CHAPTER 1
INTRODUCTION

1.1 History of Banking Industry

Banking system in Indian economy is not new. It has existed centuries ago and fulfilled the necessities that economic system required. Its traces are evident even in Mauryan era. The great Indian philosopher of Mauryan age, ‘Chanakya’ emphasized its importance and asserted that welfare of state largely depended on transaction that is affected between the creditors and the debtors. During 4th Century B.C. Chanakya wrote, that it is of uttermost importance to scrutinize the transaction among creditors and debtors as the welfare of the kingdom depends on it (Shamastry 2009). In work of Chanakya there are references that describe deposit rules, lending rules agricultural loans and other financial activities. He also prescribed guidelines and procedures for insolvency as well as liquidation of banks. Mr. W. E. Preston was of the view that in India banking system was in existence and was well matched to the requirement of country at that time, centuries before the banking originated in England (Saunders 1931). In India, the modern banking system originated during British rule as it became a dire need to nurture the British trade in India. Bank of Bombay, established in 1720 in Mumbai, was country’s first bank that was formed as joint stock bank. The Bank failed after few years of its inception (Reserve Bank of India, 2008a). During British period Calcutta was most important and main trading center of India because East India Company had its headquarters situated in Calcutta. This propelled the expansion and progress of banking activities in Calcutta. In 1770, Bank of Hindustan was established in Calcutta and was established by an agency house and its operations were shut down in 1832 (Saunders 1931). The main banks incorporated in India by a royal charter were Presidency banks. The banks acted as quasi central banks. On June 2nd 1806 Bank of Bengal was established. The capital of bank was Rs.5 million
and was the first Presidency Bank of country. These Banks were also incorporated in Chennai and Mumbai by 1843. These banks were given the exclusive rights to issue currency because these banks were administered by Royal Charter but later Paper Currency Act (1861) was passed and it empowered the government in 1867 to issue currency notes (RBI 2011). Companies Act, enacted in 1850, which insist on putting unlimited liability on the banks. Further, in 1867 the principle of limited liability in banking was introduced due to which an increase was observed among number of banks (RBI 2008a). The banks that got established were incorporated as private shareholding companies. In these banks the major stakeholders were Europeans. Private Banks also started showing their slow growth with the Presidency Banks. Private Banks had no authority to print currency because they were not governed by Royal Charter.

In 1865, few Europeans established Allahabad Bank which is oldest banking company. Two other big banks were started that were under private ownership. These banks were Punjab National Bank (PNB) that was started in Lahore in 1895 and Bank of India (BOI) that was started in Mumbai in 1906. These banks are still in being (RBI, 2008a). Starting of Swadeshi moment in 1906 was primarily intended for making the country self-reliant and to expel the British. This movement gave a great thrust to those banks that were of Indian ownership. It also facilitated five new banks to start their operations. Then also Presidency Banks subjugated and controlled the other Indian banks as deposits of the public with them were high and their paid up capital was also high. Although the banks significantly increased in number. They increased from two to eighteen but there was insignificant increase in their deposits and the deposits of Presidency Banks were considerably higher. Between 1910 – 1913 this gap widened more than double. Figure 1.1 shows the difference in the deposits during this period. One of the foremost reasons for increase in deposits might be that the Indian currency standard, in 1984, was switched from silver to gold (Burdekin, Mitchener, and Weidenmer 2011). The other reason for increase in deposits might be the ending deflation during 1890s worldwide.
Prior to enactment of Companies Act (1913), several companies with small reserves and low capital got registered as bank. The percentage of cash and liquid assets of these banking companies were too low in comparison to their total assets. As a result of insufficient cash a number of banks failed. The reason of failure of these banks was incompetent management, manipulation in the records of bank accounts by managers and individual carelessness. The bank failures observed enormous increase during 1913 – 1914 and it increased to forty two from twelve (RBI, 1954). Failure was less in cooperative banks. The reason was that they are based on mutual trust. After World War I the government formed Imperial Bank of India (IBI) by merging Presidency Banks. The three main functions of IBI were:

1. It was a banker to government.
2. It also worked as commercial bank
3. It also acted as central bank.

As there were fewer regulations in banking, by 1930, the total banks registered under Companies Act (1913) increased highly and the number increased to 1,258 banks (RBI 2008a). Thereafter, in 1935, financial institutions were severely
hampered by Great Depression which led to failure of 51 banks (RBI 2008a). After Great Depression, in 1929, Indian Central banking Inquiry Committee was formed. Committee was to research and analyze the problems that were accountable for improper working of banking system in the country. After their analysis committee suggested the formation of a central bank and also recommended some special provisions and enactments in Companies Act, 1913.

The government took the report seriously and Reserve Bank of India Act (RBI Act) was passed in 1934. Consequent to it Reserve Bank of India (RBI) was established in 1935. RBI was formed as an Apex banking institution and was authorized to regulate and normalize banking system of country. The four primary functions of the RBI are:

1) It is banker to the government,
2) It is only authorized for issuing currency notes.
3) It is banker to banks,
4) It maintains exchange reserve ratio.

Despite of these important functions, the RBI was not having powers for regulating the monetary system and to have a control on economy of the country. Permission of RBI was not required for establishing a new bank, commercial banks were administered by Companies Act, the banks were free to enter and exit in the system, are some of the examples of non-control of RBI. Due to lack of control of RBI, banks in number, significantly increased the country. In 1940, 654 scheduled and non-scheduled banks got registered (RBI, 2008a). The result was that the financial market of country was facing a numerous problems and was going through laissez-faire economy and country experienced immense increase in failure of banks. Looking into the pathetic condition of banks and the reluctant economy of country, RBI suggested Government to implement new banking legislations on argument that primary reason of bank’s failure is lack of regulation. Companies Act (1913) was enacted to stabilize financial system. But from perspective of banking Indian Companies Act (1913) was inefficient and
had several loopholes. There was no separate regulation for banking. The Indian Companies (Amendment) Act (1936) contained and described separate regulations and guidelines for a banking company. There was made provision for minimum capital and reserve requirement was lifted from banks. The outcome of these changes was that number of failures of banks declined sharply. 50 banks failed in 1942 in comparison to 117 in 1939. During the World War II bank failures substantially increased and total number increased sharply, but this number declined after independence. The numbers of banks that failed during 1940s is depicted in the figure 1.2 given below.

![Number of Bank Failures in 1940s](image)

**Figure 1.2: Number of Bank Failures in 1940s**

**Source: Lohia, S. (2011)**

World War II took place four years after establishment of RBI. The impact of this war, on financial system, was higher than Great Depression and World War I. However, it provided positive results and as a result of it the expansion of branches was rapid during 1940-1945. During these years government incurred high expenditure on defense and supplies. There was increase in income of some section which led to upsurge in public deposits of banks and consequently it led to rise in the number of branches of the banks that were already in existence.

At independence there were five main banks. They were Bank of India (BOI), PNB, Bank of Baroda (BOB), Central Bank of India and United Commercial Bank. The partition also took place immediately after independence which
severely impacted bigger banks. It left most brutal impact on the banking system of the country and in 1948 the number of banks that collapsed was 45 banks from more than 637 banks with average paid up capital of Rs.0.4 million (RBI 2008a).

