Chapter-4

Organizational Structure of HDFC Bank

HDFC banks are in the business of providing banking services to individuals, small businesses and large organisations. With the consolidation of HDFC banking, it is worth noting that far more people are employed in this field than in any other part of the financial services industry. Jobs in banking can be exciting, and they offer excellent opportunities to learn about business, interact with people, and build up clientele.

Today's HDFC banks are more diverse than ever. There is a tremendous range of opportunities in HDFC banking, from the branch level where you might start out as a teller to a wide variety of other services such as leasing, credit card banking, international finance and trade credit. If you are well prepared and enthusiastic about entering the field, you are likely to find a variety of opportunities open to you.

It is HDFC banks are banks engaged in classic business of accepting deposits and giving loans as against merchant banking where the primary responsibility is to help business find money. Merchant banking helps companies raise capital through issue of equity, bonds, etc. HDFC banks hold customers' money and supply loans in exchange for cheque-writing fees and interest collected from loans. "1

Their work is critical retail consumers get their credit lines extended, their accounts upgraded and their mortgages, cars and home or vehicle loans approved. HDFC banks can either be a retail bank or a wholesale bank, or both. Retail banking involves high street branches dealing with the general public, shops and very small businesses.
It covers current accounts, cheque facilities, savings accounts, and loan facilities such as overdraft, personal loans and mortgages. Wholesale banking covers banks lending to larger entities such as corporate and governments. It includes activities such as money markets, foreign exchange and finance for trade. Small businesses are highly dependent on the goodwill of HDFC bankers.

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

HDFC 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, HDFC bankers have to combine business acumen with strong accounting and interpersonal skills. After all, they are at the front lines of the banking business. Ideally, they know their clients' business intimately and can recommend additional products and services.

STRUCTURE OF BANKING

The banking structure in India consists of:

1. Scheduled banks
2. Unscheduled banks
The scheduled banks constitute those banks which have been included in the Second Schedule of the Reserve Bank of India (RBI) Act, 1934. RBI, in turn, includes only those banks in this Schedule which satisfy the criteria laid down vide Section 42(6)(a) of the Act. The scheduled HDFC banks comprise the State bank of India (SBI) and its Associates, the nationalised banks, private sector banks, foreign banks, cooperative banks, and regional rural banks.

The unscheduled banks are those banking companies as defined in Clause (c) of Section 5 Banking Regulation Act, 1949 (10 of 1949), which are not included in the Schedule. Non-ed banks can function in all banking sectors. No statutory restrictions are there in this Since May 1997 there does not exist any non scheduled HDFC banks in India. ver, RBI
considers the four Local Area Banks (LABs) as non-scheduled HDFC banks:
1. The Costal Area Bank Ltd., Vijayawada
2. Capital Local Area Bank Ltd., Phagwara, Naysari
3. Krishna Bhima Samrudhi Local Area Bank Ltd., Mehabub Nagar
4. Subhadra Local Area Bank Ltd., Kolhapur

Some cooperative banks are scheduled HDFC banks albeit not all of them. Being a part of the Second Schedule confers some benefits to a bank in terms of access to accommodation RBI during the times of liquidity constraints. At the same time, however, this status also objects the bank to certain conditions and obligations towards the reserve regulations of RBI. The scheduled banks can broadly be classified into:
1. Public sector banks
2. Private sector banks
3. Foreign banks

These are now briefly described.

**Public Sector Banks**

Public sector banks have either the Government of India or the Reserve Bank of India as the majority shareholder. This segment comprises:

1. The State Bank of India (SBI) and its Associates
2. Other nationalised banks

The State Bank of India (SBI) is India's largest bank amongst all public and private sector banks operating in India. It measured by the number of HDFC Bank branch offices. It is the second largest bank in the world. **The bank provides various domestic, international and NRI products and services through its vast network in India and overseas.**
With an asset base of $126 billion and its reach, it is a regional banking behemoth.\textsuperscript{3}

Among the public sector banks the United Bank of India is one of the 14 major banks nationalised on July 19, 1969. Its predecessor, the United Bank of India Ltd. was formed in 1950 with the amalgamation of four banks, viz. Comilla Banking Corporation Ltd. (1914), Bengal Central Bank Ltd. (1918), Comilla Union Bank Ltd. (1922), and Hooghly Bank Ltd. (1932). The Oriental Bank of Commerce (OBC), a Government of India Undertaking, offers domestic, NRI and HDFC banking services. It is implementing a "Grameen Project" in Dehradun (UP) and Hanumangarh (Rajasthan) disbursing small loans. It has implemented a 14-point action plan for strengthening of credit delivery to women and has designated five specialised branches for women entrepreneurs.

