Chapter-1

Introduction

Banking are among the main participants of the financial system in India. Banking offers several facilities and opportunities. Since nationalisation of banks in 1969, the public sector (or nationalised) banks, owned by the government, have acquired a place of prominence, and there has been tremendous progress. The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach.

The unleashing of products and services through the Internet has galvanised players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. 

Conservative banking practice allowed Indian banks to be insulated partially from the Asian currency crisis. Indian banks are now quoting all higher valuation as compared to banks in other Asian countries (viz. Hong Kong, Singapore and the Philippines) that have major problems linked to huge Non-Performing Assets (NPAs) and payment defaults.

Cooperative banks are nimble-footed in approach and, armed with efficient branch networks, they focus primarily on the 'high revenue' niche retail segments. The major participants of the Indian financial system are the commercial banks, the financial institutions. (FIs), encompassing term-lending institutions, investment institutions,
specialised financial institutions and the state-level development banks, Non-Bank Financial Companies (NBFCs) and other market intermediaries such as stockbrokers and moneylenders.

The commercial banks and certain variants of NBFCs are among the oldest of the market participants. The FIs, on the other hand, are relatively new entities in the financial marketplace. Indian banking has worked up to the competitive dynamics of the "new" Indian market and is addressing the relevant issues to take on the multifarious challenges of globalisation.

Banks that employ IT solutions are perceived to be "futuristic" and proactive players capable of meeting the diverse requirements of the large customer base. Private banks have been very quick to the developments that are taking place and are reorienting their strategies using the Internet as a medium. The Internet has emerged as the new and challenging frontier of marketing, with the conventional physical world tenets being just as applicable like in any other marketing medium.

The Indian banking has come a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely brought about by the large dose of liberalisation and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams (i.e. borrowing and lending). Banking in India is highly fragmented with 30 banking units contributing to almost 50 per cent of deposits and 60 per cent of advances. Nationalised banks in India
continue to be the major lenders in the economy due to their sheer size and penetrative networks which assure them high deposit mobilisation. Indian banking can be broadly categorised into nationalised banks, private banks, and specialised banking institutions.

The Reserve Bank of India (RBI) acts as a centralised body monitoring any discrepancies and shortcomings in the system. It is the foremost monitoring body in the Indian financial sector. The nationalised banks continue to dominate the Indian banking arena. Industry estimates indicate that out of 274 commercial banks operating in India, 223 banks are in the public sector and 51 are in the private sector.

The private sector bank grid also includes 24 foreign banks that have started their operations here. Under the ambit of the nationalised banks come the specialised banking institutions.

These cooperative, rural banks focus on areas of agriculture and rural development.

Unlike commercial banks, these cooperative banks do not lend on the basis of a prime lending rate. They also have various tax sops because of their holding pattern and lending structure, and hence have lower overheads. This enables them to give a marginally higher percentage on savings deposits. Many of these cooperative banks are diversified into specialised areas (catering to the vast retail audience) such as car finance, housing loans and truck finance.
In order to keep pace with their public and private sector counterparts, the cooperative banks too have invested heavily in information technology to offer high-end computerised banking services to their clients. Without a sound and effective banking system, India cannot have a healthy economy. The banking system of India should not only be hassle-free but also be able to meet new challenges posed by the technology and any other external and internal factors.

For the past three decades, India’s banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitan or cosmopolitan cities. In fact, it has reached even the remotest corners of the country. This is one of the main reasons for India's growth process. The government's regular policy for Indian banks has paid rich dividends since the nationalisation of 14 major private banks of India in 1969.

Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are the days when the most efficient bank transferred money from one branch to other in two days. Now it is as simple as instant messaging or dial a pizza. Money has become the order of the day.

**Origin of Banks**

The first bank in India, though conservative, was established in 1786. From then till today, the journey of Indian banking system can be classified into three distinct phases:
Phase 1: Early phase from 1786 to 1969 of Indian banks.

Phase 2: Nationalisation of Indian banks up to 1991 prior to the Indian banking sector reforms.

Phase 3: New phase of Indian banking system with the advent of Indian Financial and Banking Sector Reforms after 1991.

We shall now discuss these phases briefly.

**Phase I-**

The General Bank of India was set up in 1786. Next came the Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called them Presidency Banks. These three banks were amalgamated in 1920 and the Imperial Bank of India, which started as private shareholders banks, was established with mostly European shareholders.

In 1865, the Allahabad Bank was established, and, for the first time, exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, HDFC Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up.

The Reserve Bank of India (RBI) was established in 1935. During the first phase, the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100
banks, mostly small. As per the Reserve Bank of India Act of 1934, the Reserve Bank of India (RBI) was constituted as an apex bank without major government ownership.

To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949. As per the Banking Regulation (Amendment) Act of 1965 (Act No. 23 of 1965), RBI was vested with extensive powers for the supervision of banking in India as the HDFC Banking Authority.

During those days, the public confidence in banks was somewhat low and, so, deposit mobilisation was slow. Abreast of it the savings bank facility provided by the postal department was comparatively safer. Moreover, funds were largely given to traders.

Phase II-

The government took major steps in the Indian Banking Sector Reform after independence. In 1955, it nationalised the Imperial Bank of India (the State Bank of India Act) with extensive banking facilities on a large scale, especially in rural and semi-urban areas as the first phase of nationalisation.

It formed the State Bank of India (SBI) to act as the principal agent of RBI and to handle banking transactions of the Union and the State Governments of the country.³ In 1969, seven subsidiary banks of the State Bank of India were nationalised as a major process of
nationalisation due to the effort of the then Prime Minister Mrs. Indira Gandhi. Later in 1969, 14 major private commercial banks in the country were nationalised. The list of 14 banks nationalised in 1969 were:

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

The second phase of nationalisation of Indian banks was carried out in 1980, with seven more banks being nationalised. This step brought
80 per cent of the banking segment in India under government ownership. The Government of India has taken the following steps to regulate banking institutions in the country:

1949: Enactment of the Banking Regulation Act.

