CHAPTER-3

MANAGEMENT OF BANKS IN INDIA

3.1 INTRODUCTION:

In the earlier societies functions of a bank were done by the corresponding institutions dealing with loans and advances. Britishers brought into India the modern concept of banking by the start of Bank of England in 1694. In 1708, the bank of England was given the monopoly for the issue of currency notes by an Act. In nineteenth century various banks started operations, which primarily were receiving money on deposits, lending money, transferring money from one place to another and bill discounting. Banking in India has a very old origin. It started in the Vedic period, where literature shows the giving of loans to others on interest. The interest rates ranged from two to five percent per month.

Modern banking in India began with the rise of power of the British. To raise the resources for attaining the power the East India Company on 2nd June 1806 promoted the Bank of Calcutta. In the mean while two other banks Bank of Bombay and Bank of Madras were started on 15th April 1840 and 1st July, 1843 respectively. In 1862 the right to issue the notes was taken away from the presidency bank. The government also withdrew the nominee directors from these banks. The bank of Bombay collapsed in 1867 and was put under the voluntary liquidation in 1868 and was finally wound up in 1872. The bank was however able to meet the liability of public in full. A new bank called new Bank of Bombay was started in 1867. On 27th January 1921 all the three presidency banks were merged together to form the Imperial Bank by passing the Imperial Bank of India Act, 1920. The bank did not have the right to issue the notes but had the permissions to manage the clearing house and hold Government balances. In 1934, Reserve Bank of India came into being which was made the Central Bank and had power to issue the notes and was also the banker
to the Government. The Imperial Bank was given right to act as the agent of the Reserve Bank of India and represent the bank where it had no branches. In 1955 by passing the State Bank of India 1955, the Imperial Bank was taken over and assets were vested in a new bank, the State Bank of India.

Indian Banking covers the industry overview in terms of inflation, repurchase agreements, new loans policy banks and foreign bank. It also covers the market trends and outlook including reverse requirement ratio, financial integrated circuit cards, non-performing loan and internationalization. Indian banking industry also suffered some setbacks during the course of the year because of the prevailing unfavorable environment. Number of reporting offices of commercial banks crossed the 90,000 mark and was recorded at 91,558 by the end of September 2011. Population served per office also declined to 13,100 during the same period. The asset size of scheduled commercial banks was estimated at INR 71.8 trillion by March 2011. The country suffered from high inflation throughout the year with inflation rate (CPI) covering around 9%. In order to curb the inflation, Reserve Bank of India increased the benchmark repo rate seven times during the year with an effective increase of 225 basis points. The persistent high interest rate slowed down the credit demand and deteriorated the asset quality of the banks, especially in the public sector. The ratio of non-performing assets has gone up to 2.9% by the end of year, sharply rising from 2.3% in the previous year. Reserve Bank of India issued draft guidelines for the implementation of Basel III framework across the Indian banking industry beginning from January 2013. Some of the banks will have to generate extra capital to meet the stipulated requirements. Government has earmarked INR 158.9 billion in the union budget to recapitalize the public sector banks.

Gross bank credit only grew by 15.8% compared with 27.3% in the previous year. This was mainly due to slow growth in non-food credit. Personal loans were less affected and registered a 12.8% growth driven primarily by high growth in consumer durable, vehicle and educational loans. Priority sector witnessed a credit growth of 5% as the banks became core risk averse with micro-credit registering a decline of 27.2%. Meanwhile, deposits grew by 16.7% driven mainly by 19.4% increase in time deposits while demand deposits shrunk...
by 1.1% in comparison with previous year. State Bank of India registered an annual net profit growth of 15.4% but there was a steep rise in its gross NPA ratio which rose to an alarming 4.2% in the third quarter of fiscal year. Punjab National Bank also had a 20% increase in its gross NPA ratio by the end of December 2011.

3.2 CONCEPT OF BANKING:

Banks provide funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation. Let us know about the role of banking.

- It encourages savings habit amongst people and thereby makes funds available for productive use.
- It acts as an intermediary between people having surplus money and those requiring money for various business activities.
- It facilitates business transactions through receipts and payments by cheques instead of Currency.

3.3 TYPES OF BANKS:

There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. On the basis of functions, the banking institutions in India may be divided into the following types:

a) Central Bank:

A bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as it Central bank. Such a bank does not deal with the general public. It acts essentially as Government’s banks; maintain deposit accounts of all other banks and advances money to other banks, when needed. The Central bank provides guidance to other banks whenever they face any problem. It is therefore known as the banker’s bank. The Reserve Bank of India is the central bank of India.
The Central Bank maintains record of Government revenue and expenditure under various heads. It also advises the Government on monetary and credit policies and decides on the interest rates for bank deposits and bank loans. In addition, foreign exchange rates are also determined by the central bank.

Another important function of the Central Bank is the issuance of currency notes, regulating their circulation in the country by different methods. No other bank than the Central Bank can issue currency.

b) Development Banks:

Business often requires medium and long-term capital for purchase of machinery and equipment for using latest technology, or for expansion and modernization. Such financial assistance is provided by Development Banks. They also undertake other development measures like subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.

3.3.1 Commercial Banks:

Commercial Banks are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and long-term loan to business enterprises. Now-a-days some of the commercial banks are also providing housing loan on a long-term basis to individuals. There are also many other functions of commercial banks, which shall be discussed.

Types of Commercial Banks:
Commercial banks are of three types i.e.
- Public Sector Banks,
- Private Sector Banks
- And Foreign Banks
(i) **Public Sector Banks:** These are banks where majority stake is held by the Government of India or Reserve Bank of India. Examples of public sector banks are: State Bank of India, Corporation Bank, Bank of Baroda and Dena Bank, etc.

(ii) **Private Sector Banks:** In case of private sector banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. For example: The Jammu and Kashmir Bank Ltd., Bank of Rajasthan Ltd., Development Credit Bank Ltd., Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd., Global Trust Bank, Vyśya Bank etc.

(iii) **Foreign Banks:** These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, Grindlay’s Bank etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991.

3.3.2 **Co-operative Banks:**

People, who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business. Any co-operative bank as a society is to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India.

3.3.4 **Specialised Banks:**

There are some banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. EXIM Bank, SIDBI and NABARD are examples of such banks. They engage themselves in some specific area or activity and thus, are called specialized banks. Let us know about them.
i) **Export Import Bank of India (EXIM Bank):** If we want to set up a business for exporting products abroad or importing products from foreign countries for sale in our country, EXIM bank can provide us the required support and assistance. The bank grants loans to exporters and importers and also provides information about the international market. It gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc.

ii) **Small Industries Development Bank of India (SIDBI):** As someone want to establish a small-scale business unit or industry, loan on easy terms can be available through SIDBI. It also finances modernization of small-scale industrial units, use of new technology and market activities. The aim and focus of SIDBI is to promote, finance and develop small-scale industries.

iii) **National Bank of Agricultural and Rural Development (NABARD):** It is a central or apex institution for financing agricultural and rural sectors. If a person is engaged in agriculture or other activities like handloom weaving, fishing, etc, NABARD can provide credit, both short-term and long-term, through regional rural banks. It provides financial assistance, especially, to co-operative credit, in the field of agriculture, small-scale industries, cottage and village industries handicrafts and allied economic activities in rural areas.

### 3.3.5 Role of Banks in Economic Development:

Banks play a very significant role in the economic development of a country. Banks have control over a major part of the supply of money in circulation. In this way, they can influence the nature and character of production in the country. In fact, banks are the main stay of the economic development of a country.

### 3.3.6 Economic Development through Banking System:

The contribution of the banking sector in the process of economic development can be summarized as under:
1. **Banks help in Capital Formation:**
   Banks mobilize the idle and dormant capital of a community and make it available for productive purposes. In fact, banks have designed a number of schemes to attract the prospective customers to encourage the habit of saving among the people.

2. **Banks are the Creator of Money:**
   Banks are described as factories of credit. They have the power to create money and it helps in the economic development of the country.

3. **Banks act as a link between the organized and unorganized sectors:**
   In India, money market consists of organized and unorganized sectors. Both of them are required to be linked for economic development of the country and this function is performed by banks.

4. **Banks help in the effective implementation of monetary policy:**
   The effective implementation of monetary policy can be done only through properly organized banking system of the country.

5. **Banks help in the development of agriculture and industries:**
   The development of a country not only depends upon the industrial development but also on development of agriculture. The banks cater to the financial needs of these sectors which result in the economic development of the country.

6. **Banks act as catalyst in social change:**
   In India banks are regarded as catalysts in bringing the desired social change in community. Banks are able to achieve the desired change through it sectorial priorities and other social development programmers.

7. **Banks help in the development of entrepreneurship:**
   Banks have special drives and specific schemes for the development of entrepreneurship. Banks help in boosting their strength and health.
8. Banks regulate the flow of national savings:

Banks regulate the flow of national savings. They ensure the diversion of national savings into productive purposes.

9. Banks help in mitigating the effects of trade cycles:

The effective banking system can help the government in controlling the circulation of money. It helps in the effects of trade cycles in a country.

10. Banks help in maintaining the positive balance of trade:

Banks also help in promoting import and maintaining the balance of trade at favourable position. From the above, it became clear that the banking system occupies an important position in an economy. Bankers are regarded as, “Public Conservators of Commercial Virtues”. A country with an effective banking system has a secure foundation of economic development.

3.3.7 Meaning of Commercial Banks:

Commercial banks are organizations which normally performs certain financial transactions. It performs the task of accepting deposits from members of public and make advances to needy and worthy people from the society. When banks accept deposits its liabilities increase and it becomes a debtor, but when it makes advances its assets increases and it becomes a creditor. Banking transactions are socially and legally approved. It is responsible in maintaining the deposits of its account holders.

While defining the term bank it is taken into account that what type of task is performed by the banks. Some of the famous definitions are given below:

According to Prof. Sayers, “A bank is an institution whose debts are widely accepted in settlement of other people’s debts to each other”. In this definition Sayers has emphasized the transactions from debts which are raised by a financial institution.
According to the Indian Banking Company Act 1949, “A banking company means any company, which transacts the business of banking. Banking means accepting for the purpose of lending or investment of deposits of money from the public, payable on demand or otherwise and withdrawable by cheque, draft or otherwise.”

### 3.3.8 Structure of Commercial Banking in India:

In the Structure of Commercial Banking in India, Bank is an institution that accepts deposits from the public, mobilizes their savings and keeps the same under its custody, these deposits can be withdrawn by Cheques or ATMs or any other available methods. Bank lends money to those who need it and also performs diverse agency functions and also create credit.

Commercial banks are the institutions that accept deposits from the people and advances loans. Commercial Banks create credit. In India, such banks alone called commercial banks which are established in accordance with the provision of the Banking Regulation Act, 1949. Table 5.1 shows number of officers in commercial banks in India.

**Table 3.1: Offices of Commercial Banks in India – 2010 to 2014**

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India and its Associations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>14673</td>
<td>15848</td>
<td>16894</td>
<td>18186</td>
<td>18823</td>
</tr>
<tr>
<td>Nationalised Banks $</td>
<td>37415</td>
<td>39235</td>
<td>40937</td>
<td>43467</td>
<td>45850</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>52088</td>
<td>55083</td>
<td>57831</td>
<td>61653</td>
<td>64673</td>
</tr>
<tr>
<td>Qld Private Sector Banks</td>
<td>4826</td>
<td>4690</td>
<td>4908</td>
<td>5221</td>
<td>5028</td>
</tr>
<tr>
<td>New Private Sector Bank</td>
<td>2598</td>
<td>3634</td>
<td>4332</td>
<td>5231</td>
<td>6973</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>7424</td>
<td>8324</td>
<td>9240</td>
<td>10452</td>
<td>12001</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>272</td>
<td>279</td>
<td>295</td>
<td>310</td>
<td>319</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>14822</td>
<td>15054</td>
<td>15484</td>
<td>15740</td>
<td>16034</td>
</tr>
<tr>
<td>Non-Schedule Commercial Banks</td>
<td>47</td>
<td>47</td>
<td>47</td>
<td>48</td>
<td>53</td>
</tr>
<tr>
<td>All Commercial Banks</td>
<td>74653</td>
<td>78787</td>
<td>82897</td>
<td>88203</td>
<td>93080</td>
</tr>
</tbody>
</table>

Notes:  
1. Data is as per information reported by banks.  
2. $ Includes IDBI Bank Ltd.  
3. Data on number of offices included administrative offices.  
Source: Master Office File (latest updated version) on commercial banks, Department of Statistics and Information Management, RBI.
3.3.9 Functions of Commercial Banks:

Commercial bank being the financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play very significant role in a process of economic social needs. The functions performed by banks are changing according to change in time and recently they are becoming customer centric and widening their functions. Generally the functions of commercial banks are divided into two categories viz. primary functions and the secondary functions. The following chart simplifies the functions of banks.

<table>
<thead>
<tr>
<th>Primary Functions</th>
<th>Secondary Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accepting Deposits</td>
<td>1. Clearance of Cheque</td>
</tr>
<tr>
<td>2. Making Advances</td>
<td>2. Sale/Purchase of Shares/Bonds</td>
</tr>
<tr>
<td>3. Credit Creation</td>
<td>3. Transfer of Money</td>
</tr>
<tr>
<td></td>
<td>4. To work as Trusty</td>
</tr>
<tr>
<td></td>
<td>5. To work as a representative</td>
</tr>
<tr>
<td></td>
<td>6. To give/accept money</td>
</tr>
<tr>
<td></td>
<td>7. To provide letter of credit</td>
</tr>
</tbody>
</table>

3.3.10 Primary Functions of Commercial Banks:

Commercial Banks performs various primary functions some of them are given below:

1. **Accepting Deposits**: Commercial bank accepts various types of deposits from public especially from its clients. It includes saving account deposits, recurring account deposits, fixed deposits, etc. These deposits are payable after a certain time period.

2. **Making Advances**: The commercial banks provide loans and advances of various forms. It includes an over-draft facility, cash credit, bill discounting, etc. They also give demand and demand and term loans to all types of clients against proper security.
3. **Credit Creation:** While sanctioning a loan to a customer, a bank does not provide cash to the borrower instead it opens a deposit account from where the borrower can withdraw. In other words while sanctioning a loan a bank automatically creates deposits. This is known as a credit creation from commercial bank.

3.3.11 **Secondary Functions of Commercial Banks:**

Along with the primary functions each commercial bank has to perform several secondary functions too. It includes many agency functions or general utility functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

**A. Agency Functions:** Various agency functions of commercial banks are:

- To collect and clear cheque, dividends and interest warrant.
- To make payment of rent, insurance premium, etc.
- To deal in foreign exchange transactions.
- To purchase and sell securities.
- To act as trusty, attorney, correspondent and executor.
- To accept tax proceeds and tax returns.

**B. General Utility Functions:** The general utility functions of the commercial banks include:

- To provide safety locker facility to customers.
- To provide money transfer facility.
- To issue traveler’s cheque.
- To act as referees.
- To accept various bills for payment e.g. phone bills, gas bills, water bills, etc.
- To provide merchant banking facility.
- To provide various cards such as credit cards, debit cards, Smart cards, etc.
Table 3.2: List of Commercial Banks in India

<table>
<thead>
<tr>
<th>Nationalised Banks:</th>
<th>Abbreviation used</th>
<th>Private Banks:</th>
<th>Abbreviation used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allahabad Bank</td>
<td>Allahabad</td>
<td>Axis Bank Ltd.</td>
<td>Axis</td>
</tr>
<tr>
<td>Andhra Bank</td>
<td>Andhra</td>
<td>City Union Bank Ltd.</td>
<td>CUB</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>BoB</td>
<td>Dhanlaxmi Bank Ltd.</td>
<td>Dhan</td>
</tr>
<tr>
<td>Bank of India</td>
<td>BoI</td>
<td>Development Credit Bank Ltd.</td>
<td>DCB</td>
</tr>
<tr>
<td>Bank of Maharashtra</td>
<td>BoM</td>
<td>The Federal Bank Ltd.</td>
<td>Federal</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>CAN</td>
<td>HDFC Bank Ltd</td>
<td>HDFC</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>CBI</td>
<td>ICICI Bank Ltd.</td>
<td>ICICI</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>Corp</td>
<td>IndusInd Bank Ltd.</td>
<td>IndusInd</td>
</tr>
<tr>
<td>Dena Bank</td>
<td>Dena</td>
<td>ING Vysya Bank Ltd.</td>
<td>ING</td>
</tr>
<tr>
<td>IDBI Bank Ltd.</td>
<td>IDBI</td>
<td>The Jammu &amp; Kashmir Bank Ltd.</td>
<td>JandK</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>Indian</td>
<td>The KVB Vysya Bank Ltd.</td>
<td>KVB</td>
</tr>
<tr>
<td>Indian Overseas Bank</td>
<td>IOB</td>
<td>Karnataka Bank Ltd.</td>
<td>KBL</td>
</tr>
<tr>
<td>Oriental Bank of Commerce</td>
<td>OBC</td>
<td>Kotak Kahindra Bank Ltd.</td>
<td>KMBL</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>PNB</td>
<td>The Lakshmi Vilas Bank Ltd.</td>
<td>LVB</td>
</tr>
<tr>
<td>Punjab And Sind Bank</td>
<td>PSB</td>
<td>The South Indian Bank Ltd.</td>
<td>SIB</td>
</tr>
<tr>
<td>Syndicate Bank</td>
<td>Syn</td>
<td>Yes Bank Ltd.</td>
<td>Yes</td>
</tr>
<tr>
<td>UCO Bank</td>
<td>UCO</td>
<td>Other Terms &amp; Abbreviations</td>
<td></td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>Union Bank of India</td>
<td>Nationalised Banks+ SBI Group</td>
<td>PSU Banks</td>
</tr>
<tr>
<td>Vijaya Bank</td>
<td>Vijaya Bank</td>
<td>ICICI+HDFC+Axis</td>
<td>Large Private Banks</td>
</tr>
<tr>
<td>SBI Group:</td>
<td></td>
<td>Other Private Banks</td>
<td>Small Private banks</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>SBI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank of Bikaner and Jaipur</td>
<td>SBBJ</td>
<td></td>
<td></td>
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<tr>
<td>State Bank of Hyderabad</td>
<td>SBH</td>
<td></td>
<td></td>
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<tr>
<td>State Bank of Mysore</td>
<td>SBM</td>
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<tr>
<td>State Bank of Patiala</td>
<td>SBOP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank of Trivancore</td>
<td>SBT</td>
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</tbody>
</table>

Source: Banks Press Releases, ICRA Research

3.3.12 e-Banking (Electronic Banking):

With advancement in information and communication technology, banking services are also made available through computer. Now, in most of the branches are using see computers to record banking transactions. Information about the balance in deposit account can be known through computers. In most banks now a day’s human or manual teller counter is being replaced by the Automated Teller Machine (ATM). Banking activity carried on through computers and other electronic means of communication is called ‘electronic banking’ or ‘e-banking’. Let us now discuss about some of these modern trends in banking in India.
• **Automated Teller Machine**
  Banks have now installed their own Automated Teller Machine (ATM) throughout the country at convenient locations. By using this, customers can deposit or withdraw money from their own account any time.

• **Debit Card**
  Banks are now providing Debit Cards to their customers having saving or current account in the banks. The customers can use this card for purchasing goods and services at different places in lieu of cash. The amount paid through debit card is automatically debited (deducted) from the customers’ account.

• **Credit Card**
  Credit cards are issued by the bank to persons who may or may not have an account in the bank. Just like debit cards, credit cards are used to make payments for purchase, so that the individual does not have to carry cash. Banks allow certain credit period to the credit cardholder to make payment of the credit amount. Interest is charged if a cardholder is not able to pay back the credit extended to him within a stipulated period. This interest rate is generally quite high.

• **Net Banking**
  With the extensive use of computer and Internet, banks have now started transactions over Internet. The customer having an account in the bank can log into the bank’s website and access his bank account. He can make payments for bills; give instructions for money transfers, fixed deposits and collection of bill, etc.

• **Phone Banking**
  In case of phone banking, a customer of the bank having an account can get information of his account; make banking transactions like, fixed deposits, money transfers, demand draft, collection and payment of bills, etc. by using telephone. As more and more people are now using mobile phones, phone banking is possible through mobile phones. In
mobile phone a customer can receive and send messages (SMS) from and to the bank in addition to all the functions possible through phone banking.

### 3.3.13 Reserve Bank of India Organization Structure and Management:

#### Central Board of Directors

- **Governor**
- **Deputy Governors**
- **Executive Directors**
- **Principal Chief General Manager**
- **Chief General Managers**
- **General Managers**
- **Deputy General Managers**
- **Asstt. General Managers**
- **Managers**
- **Asstt. Managers**
- **Supporting Staff**


**Central Board:** The Central Board has primary authority for the oversight of the Reserve Bank. It delegates specific functions through its committees and sub-committees. The Reserve Bank is wholly owned by the Government of India. The Central Board of Directors oversees the Reserve Bank’s business. It includes the Governor, Deputy Governors and a few Directors (of relevant local boards).
Committee of Central Board: Overseas the current business of the central bank and typically meets every week. The agenda focuses on current operations, including approval of the weekly statement of accounts related to the Issue and Banking Departments.

Board for Financial Supervision: It regulates and supervises commercial banks. Non-Banking Finance Companies (NBFCs) development finance institutions, urban co-operative banks and primary dealers.

Board for Payment and Settlement Systems: It regulates and supervises the payment and settlement systems.

Sub-committees of the Central Board: It includes those on Inspection and Audit Staff and Building. Focus of each subcommittee is on specific areas of operations.

Local Boards: In Chennair, Kolkata, Mumbai and New Delhi, representing the country’s four regions. Local board members, appointed by the Central Government for four-year terms, represent regional and economic interests and the interests of co-operative and indigenous banks.

Management and Structure:

The Governor is the Reserve Bank’s Chief Executive. The Governor supervises and directs the affairs and business of the Reserve Bank. The management team also includes Deputy Governors and Executive Directors.

The RBI is made up of:

26 Departments: These focus on policy issues in the Reserve Bank’s functional areas and internal operations.

28 Regional Offices and Branches: These are the Reserve Bank’s operational arms and customers interfaces headed by Regional Directors. Smaller branches/sub-offices are headed by a General Manager/ Deputy General Manager.


**Training Centers:** The Reserve Bank Staff College at Chennai addresses the training needs of RBI officers; the College of Agricultural Banking at Pune trains staff of co-operative and commercial banks, including regional rural banks. The Zonal Training Centers, located at regional offices, train non-executive staff.

**Research Institutes:** RBI-funded institutions to advance training and research on banking issues, economic growth and banking technology, such as, National Institute of Bank Management (NIBM) as Pune, Indira Gandhi Institute of Development Research (IGIDR) at Mumbai, and Institute for Development and Research in Banking Technology (IDRBT) at Hyderabad.

**Subsidiaries:** Fully-owned subsidiaries include National Housing Bank (NHB), Deposit Insurance and Credit Guarantee Corporation (DICGC), Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL). The Reserve Bank also has a majority stake in the National Bank for Agriculture and Rural Development (NABARD).

### 3.3.14 Role of Reserve Bank of India vis-à-vis Commercial Banks:

The Reserve Bank of India (RBI) is the central bank of the country. It was established on April 1, 1935 under the Reserve Bank of India Act, 1934, which provides the statutory basis functioning. When the RBI was established, it took over the functions of currency issue from the Government of India and the power of credit control from the Imperial Bank of India.

As the central bank of the country, the RBI performs a wide range of functions which is as follows:

- Acts as the currency authority
- Controls money supply and credit
- Manages foreign exchange
- Serves as a banker to the government
• Builds up and strengthens the country’s financial infrastructure
• Acts as the banker of banks
• Supervises banks

As regards the commercial banks, the RBI’s role mainly relates to the last two points stated above.

**RBI as Bankers’ Bank**

As the bankers’ bank, RBI holds a part of the cash reserves of banks; lends the banks funds for short periods, and provides them with centralized clearing and cheap and quick remittance facilities.

Banks are supposed to meet their shortfalls of cash from sources other than RBI and approach RBI only as a matter of last resort, because RBI as the central bank is supposed to function as only the ‘lender of last resort’.

To ensure liquidity and solvency of individual commercial banks and of the banking system as a whole the RBI has stipulated that banks maintain a Cash Reserve Ratio (CRR). The CRR refers to the share of liquid cash that banks have to maintain with RBI of their net demand and liabilities. CRR is one of the key instruments of controlling money supply. By increasing CRR, the RBI can reduce the funds available with the banks for lending and thereby tighten liquidity in the system; conversely reducing the CRR increases the funds available with the banks and there by raises liquidity in the financial system.

**RBI as Supervisor:**

To ensure a sound banking system in the country, the RBI exercises powers of supervision, regulation and control over commercial banks. The bank’s regulatory functions relating to banks cover their establishment branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation. RBI
controls the commercial banks through periodic inspection of banks and follow-up action and by calling for returns and other information from them, besides holding periodic meetings with the top management of the banks.

The study shows that RBI is directly involved with commercial banks in carrying out these two roles, the commercial banks help RBI indirectly to carry out some of its other roles as well. For example commercial banks are required by law to invest a prescribed minimum percentage of prescribed securities, which are mostly government securities.

3.3.15 Concept of Bank Marketing:

The bank marketing is an approach to market the services profitability. It is a device to maintain commercial viability. The changing perception of bank marketing has made it a social process. The significant properties of the holistic concept of management and marketing has made bank marketing a device to establish a balance between the commercial and social considerations, often considered to be opposite of each other. A collaboration of two words banks and marketing thus focuses our attention on the following:

- Bank marketing is a managerial approach to survive in highly competitive market as well as reliable service delivery to target customers.
- It is a social process to sub serve social interests.
- It is a fair way of making profits.
- It is an art to make possible performance-orientation.
- It is a professionally tested skill to excel competition.

Users of Banking Services:

The emerging trends in the level of expectation affect the formulation of marketing mix. Innovative efforts become essential the moment it finds a change in the level of expectations. There are two types of customers using the services of banks, such as general customers and the industrial customers.
General Users:

Persons having an account in the bank and using the banking facilities at the terms and conditions fixed by a bank are known as general users of the banking services. Generally, they are the users having small sized and less frequent transactions or availing very limited services of banks.

Industrial Users:

The industrialists, entrepreneurs having an account in the bank and using credit facilities and other services for their numerous operations like establishments and expansion, mergers, acquisitions etc. of their businesses are known as industrial users. Generally, they are found a few but large sized customers.

3.3.16 Bank Marketing in the Indian Perspective:

The formulation of business policies is substantially influenced by the emerging trends in the national and international scenario. The GDP, per capita income, expectation, the rate of literacy, the geographic and demographic considerations, the rural or urban orientation, the margins in economic systems, and the spread of technologies are some of the key factors governing the development plan of an organization, especially banking organization.

In developing economy, the formulation of a sound marketing mix is found a difficult task. The nationalization of the Reserve Bank of India (RBI) is a landmark in the development of Indian Banking system that have paved numerous paths for qualitative-cum quantities improvements in true sense.

Subsequently, the RBI and the policy makers of the public sector commercial banks think in favor of conceptualizing modern marketing which would bring a radical change in the process of quality up gradation and village to village commercial viability.
3.3.17 Bank Marketing Mix and Strategies:

The first task before the public sector commercial Banks is to formulate that Bank marketing mix which suits the national socio-economic requirements. Some have 4 P’s and some have 7 P’s of marketing mix. The common four P’s of Marketing mix are as follows:

**Product:**

To be more specific the peripheral services need frequent innovations, since this would be helpful in competition. The product portfolio designing is found significant to maintain the commercial viability of the public sector banks. The banks professionals need to assign due weightage to their physical properties. They are supposed to look smart active and attractive.

**Price:**

Price is a critical and important factor of bank marketing mix due numerous players in the industry. Most consumers will only be prepared to invest their money in search of extraordinary or higher returns. They are ready to pay additional value if there is a perception of extra product value. This value may be improved performance, function, services, reliability, and promptness for problem solving and of course, higher rate of return.

**Promotion:**

Bank Marketing is actually marketing of reliability and faith of the people. It is the responsibility of the banking industry to take people in favor through Word of mouth publicity, reliability showing through long years of establishment and other services.
Place:

The choice of where and when to make a product available will have significant impact on the customers. Customers often need to avail banking services fast for this they require the bank branches near to their official area or the place of easy access.

Bank Marketing Strategies:

The marketing research considered being a systematic gathering, recording and analysis of data makes ways for making and innovation the marketing decisions. The information collected from the external sources by conducting surveys helps bank professional in different wants. In the bank services, the formulation of overall marketing strategies is considered significant with the view point of tapping the potentials, expanding the business and increasing the marketing share. The increasing domination and gaining popularity banks, the popularity banks, the profitable schemes of the non-banking organization mounting craze among the customers for private banks have made the task of influencing the impulse of customers a bit difficult.

The marketing research simplifies the task of studying the magnitude of competition by opinion surveys and the feedback customers, the multidimensional change in the services mix can be made productive if it is based on marketing research.

3.4 CONCLUSION:

This chapter is concerned with the structure of public sector banks, their management and regulation. Most of the commercial banks are regulated and controlled by R.B.I. and function as per guidelines of the Central Bank (RBI). The study also disclosed: Role of Commercial Banks, Cooperative Banks, specialized banks, Export Import Bank of India, Role of Banks in Economic Development, Economic Development through banking system, Structure of Commercial Banking in India, Functions of Commercial Banks, e-banking. The study gave a summary of organization structure and management of RBI. Role
of RBI, compared with that of commercial banks. Concept Bank marketing in Indian perspective, Bank marketing mix and strategies have been discussed.