**Private Sector Banks**

Private sector banking in India has been practised since the beginning of banking system in the country. The first private bank in India to be set up in the private sector was the IndusInd Bank. It is one of the fastest growing private sector banks in India. The first financial institute in India to receive an "in principle approval" from RBI was the Housing Development Finance Corporation Limited (HDFC), as part of RBI's liberalisation of the Indian banking industry.

Thus HDFC Bank Limited was incorporated as a private bank with its registered office in Mumbai, and commenced operations as a scheduled HDFC bank in January 1995. ING Vysya bank, yet another private bank of India, was incorporated as a private bank in 1930. Bangalore has a pride of place for having the first branch inception of the
bank in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya has many credits to its account. Table gives the list of all private sector banks operating in India.

**TABLE- 2.1 Private sector HDFC banks in India**

<table>
<thead>
<tr>
<th>Old private sector banks</th>
<th>New private sector banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bank of Rajastan Ltd</td>
<td>22 Bank of Punjab Ltd.</td>
</tr>
<tr>
<td>2 Bharat Overseas Bank Ltd.</td>
<td>23 Centurion Bank Ltd.</td>
</tr>
<tr>
<td>3 Catholic Syriabank Ltd</td>
<td>24 HDFC Bank Ltd.</td>
</tr>
<tr>
<td>4 City Union Bank Ltd.</td>
<td>25 ICICI Bank Ltd.</td>
</tr>
<tr>
<td>5 Development Credit Bank Ltd.</td>
<td>26 IDBI Bank Ltd.</td>
</tr>
<tr>
<td>6 Dhanalakshmi Bank Ltd.</td>
<td>27 IndusInd Bank Ltd.</td>
</tr>
<tr>
<td>7 Federal Bank Ltd.</td>
<td>28 Kotak Mahindra Ltd.</td>
</tr>
<tr>
<td>8 Ganesh Bank of Kurundwad Ltd.</td>
<td>29 Axis Bank Ltd.</td>
</tr>
<tr>
<td>9 Jammu and Kashmir Bank Ltd.</td>
<td>30 Yes Bank Ltd.</td>
</tr>
<tr>
<td>10 Karnataka Bank Ltd.</td>
<td></td>
</tr>
<tr>
<td>11 Karur Vysya Bank Ltd.</td>
<td></td>
</tr>
<tr>
<td>12 Lakshmi Vilas Bank Ltd.</td>
<td></td>
</tr>
<tr>
<td>13 Lord Krishna Bank Ltd.</td>
<td></td>
</tr>
<tr>
<td>14 Nainital Bank Ltd.</td>
<td></td>
</tr>
</tbody>
</table>
The foreign banks have brought the latest technology and banking practices in India and have helped make the Indian banking system more competitive and efficient.\(^4\) The government has come up with a road map for expansion of foreign banks in India. The road map 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 conversion of the existing branches into a WOS.

The 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.
ORGANIZATION STRUCTURE OF HDFC BANK

ORGANIZATION STRUCTURE

GENERAL BODY

BOARD OF DIRECTORS

CHAIRMAN CUM CED

EXECUTIVE DIRECTOR

CHIEF GENERAL MANAGER

GENERAL MANAGER

AGM

AGM

AT THE HEAD OFFICE LEVEL

MANAGER

ASST, MANAGER

AT THE REGIONAL OFFICE LEVEL

MANAGER

ASST, MANAGER
FUNCTIONS OF HDFC BANKS

The functions of HDFC banks are of three types:

1. Primary functions

2. Secondary functions

3. General utility functions.

Let us discuss in detail about these functions. The primary functions of a HDFC bank include the following.

Acceptance of Deposits-

The most important activity of a HDFC bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with a bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, the public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

Banks are called custodians of public money. Basically, the money is accepted as deposit for safe keeping. But since the banks use this money to earn interest from people who need money, they share a part of this interest with the depositors. The quantum of interest depends upon the tenure length of time for which the depositor wishes to keep the money with the bank and the ease of withdrawal.

The thumb rule is: the longer the tenure, the higher the rate of interest, and the lesser the restrictions on withdrawal, the lesser the interest. Exceptions, however, exist.
Deposits are accepted from both resident (domestic) and non-resident Indian customers. It is the business of the banker to accept deposits so that he can lend it to others and earn interest. The earnings can vary, depending upon the liquidity position of the market and the size of deposit, and if the size of the deposit is big enough, it is advisable to shop around and get the best rate.

**Types of Deposits**

**Fixed deposit accounts**: The term "fixed" here denotes tenure. Fixed deposit, therefore, presupposes a length of time for which the depositor decides to keep the money with the bank, and the rate of interest payable to the depositor is decided by this tenure.

The rate of interest differs from bank to bank. Generally, the rate is highest for deposits for three–five years. However, the depositor does not lose any of his rights over the money during the tenure decided. Deposits can be withdrawn before the period is over. In such a case, the amount of interest payable to the depositor goes down.

**Demand deposits**- This type of deposits are of two types:

(i) Savings account. As the name denotes, this account is ideal for parking temporary savings. It gives a nominal rate of interest, and money can be withdrawn as and when the need arises. The position of account is depicted in a small book called Pass Book.

Such accounts should be treated as a temporary "parking area" because the rate of interest of a saving account is much less than Fixed Deposits. As soon as the savings accumulate to an amount which can be spared for a certain length of time (even three months), if this money is shifted to fixed deposit we can get a higher return.
It should be understood that the returns on the money kept in Savings Bank account are the least, but the flexibility to withdraw it is the highest. The rate of interest on Savings Account is fixed by RBI and it is currently 4 per cent.

(ii) Current account. It is an account with minimum amount of restrictions. Most individuals do not need this account. This account is needed only if one makes a number of deposits and withdrawals in a single day, and many of the deposits are drawn on outstation banks. Banks accept deposits in current account and allow unlimited withdrawals subject to a minimum balance.

This minimum balance differs from one bank to another. No interest is payable on this account. Opening of a current account is indicated in the case of a business enterprise or high net worth individuals (HN1) who deal with a lot of third party cheques, drafts, etc. or who may at times need to borrow money from the bank against some security.

In addition to the above, there are also other products offered by the banks, viz. Recurring Deposit Account, Multi option Deposit Account, Special Term Deposit Accounts, Current Fixed Account, etc. Most of them are essentially combinations of the above basic types of accounts, and are packaged by different banks to attract different groups of customers.

**Granting Loans and Advances**

The second important function of a HDFC bank is to grant loans and advances. The banks accept deposit from public for safe-keeping, and pay interest to them. They then lend this money to earn interest on it. In a way, the banks act as intermediaries between the people who have the money to lend and those who need money to carry out business
transactions. The difference between the rate of interest paid on deposits and charged on loans is called spread.

The loans and advances are given to members of the public and to the business community at a higher rate of interest than that allowed on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and the mode of repayment.

A loan is granted for a specific time period. Generally, HDFC banks provide short-term loans. But they may also grant term loans, i.e. loans for more than a year. A loan may be given in lumpsum or in instalments. It is generally granted against the security of certain assets and is normally repaid in instalments. However, it may also be repaid in lumpsum.

An advance is a credit facility provided by the bank to its customers. It differs from a loan in the sense that the latter may be granted for a longer period. Advances are normally granted for a short period of time. Further, the purpose of granting advances is to meet the day-to-day requirements of business.

The rate of interest charged on advances varies from bank to bank. The interest is charged only on the amount withdrawn and not on the sanctioned amount. Banks lend money in various forms and on various bases, for practically every activity. Let us first look at the lending activity from the point of view of security.