1955: Nationalisation of State Bank of India.

1959: Nationalisation of SBI subsidiaries.

1961: Insurance cover extended to deposits.

1969: Nationalisation of 14 major banks.

1971: Creation of Credit Guarantee Corporation.

1975: Creation of regional rural banks.

1980: Nationalisation of seven more banks with deposits over Rs. 200 crore.

After the nationalisation of banks, the branches of the public sector banks in India rose to approximately 800 per cent in deposits, and advances took a huge jump by 11,000 per cent. Government ownership gave the public implicit faith and immense confidence in the sustainability of public sector banks.

Phase III-

The third phase of development of Indian banking introduced many more products and facilities in the banking sector in its reform measures. In 1991, under the chairmanship of M. Narasimham, a committee was set
up under his name, which worked for the liberalisation of banking practices. The country is flooded with foreign banks and their ATM stations.

Efforts are being put in to give a satisfactory service to customers. Phone banking and net banking have been introduced. The entire system has become more convenient and swift. Today, time is given more importance than money. The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomic shock as other East Asian countries suffered."

This is all due to a flexible exchange rate regime, high foreign reserves, the not yet fully convertible capital account, and limited foreign exchange exposure to banks and their customers.

**Foreign banks**-

Foreign banks in India always brought an explanation about the prompt services to customers. After the setting-up of foreign banks in India, the banking sector in the country also became competitive and accurative. New rules announced by the Reserve Bank of India for them in the Budget of 2008 has put up great hopes among foreign banks which allows them to grow unfettered.

Now they are permitted to set up local subsidiaries. The policy conveys that they may not acquire Indian ones and their Indian subsidiaries will not be able to open branches freely. By the year 2009,
the list of foreign banks in India (see Table 1.1) is going to increase as a number of foreign banks are still waiting with baggage to start business here. Foreign banks have brought the latest technology and banking practices in India.

They have helped make Indian banking system more competitive and efficient. For expansion of foreign banks the government has come up with a road map and it has two phases. During the first phase, between March 2005 and March 2009, the foreign banks may establish a presence by way of setting up a wholly owned subsidiary (WOS) or conversing the existing branch into a WOS. The

**TABLE 1.1 Foreign banks operating in India as on March 31, 2008**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name</th>
<th>No. of branches in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ABN AMRO Bank</td>
<td>28</td>
</tr>
<tr>
<td>2</td>
<td>Abu Dhabi Commercial Bank Ltd.</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Arab Bangladesh Bank Ltd.</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>American Express Banking Corp.</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Antwerp Diamond Bank</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Bank International Indonesia</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Bank of America</td>
<td>5</td>
</tr>
<tr>
<td>8</td>
<td>Bank of Bahrain &amp; Kuwait</td>
<td>2</td>
</tr>
<tr>
<td>9</td>
<td>Bank of Nova Scotia</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Bank of Tokyo-Mitsubishi Ltd.</td>
<td>3</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>11</td>
<td>BNP Paribas</td>
<td>8</td>
</tr>
<tr>
<td>12</td>
<td>Bank of Ceylon</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>Barclays Bank Plc</td>
<td>5</td>
</tr>
<tr>
<td>14</td>
<td>Calyon Bank</td>
<td>5</td>
</tr>
<tr>
<td>15</td>
<td>Citibank</td>
<td>39</td>
</tr>
<tr>
<td>16</td>
<td>Shinhan Bank</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>Chinatrust Commercial Bank</td>
<td>1</td>
</tr>
<tr>
<td>18</td>
<td>Deutsche Bank</td>
<td>11</td>
</tr>
<tr>
<td>19</td>
<td>DBS Bank Ltd.</td>
<td>2</td>
</tr>
<tr>
<td>20</td>
<td>HSBC</td>
<td>47</td>
</tr>
<tr>
<td>21</td>
<td>J.P. Morgan Chase Bank</td>
<td>1</td>
</tr>
<tr>
<td>22</td>
<td>Krung Thai Bank Public Co. Ltd.</td>
<td>1</td>
</tr>
<tr>
<td>23</td>
<td>Mizuho Corporate Bank Ltd.</td>
<td>2</td>
</tr>
<tr>
<td>24</td>
<td>Mashreq Bank</td>
<td>2</td>
</tr>
<tr>
<td>25</td>
<td>Oman International Bank SAOG</td>
<td>2</td>
</tr>
<tr>
<td>26</td>
<td>Standard Chartered Bank (SCB)</td>
<td>90</td>
</tr>
<tr>
<td>27</td>
<td>Sonali Bank</td>
<td>2</td>
</tr>
<tr>
<td>28</td>
<td>Societe Generale</td>
<td>2</td>
</tr>
<tr>
<td>29</td>
<td>State Bank of Mauritius</td>
<td>3</td>
</tr>
</tbody>
</table>
It is second phase will commence in April 2009 after a review of the experience gained after due consultation with all the stakeholders in the banking sector. The review would examine issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers/ acquisitions of any private sector banks in India by a foreign bank.

**Development Financial Institutions (DFIs)-**

The financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings.

The financial institutions have traditionally been the major source of long-term funds for the economy. They provide a variety of financial products and services to fulfil the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas.

Thus, they have helped in reducing regional disparities by inducing widespread industrial development. The Government of India, in order to provide adequate supply of credit to various sectors of the economy, has evolved a well-developed structure of financial institutions in the country. These financial institutions can be broadly categorised into (i) All-India
institutions and, (ii) State-level institutions, depending upon the geographical coverage of their operations.

