to operate their account through any branch of the bank once they become the account holder of any branch. The introduction of Automated Teller Machines facilitates enable customers to transact with the bank anytime of the day all through the 24 hours. At present ATM's are city-oriented in our country. Gradually the facility of ATM's are likely to be introduced in other parts of the country also.
4) Relationship Banking:
Because of power of the central computers it is now possible to access the entire chain of accounts for a customer. These accounts may be current/savings/fixed deposit type or mutual funds or credit cards or loan accounts etc. This helps to identify the larger customer segments and design product mix strategies to benefit both the bank and the customer. Hence the technology has now become the market differentiated and is clearly used as a competitive edge.

5) Smart Cards Technology:
The Smart Card technology is a relative new comer to the retail payment scene. A smart card has an integrated circuit with a microprocessor chip embedded in it, which gives it enormous versatility. It could perform calculations, maintain records, acts as an electronic purse storing electronic money. It is essentially a chip or a memory card. A project called SMARS (Smart Rupees System) was undertaken by Indian Institute of Technology, Powai, the Institute for Development and Research in Banking Technology, Hyderabad, hardware and Software vendors and two commercial banks (State Bank of India and Canara Bank) have worked in concert as partners. The RBI has involved itself in the project to encourage market participants to develop a common technical infrastructure with a view to promoting the inter-operability of competing card schemes as well as to encourage wider acceptability of this sophisticated retail payment mode. The success of the smart card projections depends on the efficiency of the inter-institutional clearing and settlement arrangements associated with the product.

6) Pushpa system:
The Saraf Committee on Upgradation of Technology in the payment system had given some leads to the banks on the new services which can be introduced. One of its suggestions pertains to the payment
mode for the utilities and services. PUSHPA system (Paying Utilities, Hasslefree payment system) is designed to simplify the bill payment for everybody i.e., customers, utility companies and banks. This system can be used for payment of electricity bills, insurance premiums, municipal taxes, vehicle taxes, school/college fees etc. It gets ready data file of paid cases from the clearinghouse. With the changes in technology the time has come for saying no to cash and yes to pushpa system which is user friendly to all the groups. This system has to make a real beginning in the country.

Reforms in Banking Sector-Turn-round in Banking performance:

Although the aim of the reforms initiated in 1991 was to improve profitability through operational efficiency, financial restructuring had more influence on the performance of public sector banks. On the one hand was the credit boom which led to indiscriminate lending, resulting in higher bad debts. On the other hand, were the tighter income recognition, asset classification, and capital adequacy norms. Both had squeezed the margins of the public sector banks during 1992 and 1995. Also during the period of 1994-96, Non-Banking Financial Companies ate up a large share of the Indian Banking System's profit pie. Not much improvement could be done on the NPA's front. During 1995-96, the industrial slowdown had affected the lending activity, which was further lowered due to reduced investments. Borrowing reduce on one hand, and due to high NPAs the banks curbed their lending. With more funds at their disposal, banks resorted to investing more in Government and other approved securities. The fall in credit was balanced by the rise in investments. After all the ups and downs, it was only in 1996-97, that the banks could actually reduce their expenditure under provisions and contingencies. From the year the prudential norms were implemented, the profitability of the public sector banks has definitely improved. for the period ending 1995-96. From 1995-96, the performance of the public sector banks tell a different story. The public sector banks made a headway in recovering the NPA's. As per the
guidelines issued by RBI, the public sector banks have recovered a sum of Rs.2192 crores in respect of 5.23 lakh accounts as on March 31, 2001. Most of the banks seem to have recovered from the post-reforms downturn and found their path of growth. The private sector banks and foreign banks have fared well with increase in their profits in the post reforms period. There are 3 remarkable turnaround cases which are witnessed after the introduction of reforms:

1) Some of the banks never made losses even once after liberalisation and their profits grew at a faster rate when some of the banks turned around.

2) Another set of banks have been continuously posting losses at least for the last three years.

3) The banks whose bottom lines were in red, but are now reporting profits. These banks have turned around in the real sense.

Based on trends in performance, the banks can be classified into the following:

1) Banks that never made losses (even since before reforms)

2) Banks still making losses:
   Indian Bank, UCO Bank and United Bank of India.

3) Banks that turned around
Strategies adopted by public sector banks:

The reforms have changed the objectives of the public sector banks from social banking to more of commercial banking. In the long run the Indian banking system is likely to move towards the international banking norms. Some of the strategies which were adopted by public sector banks in the wake of reforms are as under:

1) In order to reduce the NPA's the banks primarily cut down their lending to industries. Irrecoverable advances to priority sectors were written off to a large extent.