After independence most enormous task for RBI was restoration of a sound banking system. C.D. Deshmukh, Governor of RBI at that time said that difficulty of RBI is not in dealing with multiple banks. It is aggravated by its diversity and range. The same set of standards cannot be used to treat all banks even if they all are governed by same theory (RBI 2008a).

India had a lassiez-faire banking system. It is said to be lassiez-faire economic system in which transactions among the parties are not influenced by government interference and there do not exist any regulation. This system was not suitable to Indian economy as Indian economy was not developed at that time. In measuring economic development it is important to make banking services available to every individual in the society, whereas, in India these services were highly concentrated in trade centres. From total 637 banks in 1947, 200 were in Chennai, 106 were in West Bengal and 40 were in Mumbai. Remaining country was left with 291 banks only (RBI 2008a). It was important and necessary at that time to develop a sound and steady financial system before extension of banking system. Considering the requirement Banking Regulation Act (1949) was enacted on 16th March, 1949. This Act empowered certain other powers for RBI. These powers were:

1. Controlling banks on opening new branches.
2. Empowering RBI to check and inspect books of companies that qualified as banks.
3. Putting restricting on voluntary winding up of banking companies.
4. Reporting financial statements was made mandatory for banks.

Other main regulations that were introduced were:

1. Safety of interest of depositors.
2. Regulations relating to reserves and paid up capital.

This act gave enormous powers to RBI, but it also had some limitations. No provisions were made for safety against misuse of authority and power by management that was primary reason of failures of banks. However a significant reduction was observed in of failures of bank after implementation of Banking Companies Act (1949). The average bank failures were 47 in 1941-49 which reduced to 37 in 1950-55 (RBI 2008a). This is shown above in Figure 1.2.

To overcome the weak financial performance and to strengthen working of banks the initial step took by RBI post-independence was consolidation of banks. It merged smaller entities with big banks or liquidated them. The Act of Banking was amended as Banking Companies Act and required to “facilitate expeditious payments to the parties who had deposits with banks in liquidation” (RBI 2008a). This Act gave RBI several other powers to aid banks during financial crisis. Consequent to this Act, 106 banks got liquidated during 1954-1959. 73 banks opted for voluntary liquidation whereas 33 banks were forcefully liquidated (RBI 2008a). The Act facilitated enormous alliance in banking sector. This Act also increased powers of RBI to:

1. Undergoing surprise inspection of banks to find out and control fraudulent activities in a better way.
2. Power to appoint and remove executives of the banks, and
3. To impose a restriction on loan and advances (RBI 2008a).

The increase in the powers of RBI and improved legislation now it became the proper time to surge the banking sector. In this sequence the Imperial Bank of India (IBI) was asked to open 114 branches in a period of 5 years (RBI 2008a).

In the phase of development of banking sector in the country less consideration was focused on the agriculture sector. According to a report issued by All India Rural Credit Survey Committee (AIRCS) only 0.9% of the entire advances and loans were extended to agricultural sector (RBI 2008a). The farmers and other
rural population were left to take loans from moneylenders who charged heavy interest rate on their loans. Socio-economic development was the requirement of the time. The government had to promote it. IBI was nationalized with the objective of expansion of banking facilities, especially in banking sector and the rural and semi-urban areas of the country. State bank of India Act (1955) was passed by the government and IBI was renamed as State Bank of India (SBI). To safeguard it from administrative pressure, its ownership was given to RBI. SBI expanded fast and opened its 416 branches within a period of 5 years all around the country (RBI 2008a). In 1960 the government of India nationalized eight more banks and were made subsidiaries of SBI. The nationalization of these eight banks increased the government’s share in banking. As a result of it one-third of banks nationwide were under the direct control of government.

After independence the banking system made remarkable progress. The main features of the progress were:

a. Sharp decrease in failure of banks,

b. The presence of banks increased nationwide,

c. Legislation for banking provided strong foundation, and

d. High increase in deposits was observed.

Despite of progress in banking infrastructure the benefits were not provided to entire general public. The reason was that the credit facilities of banks were not in access to those sectors that required it more. Presence of banks was not nationwide; rather it was concentrated in the urban areas and metropolitan cities.

In December 1967, the idea of social control was introduced by government by implementing Banking Laws Amendment Act. The objective behind social control was to:

a. Allocation of credits by the bank by spotting the right sectors.

b. Make use of banks for promoting and helping socio-economic development.
c. To prevent wrong uses of bank funds.

In addition to it, in 1968, National Credit Council was also formed to facilitate banks in allocation of credits as per five year plan.

In 1969, fourteen banks got nationalized after introduction of Banking Companies (Acquisition and Transfer of Undertakings) Ordinance. It facilitated various major structural changes in the banking sector. Increase in number of branches was done beside the enlargement of priority sectors. The credit was forwarded to the priority sectors as divergent to the profit motive of the banks. By the establishment of Credit Guarantee Corporation of India Ltd. the risk of banks of default in payment was covered and it helped to increase loans to the marginal borrowers. Massive increase was seen in rural branches. Number of branches that were 1,443 in 1969 increased sharply and by 1981 rural branches were 19,453 (RBI 2008a). The credit outstanding of banks increased to 36 billion in 1981 in comparison to 1.15 billion in 1969 which was 11.9% of total rural area loans (RBI 2008a). To prevent failure of banks RBI was monitoring the economy and was controlling it by making changes during period of crisis. Once again in 1980 nationalization process of banks was done by nationalizing six banks. These were the banks that were having deposit liabilities of more than Rs.2 billion. After the nationalization number of public sector banks was twenty that represented 92% of deposits in banking sector. The Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) were also increased by the government. The earnings of banks were less than CRR and the yield received by banks was low than the interest paid by banks. Stringent controls were marked on banks. CRR was 15% and SLR was 38.5% which in total amounted to 53.5%. Primarily use of banks taken by government was to fund its projects of economic development. Due to these stringent measures the banks became unprofitable and government was forced to make reforms in 1991. Narsimhan committee was formed to frame and execute these changes.
The two main methodologies of the banking system and regulation are ownership of banks by the government and the other is free banking system. These two approaches described by Barth et.al (2008) are “Public Interest Approach” and other is “Private Interest View of Regulation.” Till 1991 there were various banking regulations and due to them social control was mandated successfully. Social control in banking is possible if banks are able to allocate resources in an efficient manner with mobilizing credit in all the sectors of society. Barth et al. (2008) define socially efficient as, “that the banking system allocates resources in a way that maximizes output, while minimizing variance, and is distributionally preferred.” The social control policy of government helped to expand, regulate and stabilize the banking system throughout the country. The positive intention of government led the banking sector to span throughout the nation with fewer failures of banks. It also helped the banks to earn profits along with priority sector lending. Second round of nationalization, initiated in 1980 with nationalization of six banks and the regulations pertaining to banks were increased, resulted in inefficiency and non-profitability of banks. Joshi and Little (1997) opined that the country, by 1991, had created an unprofitable, inefficient, and financially unsound banking sector.

Due to increased regulations of government the profitability of banks decreased despite of increase in deposits. Average return on bank’s assets was -.033% from 1984-1994. The reason for decreased profit or losses was not governmental ownership of the banks but the reason was the stringent regulations that were imposed on banking system. McKinnon and Shaw were of the view that the requirement of high reserve, higher advancing to priority sectors as a major percentage of lending and floors and ceiling of interest rates is damaging and is unsafe for allocation and mobilization of resources. Excessive intervention of government in the financial system leads to adverse effect on equilibrium growth (King and Levine, 1993).

It may become difficult for government and it may become incompetent in running the banking system in the country even if there are no wrong intentions.
Following the effective regulations imposed in 1960’s there were fewer bank failures. Later the suppressive policies of the government made the effective regulations impossible. Barth, Caprio and Levine’s (2008) “ineffective hand view” suggests that “even if governments demonstrate exemplary integrity, official regulation might be generally ineffective at actually easing market failures.”

Two important postulations of public interest approach are:

1. There are market failures
2. Government has powers to trim down market failures.

Private interest view suggests that second postulation does not hold and government has no control on market failures. The work done by Stilger (1971) and Peltzman views the regulations of government as counterproductive and point towards a “regulatory capture”. Where there is intervention of government the resources may be funneled to those sectors that are historically unprofitable, they need their capital to grow but can’t access it as they are unprofitable.

The ways in which government of any country could intervene in banking system are numerous. The Indian government made dynamic involvement in the measures mentioned below:

1. It imposed restrictions on banks.
2. It predefined the limits of capital requirements.
3. It imposed restrictions on number of entry.
4. It gave a numerous of supervisory powers.
5. Ownership by government.
6. Support to banks about safety of their funds.

These measures can further be discussed as under:

1.1.1 Restrictions on Banks
These are restrictions that are imposed on banks in form of level of performance of activity. It is crucial to impose such restrictions on the banks. If the regulatory restrictions are imposed they can be a reason of decline in the competence and productivity of banks and can lessen their capability to make diversification of their income streams. If bank will diversify its operations it will be in a position to reduce its risk of overall operations. Study conducted by Barth et al. (2001) reveals that if the regulations are higher they will be contributing factor towards higher profitability.

1.1.2 **Limits of Capital Requirement:**

The government is also empowered to impose capital restrictions in addition to entry restrictions on the banks. It has the authority to levy regulations concerning to the prerequisite of capital. It acts in both ways on one hand it has an effect on risk taking activities and on other hand it helps banks to have a cushion if economy undergoes financial crisis. Management of private banks is not in agreement with imposition of capital requirements by government. Gennotte and Pyle (1991), Lam and Chen (1985), and Besanko and Kanatas (1996) suggest that “higher capital requirements might increase risk taking behavior”. There are always the chances that due to a condensed balance sheet the banks can go for risky activities under limited liability suggest that if the capital requirements imposed by government will be higher, higher will be cost of capital for the banks. Indian national government has made compulsory such restrictions on the private banks.

1.1.3 **Restrictions on Entry**

Government reserves the authority to control banking system by controlling the entry of foreign banks and new private banks. Jayaratne and Strahan (1998) conducted and suggested that when US government created competitive environment by the way of taking off branch restrictions “the rate of economic growth within those states
accelerated and excellence of bank lending improved.” The government of India placed restrictions on entrance of foreign banks and private banks. For operating in India it is mandatory for these banks to obtain license from Indian government. RBI, in 1993, allowed the private banks to enter in banking sector, but also imposed restrictions on them for expansion of their branches. Various studies conducted in banking sector have exposed that restriction on entry is not favorable for banking industry and is also not favorable for the overall economy.

1.1.4 **Supervisory Powers:**

These powers refer to the official supervision by government of banking activities in country. Usually the developing countries have imposed controls and have given directions on credit programs and requirements pertaining to high reserve and liquidity. It is helpful during the phase of financial and economic crisis and as the banks liberalize these requirements, it is made mandatory for them to have appropriate regulation of their activities. But, the private interest has its views in disparity to it. Even though it has not been researched too much and there are not many views with respect to it. Private interest disregards and states that too much control and supervision by the government can lead government officials to corruption. The other argument is the government employees lack motivation in work as they are paid less by government as compared to the employees of private banks. Due to it the corruption increases and bank officials accept bribes to give good reports. In India there are agencies that keep a check on the working of banks. RBI also reserves some supervisory powers and it exercises them by inspecting and investigating the financial statements of banks. These inspections and investigations are carried throughout the year and on a regular basis.

1.1.5 **Government Ownership:**
The government ownership of banks is another view out of the two major views of banking system. As per the private interest view sufficient motivation is not given to the employees with respect to monetary requirements due to which investments in socially required sectors are not increased. Despite of it high funding is done for the projects that are beneficial politically, even if the result is they are converted in non-performing assets. Barth et al. (2001), were of the view that “greater government ownership is generally associated with less-efficient and less well-developed financial systems.”

1.1.6 **Safety and Net Support:** The two broad classifications of safety and net support. One being “explicit deposit insurance system” and other being “lender of last resort”. The supporters of private interest view suggest that it is a type of ethical peril and also proposes to save the small depositors in the bank. This view suggests that due to occurrence of deposit insurance the working of the banks is monitored less and due to it the premium on risk is reduced in cost of funds of the banks. For the sake of safety of bank’s funds, government in India has formed Credit Guarantee Corporation of India.

The requirement of liberalization of banking system was enforced academically. In 1990, a committee that was supervised by Shri M Narasimhan was formed to review prevailing financial system of the country. The report given by the committee to the parliament assisted as the foundation of revolutionary changes in banking regulatory system of India. Following measures were prescribed by the committee to government of India:

a. Decrease in the CRR and SLR of the banks.

b. Reducing percentage of direct credits slowly in the priority sectors.

c. Markets to regulate the interest rates.

d. To develop asset reconstruction fund for the purpose of marking non-performing assets.

e. Reorganizing banking sector structure.
f. Making public sector banks autonomous.

g. Eliminating control of Finance Ministry over the banking sector.

Few of these recommendations were initiated by government and these recommendations afterwards reformed banking industry.

Further, in 1988, one other report was recommended and submitted by the committee. The principal focus of this report was on legislation of banks as well as growth of banking sector all over the country. Following were the main recommendations suggested in this report:

   a. Creating a strong financial system which can be capable of handling the problems pertaining to instabilities in exchange rate and also liquidity.

   b. To facilitate the weak banks that were high on non-performing assets were recommend “Narrow Banking Concept” to facilitate them to make safe investments.

   c. The capital adequacy ratio to be increased.

   d. To review and analyze role and work of board of directors and to implement a professional corporate strategy.

   e. To critically review the banking laws, such as SBI Act, RBI Act and the Banking Regulation Act.

   f. To bring an extraordinary level of professionalism in the banks by adopting better technology adopt and by imparting specialized training to the staff.

1.2 Growth of Banking in India

1.2.1 Changes in Banking Sector Since 1991

The banking experienced low capital base and less competition till early 1990s. The productivity of banks was low and the intermediation cost was high. Reviewing the working of bank, RBI stated that after nationalization of large banks during 1969 and during 1980, the Government-owned banks have
dominated banking sector. The use of technology was marginal and the no proper emphasis was paid towards the service quality. The systems to manage risk were not implemented by banks and there were weak prudential standards. Banks also did not follow proper risk management systems and the prudential standards were weak. As a consequence of it banks faced a situation of poor quality of their assets and were also low on profitability.

Primary intention of making transformations in banking sector was to increase proficiency of banks and to afford stability in its operations. A number of reforms were initiated by government. These reforms can be classified broadly in three main groups:

a. Enabling Measures
b. Strengthening Measures and
c. Institutional Measures

a. Ensuring Measures

These measures were formed and initiated to provide an environment to banks in which they could respond to the signals of market and could commercially consider it. One of them was to lessen the pre-emptions so that there additional funds can be released for lending for commercial purposes, to liberalize the entry norms, to deregulate interest rates which can help to enable price discovery and to make the banks autonomous.

b. Strengthening Measures

The potential strengthening measures were embarked on to overcome the susceptibility of bank failure in the phase of fluctuations in economy. These measures included enhanced transparency, disclosure standards, income recognition, capital adequacy, asset classification and provision for their norms and exposure norms. Salient feature was to undertake reforms in legal framework for the purpose of creation of new institutions.

c. Institutional Measures
Banking sector instigated a number of reforms in banking sector which were initiated in India during 1990s. These reforms were undergone in two discrete phases in country. The first phase of these reforms was implemented after report submitted by Narasimham committee in 1992. These reforms were predominantly focused on providing strength to banks. Fundamental assumption that was undergone by committee was that the banks generate its primary resources from general public. So the deployment of these resources should be for providing maximum benefits to its depositors. The assumption behind it was that the government should restrict itself from intervening in the matters of nationalized banks and government cannot endanger the financial health, efficiency and solvency of the nationalized banks. As per report submitted by committee the reason for poor financial condition among nationalized banks was:

a. High intervention and control of central government in the functioning of banks. It was mainly seen in branch expansion and credit allocation.

b. Excessive political interference as a result of which the banks were deprived off to perform on basis of commercial judgment.

Although there was resistance from opposition and trade unions, but the government accepted and implemented all the major recommendations propounded by the committee.

The second phase of transformations took place after recommendations prescribed by Narasimham committee in 1998. This time the committee stressed on changing structure of banks and focused much on disclosures of banks and also on the transparency level of the banks. Efforts were endured to bring Indian banking standards parallel to best International banking standards.

Since 1991, following were major reforms in banking system of India:

1. Allowing autonomy to banks in operations.
2. Interest rates deregulation.
3. Lessening the norms of investments of banks.
4. Easy entry norms of banks.
5. Reduction in reserve requirements of banks as well as withdrawal in inter-bank borrowings.
6. Decrease in statutory pre-emptions to make banks free in lending their funds for commercial purposes.
7. Relaxation with reference to foreign currency investments.

The financial domination of government was reduced significantly by the deregulating rate of interest charged by the banks and by withdrawal of credit allocations.

1.2.2 Regulation and Administration of Commercial Banks

The commercial banks have contributed a lot for the economic progress of country so and their contribution is critical matter of public policy. The financial regulations play an important role in determining that financial system of the country runs its operations in a sound manner. In various countries a tradition has been observed that the financial system is regulated by central banks.

Supervision of banks and their regulation is most important and essential element of financial safety of country because the banks are seen as core of financial crisis. Most importantly the first rationalization for the banks is that they are helpful in preventing systematic risk, they help in avoiding financial crisis in country, they take care of welfare of its depositors and act wisely in lessening the unevenness of information among them and depositors. It was perceived that financial crisis will be responsible for a higher cost so the government authorities decided that such costs should be avoided. To avoid these costs government of countries decided to regulate banks. The financial regulations of banks also contribute towards controlling of a varied range of social objectives along with enhancing the efficiency of financial system. In various countries these regulations are for the welfare of the persons that are concerned with banking, although it cannot be stated that it is the approach of “one size-fits all”.
It is equally important to keep in the mind that the financial institutions derive benefits from a suitable regulatory administration. There are not sufficient evidences that the regulatory jurisdiction makes institutions stronger and lead them less suspected to the financial shocks. No distinctive model is formed for the administration of financial system in. No practical approach has been formed for supervising it. There are various types of regulatory models that are working in financial system. It makes it challenging to choose an ideal model.

The Banking Regulation Act, 1949 requires RBI to inspect record of banks. Before granting the license to start banking activities it is also empowered to scrutinize the method of operation of the banks. Investigation and inspection by conducted by RBI helps banking companies to assure that banking company is having sufficient funds to settle down the claims of its depositors in full. Along with depositors these provisions also safeguards the creditors of banking company.

The government modified and changed its approach in relation to supervisory and regulatory powers time to time looking into the requirement. The role of RBI in form of regulator and administrator of the banking system has changed from micro level to macro level. The management of banks is set free to take and implement decisions on their own.

The most crucial step in Indian banking was nationalization of fourteen commercial banks in 1969. The principal emphasis behind regulation of banks was to reorganize banks and to confine the banks to attain objectives of nationalization. To critically analyze and to enhance the work of the banks a restructuring of the inspection system of banks was required. Objective of this restructuring of inspection was to gauge the working of banks in various aspects.

The enormous growth and extraordinary development of the banking system in country gave birth to some stresses and strains. The banks and their branches increased in number and geographical area covered by these banks also increased. As a consequence of it the supervision and control of the RBI started weakening.
To meet these short comings the RBI formed a working group in 1981 to review the inspection system of private and public commercial banks. This group suggested various and a variety of improvements and changes in inspection methodology of commercial banks. After the recommendations given by the working group, in 1985 an annual appraisal of inspection of public sector banks was started. Annual financial review of banks was also started after the audit of banks. Importance was given to Indian banks to tackle the issues concerning to system of internal control of the branches and to upsurge the capital system along with the international exposure of the banks.

1.2.3 Post-Liberalization Reforms (after 1991)

Decade of 1990s was decade of crisis for financial system of country and especially for the banking sector. Financial system of country made noticeable progress for achievement of social goals up to the decade of 1980s. Putting too much emphasis on social goals became a reason for decline in efficiency and productivity of banks and led to decrease in their profitability. The operational efficiency of banks was affected by introduction of directed credit programs and direct investment initiatives. Quality of loans and advances given by the banks also worsened. Overstaffing in public sector banks deteriorated the functional efficiency of the banks. The banks were lacking in adoption of technology and overall internal organizational arrangement of the banks was weakening. These factors instigated a need for urgent reforms in banking system. In 1991, a committee was constituted under chairmanship of M. Narasimham to review the financial system of country. The primary work of this committee was to review the issues responsible for the weakness of banking system in country. The committee was to analyze the reasons of weakness and to suggest reforms for banking sector. These reforms were followed and adopted by the RBI and were implemented.

In 1993, the RBI started Department of Supervision which was later renamed as Department of Banking Supervision to provide strength to the institutional
framework of banks in country. A Board of Financial Supervision (BFS) was constituted which was granted high powers. Governor of RBI was the Chairman of this Board, deputy governor as vice chairman and four directors of the Central Board of RBI were appointed as its members. This Board was constituted in 1994.

Various measures such as deregulation of interest rates, decrease in CRR and SLR, operational autonomy was taken into consideration to strengthen the banks. A number of other wise measures were also taken to confirm that banks can match the best prevailing practices across the globe.

The primary objective of transformations in banking sector was to augment the productivity and proficiency of the banks by increasing competition. As advocated in the report of Narsimham Committee, private sector banks were given licenses to operate as commercial banks in 1993. The private banks were given license to enhance the competition with objective of achieving greater productivity and proficiency in the banking system of country.

A working group was formed to review and supervise the operations of the banks under chairmanship of S. Padmanabhan in 1995. The regulatory policies of the county changed considerably with the developments around the globe and with the changing speed of financial system of country. The on-site inspections were conducted by RBI and along with it also adopted three supervisory approaches. There approaches were use of external auditors, offsite monitoring and internal control system in the banks. The working group also reviewed the inspection system of Reserve bank of India. Working group once again emphasized the importance of on-site inspection and suggested that the inspection system should be substituted by a system of on-going supervision. Recommendations were made by the working group to start a full scope on-site examination. The in-house off-site monitoring will act as a supplement to the full scope on-site examination.

Further working group also emphasized on supervision to be conducted for deviations if any. As a result decision was made to conduct full scope periodic statutory examination which shall focus on the given core areas:
1. Financial condition of the banks.
2. Performance of the banks.
3. Operation condition of the banks and its management

Capital adequacy, asset quality, management, earnings, liquidity and system, (CAMELS) rating 'model which was internationally recognized was adopted with some changes and alterations as per condition of Indian financial market for Indian banks. For foreign banks capital adequacy, asset quality, compliance, systems and controls (CACS) model was prescribed.

Examination of liquidity of the bank was further added to CACS to make the model CALCS. Statutory examination was to be conducted periodically and was to be aided by four kind of regular on-site assessments. These assessments were targeted appraisals, targeted appraisals at control sites-commissioned audits and monitoring visits.

In 1995, Off-site Monitoring and Surveillance (OSMOS) system was implemented. This system worked as a part of crisis management framework and was used to give early warning for on-site inspections of the banks that were having weak performance. It was made mandatory for the banks to increase the use of INFINET for regulatory reporting and supervisory reporting. The time limit of the banks for submitting returns for various categories was made timely since June, 2005.

To enhance the strength of the banking system in the country, capital adequacy norms were introduced. These norms were adequate to make it sure that similar capital structure standards are followed and the growth was achieved in line with Basel Committee norms (Basel I). Basel Core Principles are followed for making the supervision of the banks in an effective manner. It requires observance of the principles of preparing consolidated accounts and supervising the working of the subsidiary of a bank.
Framework provided by Basel II provides the banks for determination of their requirement of capital for credit risk, operational risk and market risk. It enables the banks to adopt an approach that is proper for its operations and also for the financial markets. The capital requirements of the banks will be affiliated more closely with risk in balance sheet of banks under Basel II. For switching from Basel I to Basel II a number of complexities were found. For switching from Basel I to Basel II in a non-disturbing manner a consultative approach was visualized. The Indian banks, under the guidelines of Reserve Bank of India, prepared for adoption of Basel II norms from March 2007.

1.3 Modernization of Banking Regulations

The Reserve Bank of India encouraged and focused on the control of financial market and observed top level of governance. It was of the view that it is perfect for the management of the banking companies to perceive a distinct ownership. The Reserve Bank of India proposed a policy that anticipates the banks to bring divergence in its services and introduce few more services to its customers.

The change in working pattern of banks from manual work to computers has been appreciated in the past years. Thanks to the advancements in the technology that led to healthy financial system all over the world.

The initiative of implementing hundred per cent computerization in the banks made the banks more dynamic and led them to fulfill this requirement. It facilitated the banks to give better services to the customers, better internal control and efficient management of the services. In May, 2005 the Reserve Bank of India released a financial sector technology vision document. It explained the important areas and provided the general information on the various approaches on continuing the plans, audits and providing required focus on the continuity of the business.

The Reserve Bank of India observed the complexities prevailing in the business of banking and introduction of various products with risk profiles. It instigated the
steps to device Risk Based Supervision approach for the purpose of supervision of banks. The Risk Based Supervision approach is reviewed and analyzed by Reserve Bank of India from time to time and changes are introduced, if needed. The changes and revision in the process makes the Risk Based Supervision process more sensitive to risk and user friendly. The revision of guidelines by Reserve Bank of India in November, 2004 introduced the guidelines on Know Your Customer (KYC) norms and recommended a number of Financial Action Task Force (FATF) on standards for Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT).

In beginning of 1990s a number of financial sector reforms were introduced in a sequential and phased manner. These reforms were focused on the elimination of deficiencies that the financial sector was observing. The objectives of these reforms were to make the financial system of the country more stable and to make it more efficient so that the banks can also contribute in pacing the growth process of the country.

During the decade of 1990s, as a result of reforms, the banking sector of the country experienced essential changes. These reforms have significantly changed the structure of organizations, pattern of ownership of these organizations and domain of operations of institutions and have pervaded a competition in the country’s financial sector. Due to the competition the banking institutions of country are forced to reposition themselves if they have to survive in the competition. The massive progress and innovations in technology has empowered markets to come out from the outdate system to modern design of markets. Thus, there was a considerable deduction on the execution of transaction costs and trades.

Various segments of financial markets were integrated as a result of it the difference between banks and other financial intermediaries also distorted. The other impact on the reforms in the financial sector was that the involvement of financial institutions increased and all participated in the capital market,
especially banks. With the increased participation of banks in financial markets there has been significant increase and inter-linkage between financial institutions and markets. With the increased inter-linkage it is anticipated that these linkages will increase efficiency in allocation of resources and using the monetary policy more effectively. There is also a risk of contamination from one segment to another that can have effects on the overall financial stability. It could be responsible for suitable responses especially during the phase of crisis.

Reforms in banking sector of India are stranded on the conviction that the competitive efficiency among the real sectors of the country will not comprehend until the reforms are implanted in the banking sector. The primary reason for implementing reforms in the banking sector was to make advancements in the allocation effectiveness of the resources and to speed up the process of growth in the real sectors. It was to be achieved by removing all the deficiencies prevailing in the banking system and that affect the performance of the banks.

1.4 Indian Banking System and Greece Crisis

In India the banking system has played a dominant role. It has been a core of economy as well as the development of the country. The various reforms implemented in banking industry have resulted in increased significance of financial markets. It indicates good sign for the stability of the financial system of the country. The European debt crisis after the Wall Street crisis of 2008 has deepened and it was expected that it could also hamper the banking system of India.

Reuters (June 29, 2015) published a statement of Rajiv Mehrishi stating that “Greece crisis does not have any effect directly on India. (But) interest rate may firm up in Europe. In case of firming up of interest rate in Europe, there can be outflow of capital from India,” Situation in Greece worsened and the banks were out of money to pay their depositors. The crisis was so deep that the Prime Minister called for a shutdown of banks for at least one week. But the India
financial market was least hampered and functioned properly as India had less financial exposure with Greece.

Associated Chambers of Commerce and Industry of India (ASSOCHAM) in a report stated that “With over USD 355 billion foreign exchange reserves and the country promising to grow at the fastest rate in the world, India can withstand any pressure from Greek crisis.” Arvind Subramanian stated that the response of India is Greek crisis is in line with other economies and there is no reason to worry on the developments in Greece. BBC News (July 3, 2015) published that “Most pundits agree the India cannot be directly affected by the crisis in Greece because the two countries' trade volume is relatively low.”

In a report published by The Financial Express (June 30, 2015), India’s Software and engineering exports were partially expected to get hampered as it was expected there will be high outflow of cash due to weakening of Euro. But there was no direct impact on the Indian financial sector due to Greek crisis.

1.5 Indian Banking System and US Financial Crisis

The Sub Prime crisis of US generated a typhoon in the financial market. The impact of the crisis was so severe that it led to bankruptcy of Lehman Brothers in September, 2008, which was one of the biggest investment banks of US. Bears Sterns also collapsed as a result of crisis. Merill Lynch Bank was acquired by Bank of America; American International Group (AIG) was on the verge of collapse and was funded bailout package by the US government and the entire financial world was shaken (Ammannaya 2008). The Federal Reserve of US propelled around $1 trillion as bailout packages to rescue Citigroup, AIG, J P Morgan and several other giants of US to preclude the financial crisis.

Thanks to the policies of Reserve Bank of India that Indian banks and entire Indian financial sector remained unharmed from the Great Financial Crisis (GFC). It deployed macro-prudential tools to target asset bubbles, while Western central bankers were ignoring the problem (Sheel, A. October 8, 2015). The crisis of
2007 revealed that it resulted in the failure of private banks in the rich and developed economies, especially in US and Europe. Mohan, TT R. (February 28, 2016) suggested that “In the face of the failure of private banks during the crisis-and the appalling lapses in management and governance that it highlighted- for commentators in India to claim that privatisation is the answer to problems in our banking sector is quite a feat. It shows a certain disregard for the nature of the banking sector in general and the record of India’s own banking sector over the past two decades.”

Despite of great financial global threats the Indian banking sector outperformed and overall performance of Indian banks remained good during the GFC. It is an example of strong and strengthened Indian banking system.

1.6 Internet Banking/E-Banking

The fast development in technology and use of internet has played a substantial role in the working of banks. Use of internet provides a platform to the customers to affect their banking transactions from remote locations. The various services that the customers enjoy are making online payments, online shopping, making online transfer of the funds and trading of stock and commodities online. The commercial banks in the country have launched a number of services that can be affected with the help of internet banking and the demand for these services is increasing with a rapid pace (Chauhan, V. and Choudhary, V., June, 2015).

The customers using internet banking services avail a number of banking products and services by utilizing the internet services (BIS Report January 4, 2015). These are the services that comprises of the activities of the banks and that can be enjoyed by the customers of the bank at any time, from any place and whenever it is convenient for them. It is also termed as virtual banking, PC banking, cyber banking, etc. It offers the banking services by an open access web network. It can be used directly by the customer from home or office or from any other remote
location where internet is available and can be accessed through mobile phone, digital television or personal computers (PC) (Daniel, E. 1999).

1.6.1 What Internet Banking?

The concept of internet banking came into existence in the early 1980s. It is one of the avatars of e-commerce. It is a combination of two words, namely electronic technology and banking. It is a process which assists the customers in affecting the transactions from home or office or a remote location without visiting the bank. Internet banking refers to provisions of banking and its

![Diagram](image)

**Figure 1.3: Information Technology and Banking**

services by the use of information technology. It helps the customers in eliminating visits to bank for making the transactions.
1.6.2 Advantages of Internet Banking

The advantages of internet are enjoyed by both, the banks and the customers. Following are the advantages of internet banking:

Advantages to Customers

Ease and Convenience: Calisir, F. and Gumussoy, C. A., (2008) suggested that Internet banking provides services with ease of access and ease of use and is taken as most efficient and effective. It facilitates the customers to effect the transactions through internet in a comfortable manner either from their or home or...
office or some other place without visiting the bank. It provides the information to the customers at a click from any remote location. Other than financial transaction it also provides ample of services such as inquiring about interest rates, ordering cheque books online, recharging cell phones, collecting account statement, etc.

**Cash Withdrawal From any Branch/ATM:** By the help of internet banking the customer can withdraw money from any branch in any city of the country. Earlier, in traditional banking, the customer was restricted to make drawings only from the branch in which he was having account. The Automatic Teller Machine (ATM) facility offered by banks enables the customers to withdraw money without visiting the branch. Now the ATMs of all the banks are linked and customers have the privilege to withdraw money from ATMs of other banks also.

**Less Waiting Time:** Mols, N. P., (1999) viewed that internet banking facilitates the customers to effect the transactions with less waiting time and in a more convenient manner as compared to traditional banking system with a considerably low cost. It eliminates various limitations of place and time and aids the customers with convenience in performing banking.

**Save Time and Money:** The customers using internet banking have a privilege to use banking services without visiting the bank. It results in saving of time as well as money. It also aids the customers to do away from traffic, save fuel, save environment by making less use of motor vehicles.

<table>
<thead>
<tr>
<th><strong>Traditional Banking</strong></th>
<th><strong>Virtual or Internet Banking</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gunpowder</td>
<td>Nuclear Charged</td>
</tr>
<tr>
<td>Personalized Services, Time Consuming, Limited Access</td>
<td>Real time Transactions, Integrated Platform, All Time Access</td>
</tr>
</tbody>
</table>

**Figure 1.5: Traditional Banking vs. Internet Banking**
**Round the Clock Availability:** The Internet banking users have the facility to use these services and effect the transactions round the clock on any day and at any time. These facilities are available 24 hours a day and 365 days a week. There is no limitation for the consumers to get aligned with bank timings and opening days.

**Self-service channel:** Internet banking aids the customers with a self-service channel. The internet banking customers are no longer required to depend on the staff of the bank to avail services. They get in a position to effect the transactions on their own. Eriksson, K. and Nilsson, D. (2007), opined that regular use of self-service technology is positively associated with the perceived usefulness of the buyers.

**Advantages to Banks**

Internet banking offers a number of advantages to banks also. Some of the advantages are shown in figure 1.6.
**Figure 1.6: Advantages of Internet Banking to Banks**

**Increase in Profits:** The use of internet by bank’s customers helps the banks to increase their profits. The banks that provide internet banking facilities to its customers enjoy better operating efficiency ratios and profitability ratios in comparison to the banks that do not provide internet banking facilities to its customers. Malhotra, P. and Singh, B. (2009). D'Silva, B., D'Silva, S., and Bhuptai, R. S. (2010) examined that the banks that provide the internet banking services to its customers incur lower cost in comparison to the banks that use traditional banking.

**A Cost Effective Mechanism:** It gives an opportunity to the banks to curtail their cost of operations as it provides the customers with a self-service channel to effect the transactions. It enables the banks to curtail their costs by employing fewer workforces which is helpful in deducting the administrative costs. Singh, P.
(2013) suggests that “Compared to traditional banking system, internet banking is cost-effective as it reduces the administrative costs and paperwork needed for the bank transactions”. A number of studies suggests and show that internet banking has helped successfully in reducing the cost of administration and cost of operations.

![Figure 1.7: Processing Cost per Transaction](source: Booz-Allen & Hamilton, JP Morgan (2003))

**Access The Bank Where There is No Branch:** Internet banking has expanded the geographic scope and it is expected that it may surge the customer base of banks through positioning electronic delivery channels at comparative lower cost (D'Silva, B., D'Silva, S., and Bhuptai, R. S. 2010). Few of the banks are making the internet banking services available through internet in those areas where they are not having their branches. On the other hand a number of banks are increasing their internet banking facilities to become branchless banking companies to provide services to their existing customers and to add new customers to provide convenient services to the customers in a cost effective manner.

**Improvement in Relationship with Customers:** - Upholding a sweet relationship with the customers is the primary urgency with a number of banks. The use of internet banking services can be fruitful for the banks and can help the banks in developing and maintaining healthy relations with customers by
providing ease of access for a number of products (Nagu V K 2012). Organizing healthy relations with the customers can be helpful for the banks to create customer loyalty and to increase the rate of customer retention. Perumal, V. and Shanmugam, B. (January 26, 2015) opined that the facility of Internet banking have emerged a convenient tool for improving satisfaction among customer and thereby cumulating cross-selling opportunities.

**Eco-friendly:** Internet banking is eco-friendly as it eliminates the use of paper usage and encourages environment friendly working. It also assists in decreasing the level of pollution as the customers are not required to travel physically by vehicles to affect the transactions and it aids in controlling of carbon emission by vehicles Yadav, R. B. and Pathak, G. S., (2013).

### 1.6.3 Internet Banking in India

In India internet banking originated late in comparison to US and Europe. They launched internet banking in the beginning of 1980s. In India these services were launched during early 1990s. ICICI was the first bank in India to start internet banking services. HDFC and Citibank launched internet banking services during 1999. Government of India and Reserve Bank of India took a number of initiatives to develop internet banking in India. IT Act 2000 was enacted and came into effect on October 17, 2000. This Act focused on the need of IT regulations on internet banking. It established a legal recognition of transactions affected by internet banking. The Reserve Bank of India is keeping a tight vigil on the internet banking transactions and is continuously reviewing and monitoring the legal requirements pertaining to the act to establish a financial online banking stability in the country.

Under the instructions of Reserve bank of India a high level committee was formed under chairmanship of Dr. K. C. Chakrabarty in 2011 to provide a roadmap for increasing the use of Information Technology (IT) in banking sector. The committee comprised of various members from IIM, Banks, IDRBT, IIT and Reserve Bank of India and prepared ‘IT Vision Document-2011-2017’.
The three major facilities that the internet banking offers are:

- Convenience to the customers in performing transactions as per their comfort, either from home or from office.
- The customers are not required to stand in queues in the banks.
- A 24 x 7 banking round the clock, 7 days a week and 365 days a year.

1.6.4 Current Scenario of Internet Banking in India

Internet banking has emerged as an essential part of the banking system in modern time. It has changed the working pattern of the traditional banking in the country. Before introduction of internet banking branch based banking, i.e., traditional banking was dominant. For the enactment of IT Act, 2000 the Reserve Bank of India formed a working committee to examine various aspects of internet banking. Later on the Reserve Bank of India accepted the proposals and commendations of working committee and gave guidelines to banks to apply internet banking in the country. The traditional system of banking that was present from hundreds of years was to be changed by modern internet banking system.

![Figure: 1.8. Mobile Banking Usage Worldwide](Source: Bain & Company (2014))
The number of ATMs, Point of sale terminals (POSs), credit cards and debits cards issued by commercial banks has shown an incredible growth during last five and a half years. The number of on-site and off-site ATMs increased from 60,153 in April, 2010 to 1,92,208 in November, 2015. There was an increase of 1,32,055 ATMs or 219.53% in November, 2015 as compared to April, 2010. The number of point of sale terminal was 5,95,598 as on April, 2010 as compared to 12,70,208 as on November, 2015. The number of POSs increased by 6,74,250 or 113.40% during the period. Considerable increasable was noticed in debit cards. The number of debit cards which stood at 182 million in 2010 increased to 625 million during the year 2015 showing an increase of 443 million or 243.25% during the period. There was not a significant increase in the number of credit cards. The number of credit cards increased from 18 million to 22 million or 22.64% from year 2010 to the year 2015. An analysis of increase in number of ATMs, POSs, Credit Cards and Debit Cards is given under in Table 1.1.

<table>
<thead>
<tr>
<th>Types of Internet Channels</th>
<th>No. of Channels</th>
<th>Increase in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Apr. 2010</td>
<td>Nov. 2015</td>
</tr>
<tr>
<td>No. of ATMs</td>
<td>60,153</td>
<td>1,92,208</td>
</tr>
<tr>
<td>No. of POS</td>
<td>5,95,958</td>
<td>12,70,208</td>
</tr>
<tr>
<td>No. of Credit Cards (In Millions)</td>
<td>18.33</td>
<td>22.48</td>
</tr>
</tbody>
</table>
Significant increase has been noticed in the ATM and POS transactions using credit cards and debit cards. In November 2015 the number of ATM transactions using credit cards increased by 165.67% and stood at 4,89,622 as compared to 1,84,298 during the month of December 2011. POS using credit cards increased by 134.64% and stood at 6,60,41,478 during the same period. ATM transactions using debit cards increased by 51.88% and POS using debit cards increased by 239.87% and stood at 9,99,44,365. Table 1.2 shows increase in the number of transactions affected through ATMs and POSs using debit cards and credit cards.

The total transactions affected, in terms of rupees, also increased significantly during the period from December 2011 to November 2015. In the month of December 2011 the value of transactions affected on ATMs using credit cards were 1,108.52 million which increased to 2,580.95 or 132.83% during the month of November 2015. Amount of transactions through POS using credit cards increased by 146.61% during the same period.

<table>
<thead>
<tr>
<th>Transactions Affected Through</th>
<th>No. of Transactions</th>
<th>Increase in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec. 2011</td>
<td>Nov. 2015</td>
</tr>
<tr>
<td>ATM via Credit Cards</td>
<td>1,84,298</td>
<td>4,89,622</td>
</tr>
<tr>
<td>POS via Credit Cards</td>
<td>2,81,45,943</td>
<td>6,60,41,478</td>
</tr>
</tbody>
</table>
Amount of transactions via ATMs using debit cards increased by 73.15% whereas the amount of transactions via POS using debit cards increased by 205.19% during the period from December, 2011 to November, 2015. Table 1.3 shows increase in the value of transactions affected through ATMs and POSs using debit cards and credit cards.

### Key Internet Banking Services
To cover the range of internet banking services, it is observed that there are forty six services that are provided online to the customers. These services are further divided into four categories, i.e., internet banking services, phone banking services, mobile banking services and automatic teller machines. Table 1.4 provides a description to these services.

**Table: 1.4: Key Internet Banking Services**

<table>
<thead>
<tr>
<th>Service Code</th>
<th>Internet Banking Services</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Online Transfer of Money</td>
<td>Transferring money to any other account of that bank or any other bank.</td>
</tr>
<tr>
<td>2</td>
<td>Balance Enquiry and Statement</td>
<td>Check the real time balance in the account and the transactions that have been affected.</td>
</tr>
<tr>
<td>3</td>
<td>Card to card fund transfer</td>
<td>Transferring the money to debit card holders or credit card holders.</td>
</tr>
<tr>
<td>4</td>
<td>Transaction History</td>
<td>Checking the transactions that have been performed in past or from the date the account is opened.</td>
</tr>
<tr>
<td>5</td>
<td>Applying for opening fixed deposit account</td>
<td>Request for opening fixed deposit or recurring deposit account can be made online.</td>
</tr>
<tr>
<td>6</td>
<td>Purchasing or Selling of Mutual Funds</td>
<td>The customer can purchase or sell mutual funds online.</td>
</tr>
<tr>
<td>7</td>
<td>Sending money order</td>
<td>The money can be send at door step to any destination in the country.</td>
</tr>
<tr>
<td>8</td>
<td>Recharging mobile</td>
<td>The customers can recharge their prepaid mobile from any location any time.</td>
</tr>
<tr>
<td>9</td>
<td>Stop Payment of Cheque</td>
<td>Customer can issue instructions to bank to stop payment against any particular cheque.</td>
</tr>
<tr>
<td>10</td>
<td>Account statement on email</td>
<td>Monthly account statement is e-mailed to customers.</td>
</tr>
<tr>
<td></td>
<td>Service Description</td>
<td>Description</td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>11</td>
<td>Place request for cheque book</td>
<td>Customers can place request for cheque books online</td>
</tr>
<tr>
<td>12</td>
<td>Apply for debit card</td>
<td>Customers can apply for debit card online.</td>
</tr>
<tr>
<td>13</td>
<td>Linkage of bank account to debit card</td>
<td>The customers can link their bank accounts of multiple bank to a single debit card</td>
</tr>
<tr>
<td>14</td>
<td>Upgrade and reissue of debit card</td>
<td>The customers can post request to reissue debit card or to upgrade their debit cards.</td>
</tr>
<tr>
<td>15</td>
<td>Deactivate or activate ATM/debit cards</td>
<td>The customers can place request to deactivate or activate their ATM/debit cards</td>
</tr>
<tr>
<td>16</td>
<td>Operating Demat Account</td>
<td>The customers can access the details pertaining to the holdings of their demat accounts.</td>
</tr>
<tr>
<td>17</td>
<td>Renewal or closure of fixed deposit</td>
<td>The customers can renew or close their fixed deposit or recurring deposit accounts and get the funds transferred in their account.</td>
</tr>
<tr>
<td>18</td>
<td>Change in Records</td>
<td>The customers can make additions or alterations in their information.</td>
</tr>
<tr>
<td>19</td>
<td>Online shopping</td>
<td>Online payments can be made for the goods purchased.</td>
</tr>
<tr>
<td>20</td>
<td>Update of interest rates</td>
<td>The rate of interest on deposits and other loans can be viewed online.</td>
</tr>
<tr>
<td>21</td>
<td>View loan details</td>
<td>The details pertaining to personal loan, house loan, car loan can be viewed any time.</td>
</tr>
<tr>
<td>22</td>
<td>Payment of Bills</td>
<td>The payment of electricity bills, cell phone bills, internet bills, etc. can be made online.</td>
</tr>
<tr>
<td>23</td>
<td>Tax payments</td>
<td>The payment of income tax, wealth tax, VAT, excise tax can be made direct from account.</td>
</tr>
<tr>
<td>24</td>
<td>Ticket booking</td>
<td>Railway tickets, bus tickets or air tickets can be booked online.</td>
</tr>
<tr>
<td>25</td>
<td>Trading in shares</td>
<td>The trading in security market can be done through a three in one account which assimilates demat, banking and broking account.</td>
</tr>
<tr>
<td>26</td>
<td>Converting loan to EMIs</td>
<td>Any transaction of more than Rs.2,000 paid using a credit card can be converted into EMI that range from 3 months to 24 months.</td>
</tr>
<tr>
<td>27</td>
<td>Online Loans</td>
<td>Small loans can be availed online in a short duration of time.</td>
</tr>
<tr>
<td>28</td>
<td>Corporate Internet Banking</td>
<td>Corporate customers are allowed some additional services.</td>
</tr>
<tr>
<td>29</td>
<td>Correspondence with customers</td>
<td>The customers can correspond over e-mails to inquire about their transactions.</td>
</tr>
</tbody>
</table>

**Phone Banking Services**

| 30 | Balance Enquiry | The details of balance of savings, current and fixed deposits are given over phone. |
| 31 | Stop Payment Instructions | Instructions to stop payment of any cheque issued can be done over the phone. |
| 32 | Statement of account | The request for account statement can be raised over phone and could be getting delivered at door step. |
| 33 | Request for fund transfer | The customer can transfer money from his one account to another account in the same bank. |
| 34 | Interest and exchange rates | The customers can get updates on interest rates and exchange rates on the phone. |
| 35 | Registration of mobile banking | The registration for mobile banking can be done using phone. |

**Mobile Banking Services**

<p>| 36 | I-mobile | A number of internet banking transactions can be done over mobile phone. |</p>
<table>
<thead>
<tr>
<th></th>
<th>Account Balance</th>
<th>The balance can be known via sms without using internet or phone banking services.</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>Credit card balance</td>
<td>The balance of credit card and the transactions affected in past can be known using mobile banking</td>
</tr>
<tr>
<td>39</td>
<td>Making payments</td>
<td>The payments can be made using mobile banking.</td>
</tr>
<tr>
<td>40</td>
<td>Last five transactions</td>
<td>The amount of last three transactions and balance after them can be known through mobile banking.</td>
</tr>
<tr>
<td>41</td>
<td>Purchasing and redeeming mutual funds</td>
<td>Purchasing, selling and redemption of mutual funds can be effectively done using mobile banking.</td>
</tr>
</tbody>
</table>

**ATMs**

<table>
<thead>
<tr>
<th></th>
<th>Transfer of funds</th>
<th>Funds can be transferred from one account to another of the same branch of bank.</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>Cash deposit</td>
<td>Cash can be deposited in account using ATM.</td>
</tr>
<tr>
<td>43</td>
<td>View account balance and mini statement</td>
<td>Account balance can be known and mini statement of transactions can be taken.</td>
</tr>
<tr>
<td>44</td>
<td>24 hour access</td>
<td>Customer can access his account at any time to withdraw cash or transfer funds.</td>
</tr>
<tr>
<td>45</td>
<td>Payment of credit card bill</td>
<td>Bills of credit card can be paid from account using ATM.</td>
</tr>
</tbody>
</table>