At the national level, they provide long- and medium-term loans at reasonable rates of interest. They subscribe to the debenture issues of companies, underwrite public issue of shares, guarantee loans and deferred payments, etc. Though the State-level institutions provide the same type of financial assistance as the national level institutions, they are mainly concerned with the development of medium- and small-scale enterprises.

Development banks are unique financial institutions that perform the special task of fostering the development of a nation, generally not undertaken by other banks." They provide medium- and long-term financial assistance and act as catalytic agents in promoting balanced development of the country. They are engaged in promotion and development of industry, agriculture, and other key sectors. They also provide development services that can aid in the accelerated growth of an economy. The objectives of development banks are to:

1. Serve as an agent of development in various sectors, viz. industry, agriculture, and international trade.

2. Accelerate the growth of the economy.

3. Allocate resources to high priority areas.
4. Foster rapid industrialisation, particularly in the private sector, so as to provide employment opportunities as well as higher production.

5. Develop entrepreneurial skills.

6. Promote the development of rural areas.

7. Finance housing, small scale industries, infrastructure, and social utilities.

In addition, they are assigned a special role in:

1. Planning, promoting, and developing industries to fill the gaps in the industrial sector.

2. Coordinating the working of institutions engaged in financing, promoting or developing industries, agriculture, or trade.

3. Rendering promotional services such as discovering project ideas, undertaking feasibility studies, and providing technical, financial and managerial assistance for the implementation of projects.

**Evolution of Development Banks**

All the ten banks are in operations. They are UTI Bank Ltd., indusInd Bank Ltd., ICICI Banking Corporation Ltd., Global Trust Bank Ltd., HDFC Bank Ltd., Centurian Bank Ltd., Development Credit Bank Ltd., Bank of Punjab Ltd., Times Bank Ltd. And IDBI Bank Ltd., all these banks have a minimum paid up capital of Rs. 100 Crores and continued to meet the capital adequacy requirements during 1995-96
HDFC bank was incorporated in August 1994 by Housing Development Finance Corporation Ltd. (HDFC), India’s premier housing finance company. It was among the first company to receive an “in principal” approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. It is headquartered in Mumbai. The bank commenced its operation as a Scheduled Commercial Bank in January 1995 with the help of RBI liberalization policies.

In a milestone in the Indian banking industry, Times Bank Ltd. (promoted by Bennett Colman & Co./Times Group) was merged with HDFC Bank Ltd. in 2000. This was the first merger of two private banks in India. Then in 2008, HDFC Bank acquired Centurian Bank of Punjab taking its total branches to more than 1000.

The bank was promoted by the Housing Development Finance Corporation, a premier Housing finance company (set up in 1977) of India.

HDFC bank has 1,412 branches and over 3,295 ATMs in 258 cities in India, and all branches of the bank are linked on an on-line real-time basis. As of September 30, 2008, the bank had total assets of INR 1006.83 billion for the fiscal year 2008-2009. The bank has reported net profit of Rs. 2.244.90 Crores up 41% from the previous fiscal. Total annual earning of the bank increased by 58% reaching Rs. 19,622.80 Crore in 2008-2009.

HDFC bank deals with key business segments—wholesale banking services, treasury. HDFC bank provides correspondent bank services to co-operative bank, private bank, foreign bank & RRB’s bank can leverage HDFC bank branch network. Technology and product capability. It has a wide range of products engineered to suit the needs of
the banking sector. This is backed up by a dedicated relationship management team and dedicated servicing department.

The concept of development banking originated during the post-Second World War period. Many countries of Europe were in the stage of industrial development and special financial institutions known as development banks were set up to foster industrial growth.

In the US, development finance institutions came into existence for special purposes such as economic rehabilitation and filling gaps in the traditional financing pattern. Not only developed countries, but several underdeveloped countries in Asia, Africa, and Latin America also established special financial institutions to hasten the pace of industrialisation and growth. The International Bank for Reconstruction and Development (IBRD), also known as the World Bank, and the International Monetary Fund (IMF) are examples of development banks at the international level.

The major objective of the World Bank is to promote world development and perform the task of transfer of enormous financial and technical resources from the developed to developing nations. IMF performs a special function of providing financial assistance to private sector projects in developing countries.

**National Level Institutions**-

A wide variety of financial institutions have been set up at the national level to cater to the diverse financial requirements of
entrepreneurs. They include all-India development banks such as IDBI, SIDBI, IFCI and IIBI; specialised financial institutions such as IVCF, ICICI Venture Funds Ltd., TFCI, and investment institutions, namely, LIC, GIC and UTI. These are now briefly described.

**All-India Development Banks (AIDBs)**

This includes those development banks which provide institutional credit to not only large and medium enterprises but also help in promotion and development of small scale industrial units.

**Industrial Finance Corporation of India Ltd. (IFCI)**

IFCI was the first development finance institution to be set up in 1948 under the IFCI Act in order to pioneer long-term institutional credit to medium and large industries. It provides financial assistance to industry by way of rupee and foreign currency loans and underwrites/subscribes the issue of stocks, shares, bonds and debentures of industrial concerns, etc. It has also diversified its activities in the field of merchant banking, syndication of loans, formulation of rehabilitation programmes, assignments relating to amalgamations and mergers etc.

**Industrial Development Bank of India (IDBI)**

IDBI was established in July 1964 as an apex financial institution for industrial development in the country. It was set up as a wholly owned subsidiary of RBI. It caters to the diversified needs of medium and large scale industries in the form of financial assistance, both direct and indirect.
Direct assistance is provided by way of project loans, underwriting of and direct subscription to industrial securities, soft loans, technical refund loans, etc. while indirect assistance is in the form of refinance facilities to industrial concerns. In February 1976, IDBI was restructured and separated from the control of RBI.