2) Banks consolidated and cleaned up their asset portfolio. Importance is now given to the components of the loan portfolios, where stringent evaluation is taken up. Segregation of these portfolios into good and bad loans, have given a better insight into the performance of public sector banks.

3) S.S. Tarapore, the then Deputy Governor of RBI advocated the concept of narrow banking and cautioned that weak banks should not indulge in aggressive credit expansion. The banks followed the advise and made cautious credit expansion.

4) The banks focussed on improving other income from other activities. The charges on bills, drafts, savings accounts, current account, letters of credit was raised, thus raising the revenues

Challenges for banking industry:

The process of globalisation of Indian economy has become irreversible and will be further intensified in future. In such an environment, Indian commercial banks will have to equip themselves to meet the challenges of competition from within the country as well as from outside. And as they proceed to do this, they have to ensure that their foundation remains sound and that the desire to grow fast and play in the same league as their competitors, does not, in the least, detract, their attention from principles of sound and prudent banking. Some of the
major challenges that the banking industry is likely to face can be summarised as under.¹⁹

a) Competition from Global majors:
Indian commercial banks need to possess matching financial muscle as far competition is possible only among equals. In the days of ongoing revolution in information and communication technology, the challenges before the Indian banks is therefore to acquire a competitive size. Mergers and Acquisitions provide a quick step forward in this direction offering opportunities to share synergies and to reduce the cost of product development and delivery. Mergers, amongst banks will no more be a rare phenomena but a common business process.

b) Threats from new banks:
The entry of new private sector banks as in the case of other countries also resulted in a paradigm shift in the ways of banking in India. Equipped with latest technology, and technologically driven product lines, these have aroused customer's expectations very high. The market has changed drastically in that it has become largely customer centric. This situation calls for an aggression laced with caution, which involve a highly efficient management by banks of both liabilities and assets. The corner stone of such a management will be the ability to identify, anticipate, manage and mitigate risks that are well known today as also those that will appear in relation to the products of tomorrow.

c) Qualitative Change:
In the wake of changing client expectations and behaviour as well as emerging challenges, commercial banks will require to change the way they have been looking at product pricing and management of their profits. a major shift in the pricing policy is taking place as this is
bound to continues the present cost plus basis of pricing is change to seeking remuneration for value additions.

d) Satisfaction of all the segments:
A very importance challenge before the commercial banks in India will be to manage the different segments of the economy. They cannot afford to ignore any one of these or prefer to serve few of these at the expense of others. In a country as vast as India, the banking services need to keep in view the requirements of the Swadeshi groups and also to focus their attention on globalisation efforts which requires a balancing effort.

e) Self-regulation by banks:
In the liberalised milieu, regulation and self-regulation will go hand in hand. An effective self-regulatory organisation for the banking industry to monitor activities of the members, lay down the ground rules and settle disputes among members amicably is a logical development.

f) Technological banking:
Today, there are four clear segments that can be witnessed in the banking industry. They are:

a) Public sector banks with massive branch expansion and huge fund base.
b) Old private sector banks with many branches and reasonable existing business base.
c) Technology driven new generation private banks wanting to develop niche markets.
d) Foreign banks with their own clientele bases for all banks, repositioning for competitive advantage in the rapidly changing market place will call for large investments in information technology and communication networks. The RBI has set up an exclusive apex Institute for Development Research in
Banking Technology and the SBI too had set up its own institute in information technology.

g) Productivity concern:
Productivity holds the key for growth of Indian Banking in the next millennium. It is nothing but a ratio of output to input. The output indicators in banking industry can be deposits per employee, advances per employee, business per employee’s etc.

h) Changing workforce:
During 1960-1980’s Indian banks went in for massive recruitment at various cadres due to vast expansion in retail banking. Technological advancements and the reforms spelt out above towards the end of the century have driven the banks to caution because numbers have become irrelevant. The decade of the 1990’s have seen competitive staff welfare measures and enhanced pay packets in the public sector. From the year 2003, it is estimated that over 15,000 employees would join the list of pensioners. The challenges in the next millennium for the banking industry are therefore enormous and can be met effectively only when the banking institutions also make knowledge as engine for growth. One may find knowledge management is concerned about

- Managing information - explicit/recorded knowledge
- Managing process - embedded knowledge
- Managing people - tacit knowledge
- Managing assets - intellectual capital

