THE INDIAN BANKING SYSTEM
MANAGING NEW CHALLENGES

SUMMARY SUBMITTED TO

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SUMMARY

The banks form the most important segment of the financial sector. However, till the eighties, government regulations, in most of the countries shielded the banks from the forces of competition. India has been no exception to this. The market imperfections, however, led to operational inefficiency in the banks as under the administered interest regime, they could earn adequate spreads to cover their high operational costs.

The Indian economy has been witnessing robust growth for quite a few years in succession. In 2006-07, the economy is estimated to have grown by 9.2%, building on 9% growth in the previous year. There are many positive features to this growth, which reinforce its solid foundations: the broad based nature of the growth relying on domestic demand (both investment and consumer) and exports, as well as the sectoral contribution, with manufacturing contributing to the strong growth momentum, not just services. The only exception is the challenge of agriculture. During 2006-07, the manufacturing sector grew by 12.3% against growth of 9.1% a year ago. The services sector, which has been growing since mid-1990s, is expected to continue to power the Indian economy, as it now accounts for three-fifth of GDP. Within services, trade, hotels, transport and communications and financial services recorded double-digit growth for the last two years. Another positive feature underpinning the current growth phase is the sharp rise in the rate of savings and investment in recent years, with the rate of gross domestic investment having risen sharply to 33.8% and the savings rate to 32.4% in 2005-06. Investment in general, being a forward looking variable, reflects a high degree of business optimism and reinforces the outlook for growth.

Inflation remained a major concern during the year, with WPI inflation hovering around 6% though it declined to 5.74% by 31st March 2007 CPI. CPI Inflation, however, remained higher. With its roots in supply side factors particularly primary articles and manufactured goods, inflation was fuelled by buoyant growth in broad money supply and bank credit.
The national economy requires adequate financial resources for the time honored implementation of the development oriented welfare schemes. The entrepreneurs expect credit facilities on soft terms and conditions; an individual keeps high expectations from the banks; and the rural economy calls for a priority attention while finalizing the allocation of funds. The banks need a strategy that makes possible a fair blending of the interests of banks, customers and public at large. On one hand, they are expected to serve social interest while on the other hand they also bear the responsibility of generating profits. The growing magnitude of social costs, no doubt, appears to be a major bottleneck while computing profit but this is not the only reason for a large scale degeneration of existing banking. In true sense, we find multidimensional changes in the business environment which need a new vision, a new policy and a new strategy.

There has been a paradigm shift in the mindset at the government level and at the policy framing level in the banking industry over the years since nationalization of banks in 1969, particularly during the last decade. Having achieved the primary objective of nationalization as envisaged by the government policy framers at that time viz. a marked shift from class to mass banking, increasing the reach of the banking industry geographically through massive branch expansion, credit to the agriculture and rural sector and to function as an active arm of the government for poverty alleviation, the most important issue before the industry at present is survival and growth in the vortex of strong cross currents that the economic liberalization has. A safe and sound financial sector is a prerequisite for sustained growth of an economy. Globalization, deregulation and advances in information technology in recent years have brought about significant changes in the operating environment for banks and other financial institutions. These institutions are faced with increased competitive pressures and changing customer demands. These, in turn, have engendered a rapid increase in product innovations and changes in business strategies. While these developments have enabled improvement in the efficiency of financial institutions, they have also posed certain risks. The regulatory and supervisory policies are, accordingly, being reshaped and reoriented to meet the challenge of containing systematic risks. In this changing milieu, the main challenge for the supervisors has been to maintain the stability of the financial system and at the same
time, provide sufficient flexibility to financial institutions so that they can respond effectively to the growing competition while taking advantage of the business opportunities and technological developments. The Reserve Bank of India has also been suitably reorienting the regulatory and supervisory framework so as to meet the challenges of a new environment. It has been the endeavor of the Reserve Bank to develop a competitive, strong and dynamic banking system so that it plays an effective role in supporting the growth process of the economy. The emphasis has been on the safeguarding the financial stability of the overall system through increased emphasis on prudential guidelines and effective monitoring, improving institutional soundness, strengthening the regulatory and supervisory processes and by developing the necessary technological and legal infrastructure. While the approach towards the reforms has essentially been gradual and relevant to the context, consultative processes and appropriate timing and sequencing of measures have succeeded in aiding growth, enhancing efficiency, avoiding crises and imparting resilience to the financial system. Banks accept and deploy large amount of uncollateralized public funds and leverage such funds through credit creation. Banks also administer the payment mechanism.