**Small Industries Development Bank of India (SIDBI)**

SIDBI was set up by the Government of India in April 1990 as a wholly owned subsidiary of IDBI. It is the principal financial institution for promotion, financing and development of small scale industries in the economy. It aims to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

**Industrial Investment Bank of India Ltd. (IIBI)**

IIB was set up in 1985 under the Industrial Reconstruction Bank of India Act, 1984 as the principal credit and reconstruction agency for sick industrial units. It was converted into IIBI on March 17, 1997 as a full-fledged development financial institution. It assists industry mainly in medium and large sector through wide ranging products and services. Besides project finance.

It is provides short duration non-project asset-backed finance in the form of underwriting/ direct subscription, deferred payment guarantees and working capital/other short-term loans to companies to meet their fund requirements.
Specialised Financial Institutions (SFIs)

SFIs are the institutions set up to serve the increasing financial needs of commerce and trade in the area of venture capital, credit rating and leasing.

IFCI Venture Capital Funds Ltd. (IVCF)-

IVCF, formerly known as Risk Capital & Technology Finance Corporation Ltd. (RCTC). IVCF is a subsidiary of IFCI Ltd. It was promoted with the objective of broadening entrepreneurial base in the country by facilitating funding to ventures involving innovative product/process/technology. Initially, it started providing financial assistance by way of soft loans to promoters under its Risk Capital Scheme.

Since 1988, it is started providing finance under the Technology Finance and Development Scheme to projects for commercialisation of indigenous technology for new processes, products, market or services. Over the years, it has acquired a great deal of experience in investing in technology-oriented projects.

ICICI Venture Funds Ltd.-

Formerly known as Technology Development & Information Company of India Limited (TDICI), ICICI Venture Funds Ltd. was founded in 1988 as a joint venture with the Unit Trust of India. Subsequently, it became a fully owned subsidiary of ICICI. It is a technology venture finance company set up to sanction project finance for
new technology ventures. The industrial units assisted by it are in the fields of computer, chemicals/polymers, drugs, diagnostics and vaccines, biotechnology, environmental engineering, etc.

**Tourism Finance Corporation of India Ltd. (TFCI)**-

TFCI is a specialised financial institution set up by the Government of India for the promotion and growth of tourism industry in the country. Apart from conventional tourism projects, it provides financial assistance for non-conventional tourism projects such as amusement parks, ropeways, car rental services and ferries for inland water transport.

**Investment Institutions**-

Investment institutions are the most popular form of financial intermediaries, which particularly cater to the needs of small savers and investors. They deploy their assets largely in marketable securities.

**Life Insurance Corporation of India (LIC)**

LIC was established in 1956 as a wholly-owned corporation of the Government of India. It was formed by the Life Insurance Corporation Act, 1956 with the objective of spreading life insurance much more widely and, in particular, to the rural area. It also extends assistance for development of infrastructure facilities such as housing, rural electrification, water supply and sewerage.

In addition, it extends resource support to other financial institutions through subscription to their shares and bonds etc. LIC also
transacts business abroad and has offices in Fiji, Mauritius and United Kingdom. It has also established overseas subsidiaries jointly with reputed local partners in Bahrain, Nepal and Sri Lanka.

**Unit Trust of India (UTI)**

UTI was set up as a body corporate under the UTI Act, 1963, with a view to encourage savings and investment. It mobilises savings of small investors through sale of units, and channelises them into corporate investments mainly by way of secondary capital market operations.

Thus, its primary objective is to stimulate and pool the savings of the middle and low income groups, and enable them to share the benefits of the rapidly growing industrialisation in the country. In December 2002, the UTI Act, 1963 was repealed with the passing of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 paving the way for the bifurcation of UTI into 2 entities—UTI-I and UTI-II with effect from February 1, 2003.

**General Insurance Corporation of India (GIC)**

GIC was formed in pursuance of the General Insurance Business (Nationalisation) Act, 1972 for the purpose of superintending, controlling and carrying on the business of general or non-life insurance. Initially, GIC had four subsidiary branches, namely, National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd. But in 2000 these
branches were delinked from GIC to form an association known as General Insurance Public Sector Association (GIPSA).

**State Level Institutions-**

Several financial institutions have been set up at the State level which supplement the financial assistance provided by the all-India financial institutions. They act as a catalyst for promotion of investment and industrial development in the respective States. Broadly, they consist of State Financial Corporations and State Industrial Development Corporations.

**State Financial Corporations (SFCs)-**

SFCs are the state-level financial institutions play a crucial role in the development of small and medium enterprises in the concerned states. They provide financial assistance in the form of term loans, direct subscription to equity and debentures, guarantees, discounting of bills of exchange and seed/special capital etc.

It have been set up with the objective of catalysing higher investment, generating greater employment and widening the ownership base of industries. They have also started providing assistance to newer types of business activities, such as floriculture, tissue culture, poultry farming, commercial complexes, and services related to engineering, marketing etc.

There are 18 SFCs in the country, which are the following:
1. Andhra Pradesh State Financial Corporation (APSFC)
2. Himachal Pradesh Financial Corporation (HPFC)
3. Madhya Pradesh Financial Corporation (MPFC)
4. North-Eastern Development Finance Corporation (NEDFi)
5. Rajasthan Finance Corporation (RFC)
6. Tamil Nadu Industrial Investment Corporation Limited (TNIICL)
7. Uttar Pradesh Financial Corporation (UPFC)
8. Delhi Financial Corporation (DFC)
9. Gujarat State Financial Corporation (GSFC)
10. The Economic Development Corporation of Goa (EDC)
11. Haryana Financial Corporation (HFC)
13. Karnataka State Financial Corporation (KSFC)
14. Kerala Financial Corporation (KFC)
15. Maharashtra State Financial Corporation (MSFC)
16. Orissa State Financial Corporation (OSFC)
17. Punjab Financial Corporation (PFC)
18. West Bengal Financial Corporation (WBFC)
State Industrial Development Corporations (SIDCs)-

SIDCs have been established under the Companies Act, 1956 as wholly-owned undertakings of State Governments. They aim to promote industrial development in the respective States and provide financial assistance to small entrepreneurs.

They are also involved in setting up of medium and large industrial projects in the joint/assisted sector in collaboration with private entrepreneurs or wholly-owned subsidiaries. They are undertaking a variety of promotional activities such as preparation of feasibility reports, conducting industrial potential surveys, entrepreneurship training, and development programmes as well as developing industrial areas/ estates. Major SIDCs in India are:

1. Assam Industrial Development Corporation Ltd. (AIDC)
2. Andaman & Nicobar Islands Integrated Development Corporation Ltd. (ANIIDCO)
3. Andhra Pradesh Industrial Development Corporation Ltd. (APIDC)
4. Bihar State Credit and Investment Corporation Ltd. (BICICO)
5. Chhattisgarh State Industrial Development Corporation Ltd. (CSIDC)
6. Goa Industrial Development Corporation
7. Gujarat Industrial Development Corporation (GIDC)
8. Haryana State Industrial & Infrastructure Development Corporation Ltd. (HSHDC)

9. Himachal Pradesh State Industrial Development Corporation Ltd. (HPSIDC)


11. Karnataka State Industrial Investment & Development Corporation Ltd. (KSIIDC)

12. Kerala State Industrial Development Corporation Ltd. (KSIDC)

13. Maharashtra Industrial Development Corporation (MIDC)

14. Manipur Industrial Development Corporation Ltd. (MANIDCO)

15. Madhya Pradesh State Industrial Development Corporation Ltd. (MPSIDC)

16. Nagaland Industrial Development Corporation Ltd. (NIDC)

17. Orissa Industrial Infrastructure Development Corporation (OIIDC)

18. Omnibus Industrial Development Corporation (OIDC), Daman & Diu and Dadra & Nagar Haveli.

19. Puducherry Industrial Promotion Development and Investment Corporation Ltd. (PIPDIC)

20. Uttar Pradesh State Industrial Development Corporation (UPSIDC)
21. Punjab State Industrial Development Corporation Ltd. (PSIDC)

22. Rajasthan State Industrial Development & Investment Corporation Ltd. (RIICO)

23. Sikkim Industrial Development & Investment Corporation Ltd. (SIDICO)

24. Tamil Nadu Industrial Development Corporation Ltd. (TIDCO)

25. State Infrastructure & Industrial Development Corporation of Uttaranchal Ltd. (SIDCUL)

26. Tripura Industrial Development Corporation Ltd. (TIDC)

**Typs of Banks**

There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. The banking institutions in India may be divided into various types on the basis of their functions (Fig.). Now we shall discuss them in brief.

These banks are organised at three levels: village or town level, district level and state level.

**Primary Credit Societies** - These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.
Central Cooperative Banks - These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. They provide loans to their members (i.e. primary credit societies) and function as a link between the primary credit societies and state cooperative banks.7

State Cooperative Banks - These are the apex (highest level) cooperative banks in the respective States of the country. They mobilise funds and help in their proper channelization among various sectors. The money reaches the individual borrowers from the State Cooperative Banks through the Central Cooperative Banks and the Primary Credit Societies.

Specialised Banks - The specialised banks engage themselves in some specific area or activity and hence the name. They cater to the requirements and provide overall support for setting up business. EXIM Bank, SIDBI and NABARD are examples of such banks. Let us study them briefly.

Export Import Bank of India (EXIM Bank) - EXIM bank provides the required support and assistance to set up a business for exporting products abroad or importing products from foreign countries for sale in our country. The bank grants loans to exporters and importers and also provides information about the international market. It gives guidance about the opportunities for export or import, the risks involved in it, the competition to be faced etc.
Small Industries Development Bank of India (SIDBI)- It provides loan on easy terms to establish a small-scale business unit or industry. It also finances modernisation of small-scale industrial units, use of new technology and market activities. Its aim and focus is to promote, finance and develop small-scale industries.

National Bank for Agriculture and Rural Development (NABARD)-
It is a central or apex institution for financing agricultural and rural sectors. It provides credit to those engaged in agriculture or other activities such as handloom weaving and fishing. It provides both short-term and long-term credits through regional rural banks. It provides financial assistance, especially to cooperative credit, in the field of agriculture, small-scale industries, cottage and village industries, handicrafts and allied economic activities in rural areas.

Types of Banking-

The Branch banking is multi-office banking, generally defined as accepting deposits or making loans at facilities away from a bank's home office. Branch banking has gone through significant changes since the 1980s as banks respond to a more competitive nationwide financial services market. Branch banking networks are gradually evolving into multi-state financial services networks where depositors can access their accounts from any banking office.

Financial innovations such as Internet Banking will also influence the future of "bricks and mortar" banking by potentially reducing the
need to maintain extensive branch networks to service consumers. A branch of bank is a retail location where a bank, credit union or other financial institution (and by extension, brokerage firms) offers a wide array of face-to-face service to its customers.

Historically, branches were housed in imposing buildings, often in a neoclassical architecture style. Today, branches may also take the form of smaller offices within a larger complex, such as a shopping mall. Services provided by a branch include cash withdrawals and deposits from a demand account with a bank teller, financial advice through a specialist, safe deposit box rentals, insurance sales etc.

Traditionally, the branch was the only channel of access to a financial institution's services. Today, with such features as automated teller machines (ATM), telephone and online banking, customers can bank virtually anywhere, anytime, which brings financial institutions to reduce their branch business hours or to merge smaller branches into larger ones. Some financial institutions, in an attempt to show a friendlier image, offer a boutique or coffee-house-like environment in their branches, with sit-down counters, refreshments, interactive displays, music and playing areas for children.

Some branches also have drive-through teller windows or ATMs. Other financial institutions reduce their costs by having no branches and are sometimes known as virtual banks. It is often argued that branching stabilises banking systems by facilitating diversification of bank portfolios. The effects that branching had on competition were
quantitatively more important than geographical diversification for bank stability in the 1920s and 1930s.

Banks not exposed to competition are able to exercise monopoly power, and tend to be less efficient than banks subject to more competition. When laws restricting competition are relaxed, bank profits generally decline. Moreover, the increase in competition resulting from the removal of branching restrictions has been linked to the weeding out of weak banks. The expansion of branching has facilitated an increase in competition.

**Unit Banking** - Unit banking refers to a system where the operations of the bank are confined generally to a single office. The theory behind unit banking has been that each bank should be a local institution, locally financed and managed, drawing funds from local depositors, and using its resources to develop local enterprises. The United States of America is a typical country which follows the unit banking system. The united banks are generally linked together by the "correspondent bank" system.

Under the correspondent bank system, the country banks deposit money with the city banks and the city banks with the reserve city banks. This arrangement helps each bank in making remittances through the correspondent.

**Group Banking** - Group banking is the form of holding company in which a management group has control of several existing banks. Each bank in the group has its own Board of Directors, but the holding
company coordinates the activities of all banks in the group, and owns a majority of capital stock in member banks.

**Mixed Banking**- Certain banks undertake both commercial and industrial banking activities. This system is known as mixed banking. Its feature is to attract deposits and raise capital and loans from the public, and make them available to industries for both short and long periods. The traditional view of banking was that commercial banks should strictly confine themselves to short-term lending and maintain a high degree of liquidity as they are traders in others’ deposits.

But in some countries banks lend to industries for long term and subscribe to share capital of new companies. Trade requires only short-term loans whereas industries require both short- and long-term loans. Under the mixed banking system, the commercial banks meet the short-term as well as long-term requirements of industries. It is therefore, known as mixed banking. **Need for Mixed Banking**:-

1. The need for industrial revival was felt both by the government and the banks. Many industrial units to which the banks had supplied short-term loans were not in a position to repay. So the banks took a wise step to take debentures of such companies in view of short-term loans instead of writing them off.

2. Since the deposits of commercial banks were fast increasing, it was advisable for the banks to advance loans for long periods.
3. The growth of big industries led to a decrease in the dependence on bank finance as they built up their own surplus funds to supplement their working capital. Thus, banks were deprived of their best customers. So they were compelled to grant long-term loans to big industries and gradually start holding industrial securities.

4. The mixed banks can form groups to share the risk of industrial finance, by appointing their men on the board of directors of companies that availed loans from them. It should help these banks to have personal knowledge of the financial position and working of these companies. This practice should help the mixed bank groups in controlling, minimising and sharing the risk, if there is any.

5. These banks help the industrial units appoint experts in various departments. There is efficiency in the operations. They also help the companies in mobilising larger financial resources by selling their shares to the public. Due to its long-term accommodation to industries, there is widespread industrial development in the country.

Merits-

1. A mixed bank grants short-term loans for the purchase of raw materials and the payment of wages and salaries and long-term loans for the purchase of plant and machinery and other assets.
2. A commercial bank raises large funds from the public by way of deposits. Many people do not like to subscribe to shares and debentures of the industrial banks instead they prefer to keep their money in various deposits. Thus, if a commercial bank undertakes industrial banking, it will have large funds to provide substantial aid to industries.

3. A mixed bank appoints experts to access the soundness of industrial unit and to evaluate its securities. It can provide various other services to the industrial undertaking, like management of capital issues. On the advice of experts, it can subscribe to the shares and debentures of the companies, and can appoint its nominees on their Board of Directors.

4. The banks can join together into groups to share the risk of industrial finance. The mixed banks follow this practice and appoint their men on the Board of Directors of companies. This helps the banks have personal knowledge on the working of the industrial enterprises.

5. A mixed bank provides valuable advice to its customers on investments in shares and debentures since it has a personal knowledge on the working of a number industrial organisations. Thus, mixed banking stimulates capital formation in the country.
Mixed banking facilitates industrialisation in developing countries. It does so by providing both short-term and long-term financial accommodation.

**Demerits**-

1. Mixed banking reduces liquidity of the bank. A large part of the funds of the bank is raised from deposits, which are repayable either on demand or after a short period.

2. When a bank grants long-term loans, its funds are locked up and, consequently, it may not be able to pay the depositors when they demand back their money.

3. During periods of depression, banks suffer heavy losses when the securities of companies lose their value because of fall in demand for the sale of securities held by it. Banks with poor reserves may fail. This is a serious drawback of mixed banking.

4. During periods of boom, banks are tempted to overinvest their funds in industries beyond safe limits. They may indulge in speculation of shares in the hope of earning higher profits. This may lead into huge losses.

Thus, the system of mixed banking has serious evils despite the fact that it has several advantages. Many banks have failed in France, America and other countries due to industrial finance. The HDFC Bank of the country must be strong enough to guide and control the operations of mixed banks. In countries like India, mixed banking...
should be undertaken with great care. In a nutshell, it is a system of banking under which commercial banks provide both short and long-term loans for commerce and industries.

**Chain Banking**-

Chain banking means control of three or more independently chartered banks by a few individuals, usually through stock ownership or interlocking directorates. Chain banking differs from branch banking or multi-office banking within a single institution and group banking by affiliate banks within a Bank Holding Company. Its importance in the banking system has declined since the late 1980s with the rapid growth of interstate banking and, in several States, more liberalised branching laws.

**Retail Banking**-

Retail banking refers to banking in which banks undergo transactions directly with consumers rather than with corporations or other banks. Services offered include savings and checking accounts, mortgages, personal loans, debit cards and credit cards. Retail banking is becoming an increasingly complex concept to define.

While "pure" retail banking is generally conceived to be the provision of mass market banking services to private individuals, it has been expanded over the years to include in many cases services provided to small- and medium-sized businesses. Some banks may also include their "private banking" business in their definition of retail banking.

The advantages of a retail franchise are numerous:
1. Retail banking clients are generally loyal and tend not to change from one bank to another very often.

2. Interest spreads are wide since customers are too fragmented to bargain effectively.

3. Credit risk tends to be well diversified as loan amounts are relatively small.

4. There is less volatility in demand and credit cycle than from large corporates.

5. A large number of clients can facilitate marketing, mass selling and the ability to categorise/select clients using scoring systems/data mining.

Nevertheless, there can be some drawbacks in retail banking which have to be considered:

1. There can be problems in managing large number of clients, especially if IT systems are not sufficiently robust.

2. Rapid evolution of products can lead to IT complications.

3. The costs of maintaining branch networks and handling large number of low-value transactions tend to be relatively high.

In India, retail banking has always been prevalent in various forms ever since banking was first established here. **HDFC banks that have been existence in India for over a century have always had retail thrust.** It is only since the mid-nineties that the term "retail banking"
has been used as a means of reinforcing a conscious foray into this particular line of business.

Retail banking today, for many banks, is synonymous with mainstream banking, with vast sums of money being invested in creating and sustaining a retail brand, further supported by requisite technological and staffing support. It is pertinent to ponder about the causes of the shift (or increase) of focus towards the retail side.

There are several compelling reasons that have influenced this shift. They are:

1. Fear of corporate defaults and NPA computation.
2. Relative safety implied by the mortgage loans.
3. Low credit off take from the commercial and corporate sector during the period 2000-2003.
4. Lowering of cost of consumer durables and automobiles due to competition.
5. Increasing use of credit/debit cards as plastic money.
6. Automation of stock exchange operations, dematerialisation.
7. ATMs, direct debit and phone banking as convenience factors.
8. Advisory services: real estate, investments and insurance.

Retail banking has been undergoing dramatic operational transformation in the recent years. Mergers and acquisitions, increased
competition, and new regulatory requirements have driven banks to rethink their retail strategies. It has become important for retail banks to leverage technology to optimise sales and fulfilment processes, manage distribution channels, and streamline operations to acquire, satisfy, and thereby retain customers.

Wholesale Banking Wholesale banking covers banks lending to larger entities such as corporate and governments besides activities for example, money markets, foreign exchange and finance for trade. Small businesses are also highly dependent on the goodwill of commercial bankers.

Even as dot coms, angel investors, and VCs monopolise the news, most small businesses continue to fund their growth with commercial loans. Such loans allow them to secure new inventory, cover payroll, remodel their stores, buy registers, and manage their overseas accounts receivables.

Commercial bankers perform core financial analysis to assess risk, creditworthiness, and the likelihood that a business will succeed. They play a key part in deciding the best business initiatives, expanding existing businesses, developing new markets and clients, and creating new products for e-commerce, the Internet, international markets, and consumers.

In addition, commercial bankers have to combine business acumen with strong accounting and interpersonal skills. After all, commercial
bankers are at the frontlines of the banking business. Ideally, they know their clients' lives intimately and can recommend additional products and services. They are a key distribution point and referral source for the rest of a bank's financial services activities.

Many commercial banks are consolidating in order to branch out and provide other services such as mortgage, mutual funds, investment banking and insurance. As other financial firms expand their services, commercial banks are diversifying to keep up, and often a merger with a peer company is the best way to do this.

Since 1995, more than 200 large and small banks have merged. Consolidation usually results in layoffs and fewer job opportunities, but jobs in banks that are more diversified offer more opportunities for career development. And a growing number of non-banks are pioneering new ways of delivering financial services, providing more jobs in the finance industry.

**What is customer satisfaction?**

Customer satisfaction refers to how satisfied customer are with the products or services from a particular agency. The level of satisfaction is determined not only by the quality type of customer experience but also by the customer’s expectations. A customer may be defined as someone who

- Has a direct relationship with, or is directly affected by your agency and
• Receives or relies on one or more of your agency’s services or products.

Customers in human services are commonly referred to as service users, consumers or clients. They can be individuals or groups. An organization with a strong customer service culture place the customer at the centre of service design, planning and service delivery. Customer centric organizations will:

❖ Determine the customer’s expectations when they plan listen to the customer as they design.
❖ Focus on the delivery of customer service activities value customer feedback when they measure performance.

Why is it important?

There are a number of reasons why customer satisfaction is important in Banking Sector:

• Meeting the needs of the customer is the underlying rationale for the existence of community service organization. Customers have a right to quality services that deliver outcomes.
• Organizations that strive beyoud minimum standards and exceed the expectations of their customers are likely to be leaders in their sector.
• Customers are recognized as key partners in shaping service development and assessing quality of service delivery.

The Process for measuring customer satisfaction and obtaining feedback on organizational performance are valuable toole for quality and continuous service improvement.
Definition of a Banker or Bank: This has been fully discussed in Chapter or details, please see Chapter 1.

Definition of a Customer: Many persons deal with a bank. Can all of them be in the category of 'customer'? This is an important question.

The term 'customers' has not been defined by any law in India. There is difference of opinion in this regard among the decisions given by the courts in England too. Banking experts are also not unanimous on this issue. Formal definitions of a customer may be discussed as follows:

1. Section 4-104(1)(e) of Article 3 of the Uniform Commercial Code (Commercial Paper) of the United States defines customer as follows:

"Customer means any person having an account with a bank for whom a bank has agreed to collect items and includes a bank carrying an account with another bank."

"Item means any instrument for the payment of money even though it is not negotiable but does not include money." 1

2. Sir. John Paget (Traditional or Older View)—"To constitute a customer there must be some recognisable course or habit of dealing in the nature of regular banking business. It is difficult to reconcile the idea of a single transaction with that of a customer. It is believed that tradesmen differentiate between a customer and a casual purchaser."
According to Paget's traditional view, a person has to satisfy two conditions in order to constitute a customer of a bank, which are as follows:

(A) Paget's Duration Theory: The first condition is known as the Paget's "Duration Theory". In other words, according to Paget, there should be some recognisable (perceivable) course (duration) or habit of a person of dealing between him and the bank. Thus, a customer is one who has dealt with the bank for "some duration." In the view of Paget, a person performing only one transaction with a bank is not a "customer" but a "casual purchaser". In support of his view, Paget depends on the decision in the case of Mathews vs Williams, Brown & Co. (1894). In this case, it was held that in order to constitute a person a customer of a bank, he should have some sort of an account with the bank, but that the initial transaction in opening an account did not set up the relation of a banker and customer, and there had to be some measure of continuity and custom.

(B) Nature of transaction—In order to constitute a person a customer of a bank, the second condition proposed by Paget is that the transactions performed by the person should be in the nature of regular banking business. A banker performs several types of functions such as compulsory, permitted, agency, trustee, ancillary, etc. functions (see for details, Chapter 1). Thus, besides performing essential or regular functions as a banker, the banker performs many other types of functions and provides ancillary services which are in the nature of "incidental functions" and not "regular banking business functions". A person who does not deal with a banker in regard to essential functions of the banker (such as accepting of deposits and lending of money) but avails of any of the other
incidental or ancillary services rendered by the banker, cannot be called a customer of the banker inspire of the fact that he avails of such a service regularly. For example, a person who does not have an account with a bank but caries out the following transactions regularly with the bank, cannot be said to be a customer: remits money through a bank draft; encases cheques received by him from others; deposits money in another person's or organisation's account such as accounts of Life Insurance Corporation and a joint stock company issuing new shares; keeps his valuables and documents in the "lockers" of the bank; and so on. Such dealings are considered in the nature of "casual dealings" which may be done constantly or continually; however, they are not in the nature of "banking business." This view of Paget is accepted by all.

Criticism of Paget's Duration Theory: Sir Paget's "Duration Theory" has been criticised and rejected by the following experts:

1. Dr. D.L. Hart—Dr. Hart says, "A customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such." It may be noted that any banker undertakes upon himself any liability as a banker for a person only when he has an account of that person with him. According to Dr. Hart in order to constitute a person a customer, his account with the bank is necessary but the frequency of transactions in that account is not a deciding factor in the matter.

2. C. B. Drower & R. W. B. Bosley—They say, "To create a banker-customer relationship, there must be mutual intention to that effect and a banking account must be opened. The relationship exists from the moment it is first concluded and would embrace the first payment in to open the account."
The above experts’ views about the banker-customer relationships have also been supported in various Court decisions as follows:

1. Great Western Railway vs London and County Bank (1901)—A person named Huggins has been encashing cheques at the counter of the bank for several years. However, he did not open his account with the bank. It was held that "some kind of account is necessary, whether deposit account or current account or any, such type of relationship." Because there was no account of this type, hence Huggins was not a customer.

2. Commissioner of Taxation vs English Scottish and Australian Bank (1920) : It was held, "The word 'customer' signifies a relationship in which duration is not of the essence. A person whose money has been accepted by the bank on the footing that the bank undertakes to honour cheques upto the amount standing to his credit, is a customer of the bank in the sense of the statute irrespective of whether his connection is of long or short standing."

3. Central Bank of India Ltd. vs V Gopinathan Nair (1970) : In India, the Kerala High Court observed that the term "Customer" is not defined in the Negotiable Instruments Act. "Broadly speaking, a customer is a person who has the habit of resorting to the same place or person, to do the business. So far as banking transactions are concerned, he is a person whose money has been accepted on the footing that the banker will honour cheques upto the amount standing to his credit, irrespective of his connection being of short or long standing."
4. Ladbroke & Co. vs Todd (1914) : It was held that only opening of an account will be the proof of the fact that such a person is a customer of the banker, no matter that he has not withdrawn any money from that account.

Conclusion—On the basis of experts' views and the decisions of the courts, it can be concluded that in order to constitute a person a customer, his account with the bank is necessary, but the number of transactions in that account is immaterial. In other words, it makes no difference whether the account is newly opened or it is an old account with many transactions. Thus, Paget's "Duration Theory" is rejected in general.

Touchstone or Criterion of "Customer" : Modern View (Requirements)

The modern view of "customer" is in line with the views of Dr. Hart and others as well as with the court decisions cited above. • in order to be called a "customer," a person must fulfil the following two conditions :

1. Some sort of an account : Such a person must have some sort of an account with the bank, whether it is a savings account, current account, fixed deposit account or a loan account. In other words, only one transaction of opening the account creates a relationship of a customer and banker. There is no need of several transactions in that account. Single transaction may constitute a customer. Although frequency of transactions is not essential to constitute a person as a customer, but it is true to say that his position must be such that transactions are likely to become frequent. No court case has come into light till date where a person has been treated as customer without having a bank account.
2. Dealing to be of banking nature: Another requirement is that the dealing with the bank must be of a banking nature. The persons who have opened no account with the bank but avail of the casual services rendered by the bank, cannot be said customers. For instance, if a person occasionally goes to a cashier of a bank and gets cheques cashed, or deposits valuables or securities for safe custody, he does not thereby become a customer of the bank, because such transactions are not regarded in the nature of the real banking business.
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