In addition to the above challenges, the banking industry is also subjected to face the challenges posed by other changes which are taking place in the economy viz., convertibility of the rupee, market determined exchange rate mechanisms, etc., An altogether new work culture is to emerge in the new millennium in the banking industry.
Suggestions to make banking set up more efficient and effective:

a. A level playing field for public sector and private banks. This is required before banks can compete successfully because public sector banks have a disadvantage of a past where they built up a warped portfolio while private banks have started from scratch and have the experiences of public sector banks to fall back on. Also, public sector banks must not be the only ones burdened with the constraints of priority sector lending, etc. At the same time, private banks must not be saddled with too many impediments by virtue of being out of the public sector banking network. Therefore, the RBI needs to work out a strategy to get both the sets of banks on a level position before opening the doors completely for the free play of competition.

b. Diversification in activities of banks. There is need to give greater freedom to banks to offer new products with greater depth such as factoring, leasing, hire-purchase, term lending, investment banking, etc. Banks should be allowed to compete with other financial entities within the framework laid by the RBI. This will help banks to make better use of their funds and match the maturities of their assets and liabilities. There is also the need to resolve the issue of cash credit which is considered to be inefficient. The last two credit policies have already changed the composition of banks limits into cash credit and term loans. This needs to be carried further.

c. Investment in corporate shares and debentures must also be permitted to allow banks to make profits in this area. This is a logical end-product of financial liberalisation, and bank investments must not be restricted to just government securities.

d. Banks must be allowed to be more active in the capital market in terms of being able to raise capital. This need would arise as banks
increase their levels of activity and need to adhere to capital adequacy norms.

e. The rural sector remains an untapped potential for banks and public sector banks have an advantage over private banks in this respect as they have a wide network of branches in rural areas. Banks must be asked to explore areas such as floriculture, tissue culture, aquaculture, horticulture etc., to broaden their sphere of activity.

f. Reforms must stress the need for mergers in case of weak banks. This would help in not only resuscitating the loss-making banks but would also cut down on costs as the operations of the merging banks could be optimised. This is pertinent since all banks tend to have regional strengths in terms of infrastructure, and duplication of activity in the same area could be eschewed.

g. Reforms should work towards bringing about genuine competition among banks through deregulated interest rates. Right now there is a tendency for banks to work in unison on this issue and there is a feeling that instead of enthusing competition, deregulation has only strengthened the profit lines of banks as all of them appear to follow the same structure of interest rates.

h. Human resource development in banks needs to be taken up more seriously at all levels. Public sector banks must be given autonomy to decide on their recruitment policies as well as compensation packages to draw the best talent. This is essential because the future of banking will depend a lot on cutting costs and increasing efficiency.

i. Reforms should aim at bringing down the ratio of non-performing assets to close to 10%, while the current level is around 20%.
Finally, reforms must aim at creating a mechanism which will sustain the process which has been set in motion. This is essential as there is considerable scepticism regarding the durability of reforms and how banks will behave in the next five years when there are more players.

Social Banking

A very important challenge before the commercial banks in India will be to manage the different segments of the economy. They cannot afford to ignore any one of these or prefer to serve few of these at the expense of others.

The banking services need to keep in view the requirements of the Swadesh groups and also focus their attention on globalisation efforts which require a balancing effort.

The technology driven foreign banks have aroused customer's expectations high. In the wake of new client expectations, satisfying the customer requires a new approach labelled as Relationship marketing.

Social Responsibilities of Banking Industry:

The commercial banks in India are to perform a variety of roles such as promotion of the interest of the depositors, giving fair and adequate return on the deposits, assisting the people who are in need of financial assistance to raise then standard of living, upliftment of the down-trodden in the society, a more responsible and accountable role to Government, safeguarding in rights and interests of the employees, and apart from all these roles, the commercial banks have to earn profits to sustain their existence and to do justice to all these roles. Hence the objectives of modern banking industry are of two fold economic responsibilities as well as social responsibilities.
As a result of the many structural changes commercial banks have gained more power and prominence in the economy. Their performance affects the whole of the economic system since they constitute an important element in the total financial system of the country. The establishment of these banks for the attainment of social responsibilities has aroused many expectations in the public, Press and Parliament. The real justification for their existence depends on how efficiently and effectively they discharge these social responsibilities. Considering all the relevant aspects of the Indian economy, viewing various arguments for and against nationalisation of these banks and keeping in view all the structural changes the various social responsibilities of these banks may be as under. These responsibilities may be grouped under the following heads.