The Indian public sector banks face challenges for their existence both in domestic and international markets. During the past few years the RBI has softened its attitude towards private banks in the country. The banks that meet the RBIs capital adequacy requirements can open branches without seeking any prior approval. The private banks are market driven instead of government driven. However, the present Indian public sector banks operate like governments. Better customer services are the key to success in the slogan given by private banks. But public sector banks are burdened with the high non-performing assets and a large work force. Few of Indian public sector banks have small number of branches in foreign countries. These branches generally do no fare well. One of the reasons of deterioration in operations of Indian banks abroad is that their capital base is very weak and do not conform to the international standards. Earnings from operations are not retained in the bank for augmenting the capital base. Thus reserves are dwindling and do not provide adequate funds in the period of depression. This poses a big structural problem.
The future of Indian banking represents a unique mixture of unlimited opportunities amidst insurmountable challenges. On the one hand, we see the scenario represented by the rapid process of globalization presently taking shape, bringing the community of nations in the world together, transcending geographical boundaries, in the sphere of trade and commerce and even employment opportunities of individuals. All these indicate newly emerging opportunities for Indian banking. But on the darker side, we see the accumulated morass, brought out by three decades of controlled and regimented management of the banks in the past. It has siphoned off profitability of the government-owned banks, accumulated bloated NPA and threatens adequacy of the banks and their continued stability. Nationalized banks are heavily over-staffed. The recruitment, training, placement, and promotion policies of banks leave much to be desired. In the nutshell, the problem is how to shed the legacies of the past and adapt to the demands of the new age. However, with the advent of economic reforms, the deregulation and opening of the Indian economy to the global market, brings opportunities over a vast and unlimited market to business and industry in our country, which directly brings added opportunities to the banks.

Nationalization resulted in Reserve Bank of India enforcing uniform rates and service charges among nationalized banks. This caused a lack of competition either amongst the public sector banks or between the public and private banks, which gradually eroded the spirit of competition from the banking sector. This, combined with the labour policies of the public sector employees’ salary and promotions not being linked to their job performance, has led to a steady decline in the efficiency, quality of customer service, and work culture in the banks. As a matter of policy, 40 percent of the funds of the banks should be lent to the priority sectors at concessional rates and for further requirements of loan to the exporting industries, food procurement program, etc., again at concessional rates, and the rest 25 percent of the bank deposits are kept to meet the financial needs of all the remaining sectors. The purpose of priority sector lending was to increase the proportion of credit to these sectors important to the national economy in terms of their contribution to growth, employment generation, and more equal distribution, which may not receive adequate credit otherwise. While these objectives are desirable and have been achieved to some extent, there have also been significant costs to the economy. Some of the priority
sector loans were given without adequate safeguards against default. A significant proportion of loans were shared by those for whom it was never intended. Even the loans given to qualified borrowers under priority sector lending may not always be used for the intended purpose since they direct the funds for unproductive purposes.

Political control of public sector banks and the consequent lobbying by various pressure groups has resulted in loans being given without adequate safeguards against default and a lax attitude towards enforcing repayment. Concessional priority sector lending imposes a burden on the rest of the economy which must subsidize the cost of such loans and is faced reduced credit availability to the more productive investments. Thus, the social benefits of priority sector lending have proved to be smaller and cost higher than originally expected. As such, priority sector lending has begun to look increasingly unviable. With the massive branch expansion, the country as a whole and even rural India is now well served by commercial banking facilities.

The world of finance has changed markedly over the last 30 years or so. The change has been brought about by a number of events and circumstances. The growing dissatisfaction with the working of the fixed exchange rate system during the 1960’s led especially many countries, especially of the industrialized world, to adopt a floating exchange rate system by the early 1970’s. There was also a growing realization that for achieving sustained growth with stability, it would be necessary to have freer trade, liberalized external capital movements, and relatively flexible use of domestic monetary policy. Under the impact of economic liberalization, the industrialized countries improved their economic position in the world economy and posted high growth rates in the 1980’s and thereafter. The process of liberalization, deregulation and globalization of financial markets gained momentum in the 1990’s and expanded the choices of investors, and helped to improve the prospects of reducing the costs of financial transactions and improving operational and allocative efficiency of the financial system. A number of developing countries especially in Asia, which moved early on to the path of economic liberalization, had experienced large capital inflows through the 1980’s and the first of the 1990’s. Beginning of the reform period in 1991, there have been attempts to adopt a new course of financial
An efficient financial system requires a regulatory framework with well defined objectives, adequate and clear legal framework and transparent supervisory procedure. This in turn, requires comprehensive legislations to enable the regulatory authorities to discharge their responsibilities effectively. The Reserve Bank has therefore, been making constant efforts to upgrade and strengthen the legal framework in tune with the changing environment. Making money is quite easy these days but handling it can take some extra efforts. Banking is an important aspect of money management and it needs some planning. The Indian banking industry is currently in a phase of transition. Government disbursements have begun to pick up, and in the wake of improved performance, the share market has been upbeat. While public sector banks are shedding flap by implementing VRS schemes and deploying technology aggressively, private players are looking at consolidating their strengths through mergers and acquisitions. Besides customer satisfaction, product differentiation has been the focus area in the banking sector. With these trends, most banks are working on aggressive strategies to put in their retail assets by venturing into various categories of consumer loans. As per experts, India’s middle class no longer considers debt as a four-letter word. More and more think that financing a coveted gizmo with a loan is acceptable, even smart. It is true that both banking industry and its clients have become more liberal in their attitude towards loans. Banks are pushing retail loans aggressively to make more profits and customers are impatient to buy the things they want, without waiting to save enough. They believe that if this new trend grows, it could have a long lasting impact on saving and investing patterns in the country. They were compulsive savers until now but they are shifting towards a consumerist economy. Doorstep cash delivery, portfolio management service, private banking and 24 hour banking are the new services banks are providing to the customers. To meet the future competitive challenges against the backdrop of roadmap for banking industry beyond 2009, banks are bracing themselves to be ready through adoption of newer technology and strengthening their capital base, bringing down their operating costs, undertaking organizational restructuring and sharpening their customer centric initiatives. Though their have been tough time for existing loan borrowers on floating terms. The hardening of interest rates impacted borrowers across the board like those whose have taken corporate, personal, consumer, and home loans. Housing loans form a major chunk of pie in the
banking business in the banking sector. With the recent hikes in home loans interest rates, the outgo of the borrowers has increased by almost 10 to 15 percent. Rising interest rates hurt home loans borrowers more as the installments on home loans are a significant portion of their earnings. Home finance has seen unprecedented growth in the last few years, which is reflecting from the number of players in housing finance today. With so many choices the consumer is more confused than he was a few years back. Owing to realty growth, even the rise in the interest rates could not dampen much the buccaneering spirits of the borrowers. Interest rates moved due to moves initiated by the Reserve Bank of India to curb inflation and high liquidity in the markets to avoid any financial bubble being formed in the markets. Breaking the monopoly of nationalized banks, several of the private banks are now exploring huge banking potentials in rural sector.

There is no easier way to pay for purchases than with a credit card. With an available line of credit, one does not have all the hassles of standing in the line in the bank for a cash withdrawal, hunting for a pen to draw a cheque, counting out change or having to worry about overdrawing on your bank account. Instead, with a credit card one can make best use of deals such as cash back offers, shopping incentives, spending points and the goodies they fetch. The main caveat is that one must be careful not to go overboard spending on the card. Else, it could be very disadvantageous. Further, credit bills are paid well in time to avoid penalties.

Most private, foreign banks offer online and phone banking facilities. Mobile banking allows a great amount of flexibility in monitoring and managing one’s finances. Phone banking goes hand in hand with internet banking. With a combination of mobile and internet banking one can request and receive information about one’s accounts 24x7. One can check one’s balance and view statements online, move money between accounts, make credit card /bill payments order cheque books and statements, download account information to analyze on computer. Online/phone banking can be very economical. Banks usually offer online banking at no extra cost. Organized efforts should be made to ensure commercial banks that there is no minimum duplication of efforts in collection of information.
Each bank should have an effective statistical cell for planning and developing the statistical services. Adequate training and documentation should be provided for the operations and users of the system. There is an urgent need for organizing feedback with a view to involving the branch managers and others at the lower level of operation and judging their performance on the basis of facts and figures. A common set of forms should be evolved for each priority sector that can be easily understood and be usable without further modifications.

There is a need for integrated costing and financial reporting system in banks. The Management Information System should clearly bring out the inter-relationships between the volume of business, the cost and related income, so that the managerial decision-making may lead to improve profitability. It must be cost-effective. To achieve competitiveness both in domestic and international market, the banking sector necessarily needs to launch various efforts of innovation.

The financial system would, therefore, not only need to be stable, but would also need to support still higher levels of planned investments by channeling financial resources more efficiently from deficit to surplus sectors. The banks would need to reassess their core banking business to view how best they could undertake maturity transformation to step up lending of resources in support of real economic activity. Competitive pressures as well as prudential regulatory requirements have made banks risk-averse and their investments in relatively risk–free gilt instruments. The behavior and strategies of bank business would need to change from the present so that they can factor in their own risk assessment even while performing their core activities. There is a need to ensure long term finance to support development and growth in the economy, even as restructuring takes place through mergers and universal banking.

The economic liberalization process has increasingly exposed the banking sector to international competition. The role of banking in the process of financial intermediation has been undergoing a profound transformation, owing to changes in the global financial system. Consequently, the revolution in information technology has brought sea changes in the way banking transactions are being carried out. The latest trends may be summarized in one word that is “diversification of banking
activities”. A major objective of reforms in the financial sector was to develop money market, the government securities market, the foreign exchange market and the capital market. Another important objective of reforms in the financial markets was the elimination of segmentation across markets in order to smoothen the process of transmission of impulses across markets, easing the liquidity management process and making the resource allocation process more efficient across the economy. The strategy adopted for meeting these objectives involved removal of restrictions on pricing of assets, building the required institutional structure and technological infrastructure.

Perhaps the greatest challenge that the Banking sector will have to face is the one that emanates from the foreign shores. With increased global interest to India, the number of foreign players eyeing the huge Indian market can only increase. It is a well known fact that foreign Banks have been exploring for "good buys" in the Banking sector for some time now. The hurdle in their game plan has been the regulatory issues which effectively debarred them from such activities. With RBI outlining a road map on foreign investment in Bank in India the stage is set for a full fledged presence of foreign players in the Indian Banking market, post April 2009. With the entry of foreign players with their huge resources "size" is bound to be of great importance.

In a competitive environment, one has to be effective to survive. So, our systems and procedures need to be fine tuned to cater to the ever-increasing expectations of the customer. It is suggested that bank officials should be given frequent training with practical knowledge so that they can impart it at the branches. Meeting customers once a month at the branch with the customer committee will enable a branch to identify the issues to be addressed by the bankers. The banking industry is facing frequent changes and modifications; the staff should be given the required job enrichment training on a regular basis so that they can acquire the required knowledge to deal with the customers. Various day-to-day changes, which are communicated by way of regular circulars, should be shared with staff members during staff meetings in order to keep them up to date with working knowledge. Even though the challenges ahead are many, the Indian rural banking system is optimistic in facing the challenges head on, by adopting proactive changes.
Suitable training programmes should be organized through banking training institutes. The training process should be continuous as per requirements of time. The employees of PSBs should be given training between intervals so that they can upgrade their knowledge, as per requirement in coming days. The concept of personal selling is the most powerful technique of improving banking business. The employees of PSBs should be trained in those aspects particularly.

Receiving customer complaints, listening to the grievances patiently and solving the problems is one of the important areas of customer service which demands attention at all times. A Cliché often used in describing this is – “A Satisfied Customer is the Best Ambassador”. What is equally worth noting, however, is that just as a satisfied customer tells other about it, an unhappy customer too tells others about his experience and indeed more so.

Complaints highlight areas of weaknesses in bank services which needs improvement. There should be positive approach to complaints in banks. There should not be any adverse reaction or harassment to customers who make complaints. A satisfied customer of the bank is an unpaid publicity agent for the bank. Since Independence most sectors were governed by the public sector. It was only after the economic reforms of 1991 that the new economic reforms policy allowed private sectors also to enter in major economic activities. But the monopoly of public sector for more than 40 years has conditioned the common man’s mind such that in today’s free economy, they are not ready to trust the private sector, particularly the financial service. Failure of public financial companies due to bureaucracy and corruption in some financial institutions, for example, failure of UTI’s US-64 scheme and Madhavpur Bank scandal in Gujarat, have led to people developing distrust towards public as well as private financial service institutions. In this environment, perhaps the most difficult task is for private companies to rebuild trust among their customers. Liberalization of financial services and increased competition have improved customer service. However, experience shows that consumer’s interests at times are not necessarily accorded full protection and their grievances are not properly attended to. There have been complaints relating to charges for balance enquiry, cheque status verification, signature verification, address confirmation, photograph verification, punitive service
charges for non-maintenance of minimum balance in saving accounts, transaction charges for reorder of cheque book and for cash transactions at the branch beyond a stipulated number. The Reserve Bank has been issuing guidelines from time to time to facilitate banks’ focus on service to the common man. With the Reserve Bank’s initiative, the Indian Banks’ Association (IBA) has prepared a model ‘Fair Practices Code’ which is a public document enlisting things that a customer can expect from the concerned bank. The purpose of the policy is that banks should deliver to depositors what they had promised at the time of accepting deposits. The scope of the Banking Ombudsman is also being expanded to cover all individual cases/grievances relating to non-adherence to the ‘Fair Practices Code’ evolved by the IBA and adopted by individual banks. In addition, the Reserve Bank has decided to institute Independent Banking Codes and Standards Board of India in order to ensure that comprehensive work is done. Customer service is not merely the fulfillment of the Government’s guidelines or the mechanical adherence to the time frames of services. It is a philosophy and an attitude of professional commitment, which believes in the ultimate satisfaction of each customer’s wants. Now the country’s top private sector banks have started entering in to rural areas, customer services will also improve.

The concept of employees’ public relations should be taken up seriously. A professional network should be established which chalk out different modes of developing employee-public relations and reviewing these relationships on the basis of certain pre-determined parameters. The employees working at the counters of banks or receptionists determine the magnitude of success of the public relations activities. The suitable and attractive media coverage is one of the important tools for developing employee public relations. The advertisement messages, appeals and bank news coverage etc. should regularly be given to public through different powerful media channels.

The Indian Banking System is transforming itself towards more commercial and customer oriented banking system, a clear departure from the time it has expected to play only social and developmental role. The marketing and technology orientation is throwing up new opportunities for the banking system. The consolidation phase in 1980s has made it evident that the nationalization gains could not be sustained
without substantial cost to the economy. Thus the process of deregulation and liberalization of the financial system emerged during 1990s. It has culminated in rationalization and re-structuring of the banking system as well as conforming to international standards. The management of these changes has become an uphill task for the banks because the banking environment not only has become more complex but has become more sophisticated also. Indian banking which was operating in highly comfortable and protected environment till the beginning of 1990s has been pushed into the choppy waters of intense competition. A bank to succeed now has little choice but to listen and respond to customer’s needs. There has been an enormous proliferation of ATMs by banks. While the nationalised banks are cutting down the number of branches and increasing the self-service channels, the private banks not only increase the branches but ATMs also, for simple reason that they are cost effective and customer service. Research indicated that globally 80 percent of the cash withdrawals occur on ATMs, the emphasis is now shifting towards adding new services at these touch points.

The PSBs should grab the opportunity and try to install maximum number of ATMs on their respective on site branches as well as other viable off site trading and commercial places.

Technology has moved from being just a business enabler to being a business driver. Be it customer service, reducing operational costs, achieving profitability, developing risk management systems or otherwise, we turn to technology for providing necessary solution. Technological upgradation was clearly identified as one of the most successful strategy in Customer Acquisition and Retention followed by Expansion of ATM Network, Advertisements and additional sales force. Customer Retention and Customer Satisfaction are quite obviously inter-linked. While consumers may be happy to make payments and interact with their bank through convenient – and cheaper – banking channels, they still expect high standards of service, something which reflects the bank’s brand and image across all channels.
A healthy banking system is essential for any economy striving to achieve good growth and yet remain stable in an increasingly global environment. The Indian banking system, with one of the largest banking networks in the world, has witnessed a series of reforms over the past few years like the deregulation of interest rates, dilution of the government stake in public sector banks and the increased participation of private sector banks. Indian banks have not only been keen to tap the domestic market but also to compete in the global marketplace. New foreign banks have been equally keen to gain a foothold in the Indian market. The momentum in credit growth has been maintained during 2005-06 as the corporate sector has stepped up its demand for credit to fund its expansion plans and there has also been a growth in retail banking.

The banks should pay more attention towards increasing credit facilities to women. It is an untapped source disbursing credit. RBI has also taken a serious note of the fact that the most of the nationalized and private banks are not following its guidelines to provide adequate credit to women customers. According to RBI guidelines, the bank should provide at least 4 percent of their total credit to women entrepreneurs and beneficiaries, however the bankers admitted that due to limited demand from women entrepreneurs, the total lending was not more than 1 percent of total credit.

Banks should make efforts to chalk out detailed programme and develop special package for giving credit to women of India. There will be maximum recovery of loan from women because women of India are more loyal, sincere and hardworking. The management is required to announce performance standards that arouse equal interest and competition amongst the male and female employees in the bank. Hence, it is suggested that the management should give priority to the women issues in order to obtain more assured results than that of the existing ones. It is further suggested that at the time of recruitment the management of the bank should give equal importance to women, as such this section in the society is able to perform on par with men.

The entry of new players into the banking space is leading to increased competition. Thus, customer retention is one of the main priorities for the banks today. With the entry of new players and multiple channels, customers have become more discerning
and less “loyal” to banks. Given the various options, it is now possible to open a new account within minutes or for that matter, shift accounts within a couple of hours. This makes it imperative that banks provide best levels of service to ensure customer satisfaction.

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No matter where we are in the world, the most commonly used banking tool today is the ATM machine. If one is required to pay and use an ATM machine, it is time to change banks. Competition among banks ensures that one finds some that will offer free ATM usage. If one is charged a fee one can call the customer care and try to get the bank to waive it. Banks often do so. So, one should be smart and negotiate well. Online banking facilities can be used to pay the bills, transfer money between accounts and spending can be monitored. One can opt for automatic payments on a date of one’s own choice. If one has several bank accounts at different banks, it can make financial sense to consolidate them at one bank. Using a single bank for all one’s accounts can give one a leverage to avail of discounted services. Further many banks offer special services like free lockers, sweep in sweep out deposits, discounts or more attractive interest rates to its loyal customers who maintain multiple accounts or keep a larger balance. One can sign up for overdraft protection if one is worried that his cheque may bounce. The saving bank account of the customer would be linked to an account that would supply funds if there is not enough money in the former. Setting up an overdraft protection should be free although there will be a fee whenever overdraft protection is required. In the past, if one has money in one’s account, one could leave it there and not worry, but that is no longer the case. Banks frequently change the terms of accounts, and an account that is forgotten or not used could very well be drained of any money in it through newly monthly fees. Even worse, once account hits a negative balance, it will incur even more fees for not having money in it. Indian banks need to be vigilant in the years to come for market opportunities particularly with the competition envisaged in the banking sector. In 2007 and beyond, the key element is that the banks should strive to achieve significant increase in their productivity, efficiency and profitability. Towards the end the basic objective should be to survive, survive with growth with optimal profits. The future of Indian banking system would be for the performing banks. The banks which are unable to pace with the changed times and respond quickly to face changes would be left behind in race or just vanish. If there is one thing common among rich and poor countries, it is race of privatization. Competition would result in better customer
service and help to improve the range quality and price of banking product. Indian banks functioning diverse and geographically wide spread have played a crucial role in socio-economic progress of the country after independence. Development in agricultural culminating in green revolution and proliferation of small scale industries across the country with huge employment and export potential, growth of large number of medium and big industries above all blossoming of entrepreneurs in diverse field were the direct results of the expansion of activities of banks. In order to get the country’s financial system plugged to global scenario the deficiencies surfaced in the working of banks will have to be eliminated as soon as possible.

As per Indian Banks' Association report ‘Banking Industry Vision 2010’, there would be greater presence of international players in Indian financial system and some of the Indian banks would become global players in the coming years. So, the new mantra for Indian banks is to go global in search of new markets, customers and profits. Let us not forget that the competition is not only on foreign turf but also in the domestic field as well from foreign banks operating in India.

Banking sector in India has given a positive and encouraging response to the financial sector reforms. Entry of new private sector banks and foreign banks has shaken up public sector banks to competition. Changing financial scenario have opened up opportunities for banks to expand their global presence through self expansion, strategic alliances etc. Banks are diverting their focus on retail banking so as to obtain access to low cost funds and to expand into relatively untapped potential growth areas. Banking sector is set to witness the emergence of financial supermarkets in the form of universal banks. They are providing a suite of services from retail to corporate banking and industrial lending to investment banking, besides providing personal financial services which is the highest growth segment. The financial sector reforms have brought Indian financial system closer to global standards. The process of strengthening the banking system has to be viewed as continuous one. With the India increasingly getting integrated with the global financial world, the Indian banking sector has a still long way to go to catch up with their counter parts. Despite considerable expansion of the banking system in India, large segments of the country’s population are not adequately served, some as savers and other as
borrowers. The expansion of banking services that are designed to serve all potential customers efficiently is, therefore, emerging as a major concern that is engaging the attention of the Reserve Bank of India.

The world over the banking environment has become highly competitive. As a result, the conventional banking has undergone a total transformation. The banks have started increasingly employing marketing approach to sell banking services to their customers. Various new and innovative schemes have been introduced with a view to provide greater satisfaction to the customers and win their franchise. In addition, banks have also started using various marketing tools and techniques such as market segmentation, produce differentiation, product positioning and effective promotion to carve niches for themselves in the banking industry.