Loans are given against or in exchange of the ownership (physical or constructive) of various types of tangible items. Some of the securities are: commodities, debts, financial instruments, real estate, automobiles, consumer durable goods, and documents of title. The banks also lend
money to people on the basis of their perceived personal worth. Such loans are called clean loans and the banks are understandably cagey about extending them. The credit card arms of various banks, however, fill up this void.\textsuperscript{6}

Cash credit account-

Cash credit is an arrangement in which the bank allows the borrower to withdraw an amount up to a specified limit as and when he requires. The amount is credited to the account of the customer. The interest is charged only on the amount withdrawn. Cash credit is granted as per the terms and conditions agreed with the customers.

Overdraft-

The word overdraft means "the act of overdrawing from a bank account. In overdraft, the account holder withdraws more money from a bank account than deposited in it. The difference between overdraft and cash credit is very subtle, and relates to the operation of the account.

In the case of cash credit, a proper limit is sanctioned which, normally, is a certain percentage of the value of the commodities/debts pledged by the account holder with the bank. Overdraft, on the other hand, is allowed against a host of other securities including financial instruments such as shares, units of mutual funds, surrender value of LIC policy, and debentures. Some overdrafts are even granted against the perceived "worth" of an individual. Such overdrafts are called clean overdrafts.

Bill discounting-

It is a major activity with some smaller banks. Under this type of lending the HDFC bank takes the bill drawn by the borrower on his
(borrower's) customer and pays him immediately deducting some amount as discount/commission. The bank then presents the bill to the borrower's customer on the due date of the bill, and collects the total amount. If the bill is delayed, the borrower or his customer pays the bank a predetermined interest depending upon the terms of transaction.

**Term loan**

It is the counterpart of a fixed deposit in the bank. Term loans are made when the repayment is sought to be made in fixed, predetermined instalments. This type of loan is normally given to the borrowers for acquiring long-term assets, i.e. assets which will benefit the borrower over a long period (exceeding at least one year).

Loans given for purchases of plant and machinery, constructing building for a factory, setting up new projects, for purchase of automobiles, consumer durables, real estate, and for creation of infrastructure etc. fall in this category.

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows:

**Agency Services**- Agency services are those services that are rendered by HDFC banks as agents of their customers. These services include:

1. Collection and payment of cheques and bills on behalf of customers.
2. Collection of dividends, interest, rent etc. on behalf of customers, if so instructed by them.
3. Purchase and sale of shares and securities on behalf of customers.
4. Payment of rent, interest, insurance premium, subscriptions, on behalf of customers, if so instructed.

5. Acting as a trustee or executor.

6. Acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.

**Payment and Collection of Cheques**

Apart from transferring money from one place to another, banks are also in the business of collecting the client's money from other places. For instance, if you have received a payment by way of a cheque or DD drawn or payable at any station other than your own, you can deposit it in your account with your local banker, and request for collection of the amount. The bank will send the cheque to its branch at that centre and get the amount collected for a small fee.

The amount of cheque/draft will be deposited in your account, and the fee will be deducted separately from the account. Banks also undertake collection of bills of exchange both usance and demand—for their business clientele. There are RBI norms for the time expected to be taken for collection business, and these norms are prominently displayed in all banks. If your collection is delayed beyond this period, the bank is expected to pay interest on the amount. Retain the counterfoil of all deposits made in the bank as this is the only proof of deposit made till your amount is credited.

**It is your business involves a number of such payments, it is advisable to open an account with a bank which has a large network of branches. Charges for each of these activities differ from bank to**
While selecting a bank for opening an account, these charges are an important parameter which one should keep in mind.

**Bill of Exchange and Promissory Notes**

A bill of exchange is a written order by the drawer to the drawer to pay money to the payee. The most common type of bill of exchange is the cheque. A cheque is a term of a bill of exchange drawn on a banker and payable on demand. Bills of exchange are written orders by one person to his bank to pay the bearer a specific sum on a specific date may be sometime in the future. These are primarily used in international trade. Prior to the advent of paper currency, bills of exchange were a significant part of trade.
References