1. Responsibilities towards customers
2. Responsibilities towards society
3. Responsibilities towards government
4. Responsibilities towards other financial institutions
5. Responsibilities towards employees
6. Responsibilities towards themselves

These responsibilities can be explained as under:

(1) Responsibilities towards Customers:
The whole philosophy of the social responsibilities of commercial banking centres around the service to its customers. Customers of a commercial bank are those who have bank accounts in their names and such accounts are used essentially for the business of banking i.e., accepting the deposits and lending of money. Thus both depositors and borrowers are termed as customers of a commercial bank. Both individuals institutions and corporate bodies may be included in the term customers of a bank. Depositors are lenders of money to the community through banks. Apart from a comparatively
higher rates of interest, they are also interested in the safety and liquidity of funds. Easy approach to the bank office, courteous behaviour of bank employees, stable, efficient and quick service particularly at counters, convenient banking hours etc., are the expectations of the customers of a bank. This leads to good image of banks, which boosts the confidence of the customers. As the rates of interest are being regulated by RBI, the management of these banks cannot do much in this respect. However, it should try to see that these expectations are fulfilled. Through insurance of deposits, yet good behaviour and efficient, prompt and stable service should be ensured by the management. Borrowers are the purchasers of services of these banks. They are always interested in good service easily and efficiently available and that too without any cumbersome procedures.

Hence the management should ensure that credit is granted in tune, adequately and easily. As purveyors of credit, the management of these banks should grant credit to all those who deserve it and to those sectors the financing of which help to maximise the use of scarce resources credit should also be followed by consultancy services particularly in the case of financing priority and neglected sectors. The credit should be given for approved purposes where the proposals should be technically feasible and economically viable. Proper care should be taken so that the borrowers do not have any misunderstanding about the nationalised banks and their objectives. Further, the banks also should educate the customers by providing education and information oriented publicity in connection with functions. Concepts and limitations of these banks. Customers in all types of areas should be provided with convenient banking hours suited to the needs of different places. Besides the banking offices should be kept open for long houses for transacting banking business. this is because the banks in India are kept open for 22 hours a week.
as against more than 42 a week in Zurich and 40 hours a week in New York.\(^22\) The courteous treatment of the customers from rural areas is another major responsibility on the part of banks. As the commercial banks have certain responsibilities towards the customers, the customers are also required to extend full co-operation to the bank management. Giving proper accurate information, behaving with a sense of discipline and projecting rational behaviour are the expectations of the banks from the customers.

(2) Responsibilities towards Society:

Besides being economic adventures, every economic enterprise is also a national and social institution. As the enterprise grows and attains prominence, its influence upon the society becomes important and hence its working should not be in any way detrimental to the interests of the society. The nationalised banks as centres of economic activity are called upon to solve many of the problems of the society such as object poverty, unequal distribution of national income, chronic unemployment and under employment of natural, economic and human resources, lopsided economic development etc. Banks have been entrusted with the task of opening branches in unbanked centres, to evolve all-round development of those centres. The commercial banks should also ensure that greater confidence of the society is enforced in them by providing efficient and regular services. This has been rightly stated by Edward W. Reed that “the safety of commercial banks has always been of concern to stockholders, depositors and supervisory and regulatory authorities since bank failures have a more adverse effect on the economy than do failures in any other type of business”\(^23\). The commercial banks are supposed to see that evils like red-Tapism, mis-utilisation, and misappropriation of funds do not creep in to the banking system which adversely affects the image of the banks. In turn, the society should also extend its full co-operation to the banking industry by providing an amicable and
legitimate environment for the banks to function more smoothly and responsibility.

(3) Responsibilities towards Government:

The discharge of the social responsibilities enhances social welfare. A government committed to social welfare always strives to enhance the social welfare. The nationalisation of these banks is a step in that direction. As the sole owner of these banks, the objective of the government is not to make them unprofitable entities and philanthropic institutions but to ensure wider social service by maintaining their commercial nature. This requires that these banks are expected to give reasonable return to the government. There has been a spate of discussion over the issue of public enterprises are meant for discharging social responsibilities and hence profit making is not a major concern for them. But in a developing country like India, the discharge of social responsibilities is inter-linked with earnings surplus and profit from operations. Besides the major source of funds for commercial banks is deposits of customers. The increase in the deposits of a commercial bank depends to a large extent upon the faith reposed in them by depositors. This faith inter alia is the outcome of profits, and continuous fall in the profits would mean loss of depositors and would thereby influence adversely then deposit resources.

Further the government as planning authority expects the managements of these banks to ensure the functioning of these banks in conformity with the plan strategy. The success of economic planning depends largely upon the co-operation from all sectors of the economy including the financial institutions the major part of which consists of these banks. The government has identified certain
sectors as priority sectors and timely and adequate credit should be
extended to these sectors.

The commercial banks are expected to extend productive and
employment oriented consultancy services with regard to technically
feasible and economically viable projects. Further the commercial
banks are expected to be responsible to the RBI, which is the
monetary authority in our country. It works in consultation with the
government and is ultimately responsible for the sound banking
system in the country. It has been assigned both promotive and
regulatory functions as a result it also gives directions to the
nationalised banks from time to time for a sound banking system with
a view to serving the best interests of the society. In this connection all
the commercial banks are expected to implement the several
directions in respect of bills market, several schemes like lead bank,
service area approach financing several farmers credit co-operative
societies etc. In turn RBI should also consider the nature of
commercial banks and limitations of these banks while exercising its
regulatory and controlling powers.

(4) Responsibilities towards other financial institutions:

Nationalised commercial banks are a part of the organised financial
infrastructure of the country. Apart from these banks, the financial
infrastructure includes private banks, foreign banks, co-operative
banks, Regional Rural banks as the constituents of the money market
and LIC, IFC, SFC, ICICI, IDBI, UTI as institutions of the capital
market. For real and developmental efforts a co-ordinated approach
among the various institutions of both money and capital markets is
required. These institutions should act in an ethical manner, properly
guide the clientele, participative in their approach, provide consortium
leadership to other institutions and agencies, resort to fair practices
etc.
(5) Responsibilities towards employees:

As banking is a service industry, all types of services rendered by it are directly affected by the skill and attitude of employees for they are in direct contact with customers. In addition to the handsome emoluments and other perquisites, many other aspects like security of job, human treatment for labour and adequate facilities for their promotions to higher status. Lack of cordial relations between the management and the employees of an enterprise leads to discontentment and dissatisfaction which is visible through strikes, ghetto etc. which are the causes for the deterioration of profitability, efficiency and productivity of the banks which ultimately leads to poor customer services. This discontentment and dissatisfaction can be reduced by paying fair and adequate remuneration, provision of proper working conditions, ensuring security to the job, resorting to fair human resource development practices, positive motivation etc. As it has been rightly pointed out that a "strike bears a triple curse. It brings financial ruin upon both the employees and the employers. It victimises the public and the consumers. It may and often does hurt national interests when the public utility and defence industries are involved". But these responsibilities are a two-way traffic, the employees also many responsibilities towards the management of these banks. It can be remarked that "the harmonious industrial relations can develop only on the basis of mutual understanding and awareness of common responsibilities and obligations".

(6) Responsibilities towards themselves:

The concept of social responsibilities would be incomplete if the responsibilities towards the banking industry themselves are ignored. A stable and consistent growth in the banking industry is very much required for a developing country like India. This growth ensures the fulfilment of the different needs of the economy. To ensure this growth banks should properly organised and efficiently managed. The
administrative machinery should ensure easy location of responsibilities and accountability of its various employees besides it should ensure automatic growth of management executives necessary to cope up with the new tasks and challenges of the commercial banking. It should also ensure efficient and optimum utilisation of men and material resources of these banks.

SR – Again A Controversial Issue

Before nationalisation, there was heated debate on the character and concerns of commercial banks in a society in which 70 per cent of the population live below are around the poverty time. Today, the situation has definitely improved but not as much as to make a U-turn desirable. While the opponents argue against SR pointing at the unethical character of beneficiaries, large NPAs recoveries problems, mounting losses due to uneconomical operations, the proponents criticise the widespread corruption and inefficiency at all levels in the banking industry, and the lack of professionalism and development spirit of employees. Their viewpoint is best summarised as follows:

"While the Indian banks can no longer indulge in the luxury of continuing with behest lending, they cannot also afford to ignore the needs of the farm sector, small industries, and small business etc. it is imperative for them to strategize into the rural areas for effective lending the recovery processes". 22

(Yerram Raju, 1999, p.24).

In the light of the on going discussions on the role and responsibilities of banking in this new era of competition marked by global perspectives, technological innovations, competition - oriented creative operations, several questions emerge.
 Has social responsibility become a redundant concept? or is it relevant even today?
 What exactly can be the concept of SR, for banking industry?
 What kind of SR activities banks many undertake in the future? What may be its approach?
REFERENCES:


