CHAPTER-IV

PROFILE OF BANKING INDUSTRY

The previous chapter provides a brief description of the origin, concepts and theoretical frame work of stress management. This chapter gives a profile of the banking industry.

The main challenge before a developing nation is to foster sustainable growth. For growth or its recovery, the nation’s productive capacity has to be strengthened and expanded. In the development agenda, an important issue relates to the problem of the provision and delivery of the financial service and credit. Banking is the fulcrum of an Economy. The Banking Industry is one of the basic instruments of economic growth.

Banks constitute an important segment in financial arena of all countries whether developed or developing or underdeveloped. Economic development of every country depends upon financial sector particularly commercial banks. In fact economic development and financial infrastructure go hand in hand. From time immemorial, the conventional banker, an indispensable pillar of Indian society, giving and taking of credit in one form or another, must have existed as earlier as the Vedic period. Money lending was one of the recognised occupations under Manu's laws1

The history of modern Indian banking goes back to 1683 when the first Indian bank was established on western lines in Madras. Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790; both are now
The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years, the Presidency banks acted as quasi-central banks, as did their successors. The establishment of the Bank of Calcutta in 1806 marked the beginning of the modern banking era in India. Two more Presidential Banks, namely, Bank of Bombay and Bank of Madras were set up in 1840 and 1843 respectively. Foreign banks too started to arrive, particularly in Calcutta, in the 1860s. The Comptoire Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking center. With the launching of Swadeshi movement in 1905, there were outbursts of banking activities. Many banks like Bank of Burma (1904), Bank of India (1906), Canara Bank (1906), Bank of Rangoon (1906), Indian Specie Bank (1906)Indian Bank (1906), Bank of Baroda (1908) and Central Bank (1911) had their operation with a paid up capital of Rupees Five lakhs and above. But the present Indian banking system had developed considerably since 1935. RBI has started its operation in 1935 through an Act. A critical review of the growth of banking in India in the pre-independence period reveals that the banking system had neither a definite shape nor policy except the creation of RBI in 1935. With the enactment of the Banking Companies Act in 1949, the Indian banking system had undergone substantial changes structurally, geographically and functionally. Banking in India broadly falls under two categories: (a) Commercial
banks and (b) Co-operative banks. Commercial banks are the major players as far as industry and trade sectors are concerned whereas co-operative banks cater to the needs of rural economy, particularly agriculture sector. Commercial banks fall under two distinct categories, namely, Scheduled commercial banks and non-scheduled Commercial banks. Scheduled commercial banks means the banks which are listed in the Second Schedule of RBI Act, 1934. Under section 42 (1) of the Act, scheduled commercial banks are expected to maintain cash balance to a minimum of three percent of their net demand and time liabilities. The cash reserve ratio is subject to upward / downward revision by RBI. The Imperial Bank of India was nationalized and its undertaking was taken over by the State Bank of India (SBI) in 1955. It was done for the purpose of imposing social control with a view to remedy the basic weaknesses of the Indian banking system and to ensure that banks would cater to the needs of the hither to neglect and weaker sections of community instead of big business and those connected with them. On July 19, 1969, 14 major banks and on April 15, 1980, six banks were nationalized. The object of other nationalization was to render the largest good to the largest number of people. The present scheduled banking structure has been depicted in the Figure 1.1. From the figure, it becomes clear that there are 27 public sector banks operating in India. Apart from 32 private sector banks, 42 foreign banks and 196 RRBs. In addition to that, there are 57 scheduled urban cooperative banks and 16 scheduled state co-operative banks. Out of the 27 public sector banks, there are 19 nationalized banks and others are SBI and its associates.

**GROWTH OF BANKING SYSTEM IN INDIA:**

In order to understand present make up of banking sector in India and its past progress, it will be fitness of things to look at its development in a somewhat longer
historical perspective. The past four decades and particularly the last two decades witnessed cataclysmic change in the phase of commercial banking all over the world. Indian banking system has also followed the same trend. In over five decades since independence, banking system in India has passed through five distinct phase, viz.

(1) Evolutionary Phase (prior to 1950)

(2) Foundation phase (1950-1968)

(3) Expansion phase (1968-1984)

(4) Consolidation phase (1984-1990)

(5) Reformatory phase (since 1990)

**EVOLUTION PHASE: (PRIOR TO 1950)**

Enactment of the RBI Act 1935 gave birth to scheduled banks in India, and some of these banks had already been established around 1981. The prominent among the scheduled banks is the Allahabad Bank, which was set up in 1865 with European management. The first bank which was established with Indian ownership and management was the Oudh Commercial Bank, formed in 1881, followed by the Ajodhya Bank in 1884, the Punjab National Bank in 1894 and Nedungadi Bank in 1899. Thus, there were five Banks in existence in the 19th century. During the period 1901-1914, twelve more banks were established, prominent among which were the Bank of Baroda (1906), the Canara Bank (1906), the Indian Bank (1907), the Bank of India (1908) and the Central Bank of India (1911). Thus, the five big banks of today had come into being, prior to the commencement of the First World War. In 1913, and also in 1929, the Indian Bank faced serious crises. Several banks succumbed to these crises. Public confidence in banks received a jolt. There was a heavy rush on banks.
An important point to be noted here is that no commercial bank was established during the First World War, while as many as twenty scheduled banks came into existence after independence -- two in the public sector and one in the private sector. The United Bank of India was formed in 1950 by the merger of four existing commercial banks. Certain non-scheduled banks were included in the second schedule of the Reserve Bank in view of these facts, the number of scheduled banks rose to 81. Out of 81 Indian scheduled banks, as many as 23 were either liquidated or merged into or amalgamated with other scheduled banks in 1968, leaving 58 Indian schedule banks. It may be emphasized at this stage that banking system in India came to be recognized in the beginning of 20th century as powerful instrument to influence the pace and pattern of economic development of the country. In 1921 need was felt to have a State Bank endowed with all support and resources of the Government with a view to helping industries and banking facilities to grow in all parts of the country. It is towards the accomplishment of this objective that the three Presidency Banks were amalgamated to form the Imperial Bank of India. The role of the Imperial Bank was envisaged as to extend banking facilities, and to render the money resources of India more accessible to the trade and industry of this country, thereby promoting financial system which is an indisputable condition of the social and economic advancement of India. Until 1935 when RBI came into existence to play the role of Central Bank of the country and regulatory authority for the banks. Imperial Bank of India played the role of a quasi-central bank. It was by making it the sole repository of all its funds and by changing the volume of its deposits with the Bank as and when desired by it, the Government tried to influence the base of deposits and hence credit creation by Imperial Bank and by rest of the banking system. Thus, the role of commercial banks in India remained confined to providing vehicle for the community’s savings and
attending to the credit needs of only certain selected and limited segments of the economy. Bank’s operations were influenced primarily by commercial principle and not by developmental factor. Regulation was still only being introduced and unhealthy practices in the banks were then more rules than exceptions. Failure of banks was common as governance in privately owned joint stock banks left much to be desired.

**FOUNDATION PHASE: 1948-1968**

In those initial days, the need of the hour was to reorganize and to consolidate the prevailing banking network keeping in view the requirements of the economy. The first step taken to that end was the enactment of the Banking Companies Act, 1949 followed by rapid industrial finance. Role played by banks was instrumental behind industrialization with the impetus given to both heavy and Small Scale Industries. Subsequently after the adoption of social control, banks started taking steps in extending credit to agriculture and small borrowers. Finally, on July 1969, 14 banks were nationalised with a view to extending credit to all segments of the economy and also to mitigate regional imbalances. Thus, the period of regulated growth from 1950 till bank nationalization witnessed a number of far-reaching changes in the banking system. The banking scenario prevalent in the country during the period 1948-1968 presented a strong focus on class banking on security rather than on purpose. The emphasis of the banking system during this period was on laying the foundation for a sound banking system in the country. Banking Regulating Act was passed in 1949 to conduct and control operations of the commercial banks in India. Another major step taken during this period was the transformation of Imperial Bank of India into State Bank of India and a redefinition of its role in the Indian economy, strengthening of the co-operative credit structure and setting up of
institutional framework for providing longterm finance to agriculture and industry. Banking sector, which during the pre—independence India was catering to the needs of the government, rich individuals and traders, opened its door wider and set out for the first time to bring the entire productive sector of the economy – large as well as small, in its fold. During this period number of commercial banks declined remarkably. There were 566 banks as on December, 1951; of this, number scheduled banks was 92 and the remaining 474 were non-scheduled banks. This number went down considerably to the level of 281 at the close of the year 1968. The sharp decline in the number of banks was due to heavy fall in the number of non-scheduled banks which touched an all time low level of 210. The banking scenario prevalent in the country up-to—the year 1968 depicted a strong stress on class banking based on security rather than on purpose. Before 1968, only RBI and Associate Banks of SBI were mainly controlled by Government. Some associates were fully owned subsidiaries of SBI and in the rest, there was a very small shareholding by individuals and the rest by RBI.

**EXPANSION PHASE (1968-1984)**

The motto of bank nationalization was to make banking services reach the masses that can be attributed as "first- banking revolution". Commercial banks acted as vital instruments for this purpose by way of rapid branch expansion, deposits mobilization and credit creation. Penetrating into rural areas and agenda for geographical expansion in the form of branch expansion continued. The second dose of nationalization of 6 more commercial banks on April 15, 1980 further widened the phase of the public sector banks and therefore banks were to implement all the government sponsored programmes and change their attitude in favour of social banking, which was given the highest priority. This phase witnessed socialization of
banking in 1968. Commercial banks were viewed as agents of change and social control on banks. However, inadequacy of social control soon became apparent because all banks except the SBI and its seven associate banks were in the private sector and could not be influenced to serve social interests. Therefore, banks were nationalized (14 banks in 1969 and 6 banks in 1980) in order to control the heights of the economy in conformity with national policy and objectives. This period saw the birth and the growth of what is now termed as ‘directed lending’ by banks. It also saw commercial banking spreading to far and wide areas in the country with great pace during which a number of poverty alleviation and employment generating schemes were sought to be implemented through commercial banks. Thus, this period was characterized by the death of private banking and the dominance of social banking over commercial banking. It was hardly realized that banks were organizations with social responsibilities but not social organizations. This period also witnessed the birth of Regional Rural Bank (RRBS) in 1975 and NABARD in 1982 which had priority sector as their focus of activity. Although number of commercial banks declined from 281 in 1968 to 268 in 1984, number of scheduled banks shot up from 71 to 264 during the corresponding period, number of non-scheduled banks having registered perceptible decline from 210 to 4 during the period under reference. The rise in the number of scheduled banks was, as stated above, due to the emergence of RRBS. The fifteen years following the banks’ nationalization in 1969 were dominated by the Banks’ expansion at a path breaking pace. As many as 50,000 bank branches were set up; three-fourths of these branches were opened in rural and semi-urban areas. Thus, during this period, a distinct transformation of far reaching significance occurred in the Indian banking system as it assumed a broad mass base and emerged as an important instrument of socio-economic changes. Thus, with growth came
inefficiency and loss of control over widely spread offices. Moreover, retail lending to more risk-prone areas at concessional interest rates had raised costs, affected the quality of assets of banks and put their profitability under strain. The competitive efficiency of the banks was at a low ebb. Customer service became least available commodity. Performance of a bank/banker began to be measured merely in terms of growth of deposits, advances and other such targets and quality became a casualty. The progress of branch expansion is presented in the Table 4.1.

TABLE 4.1

BRANCH EXPANSION SINCE 1969 TO 1991

<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of Branches</th>
<th>Rural Branches</th>
<th>Semi-urban</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>8262</td>
<td>1833</td>
<td>3342</td>
</tr>
<tr>
<td>1980</td>
<td>32419</td>
<td>15105</td>
<td>8122</td>
</tr>
<tr>
<td>1991</td>
<td>60,220</td>
<td>35206</td>
<td>11,344</td>
</tr>
</tbody>
</table>


It can be seen from the Table 3.1 that the total number of bank branches increased eight-fold between 1969 to 1991. The bulk of the increase was on account of rural branches which increased from less than 2000 to over 35000 during the period. The percentage share of the rural and semi-urban branches rose from 22 and 4 respectively in 1969 to 45 per cent and 25 per cent in 1980 and 58 per cent and 18 per cent in 1991. The impact of this phenomenal growth was to bring down the population per branch from 60,000 in 1969 to about 14,000. The banking system thus assumed a broad mass-base and emerged as an important instrument of socio-economic changes. However, this success was neither unqualified nor without costs.
While the rapid branch expansion, wider geographical coverage has been achieved, lines of supervision and control had been stretched beyond the optimum level and had weakened. Moreover, retail lending to more risk-prone areas at concessional interest rates had raised costs, affected the quality of assets of banks and put their profitability under strain.

**CONSOLIDATION PHASE; (1985-1990)**

A realization of the above weaknesses thrust the banking sector into the phase of consolidation. This phase began in 1985 when a series of policy initiatives were taken with the objectives of consolidating the gains of branch expansion undertaken by the banks, and of relaxing albeit marginally, the very tight regulation under which the system was operating. Although number of schedule banks increased from 264 in 1984 to 276 in 1990, branch expansion of the banks slowed down. Hardly 7000 branches were set up during this period. For the first time, serious attention was paid to improving housekeeping, customer services, credit management, staff productivity and profitability of the banks and concrete steps were taken during this period to rationalize the rates of bank deposits and lending. Measures were initiated to reduce the structural constraints which were then inhibiting the development of money market. By this time about 90% of commercial banks were in the public sector and closely regulated in all its facets. Prices of assets liability were fixed by the RBI; prices of service were fixed uniformly by the Indian Banking Association (IBA); composition of assets was also somewhat fixed in as much as 63.5% of bank funds were mopped up by CRR and SLR and the remaining was to be directed towards priority sector lending and small loaning; salary structure was negotiated by the IBA and validated by the Government. Thus, there was no autonomy in vital decisions of the Government. Thus, there was no autonomy in vital decisions. Commercial
approach in operations and drive towards efficiency was almost nonexistent. The result was that during this period, the banks ended up, consolidating their losses rather than the gains. A very interesting development that had taken place during 1960s was the liquidation of many smaller banks by amalgamation with bigger and stronger banks. During the two decades 1949 to 1969 the banking sector witnessed the process of Consolidation for the first time. The number of banking companies came down drastically from 620 in 1949 to 89 in 1969. The Table 4.2 shows the progress of commercial banking in India since 1951.

**TABLE 4.2**

**PROGRESS OF COMMERCIAL BANKING IN INDIA: 1951 to 1991**

<table>
<thead>
<tr>
<th>Indicator/Year</th>
<th>1951</th>
<th>1969</th>
<th>1987</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of Commercial Banks(including AABs) :</td>
<td>566</td>
<td>89</td>
<td>279</td>
<td>276</td>
</tr>
<tr>
<td>(a) Scheduled banks</td>
<td>92</td>
<td>73</td>
<td>275</td>
<td>272</td>
</tr>
<tr>
<td>(b) Non-scheduled banks</td>
<td>474</td>
<td>16</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2. Number of offices</td>
<td>4151</td>
<td>8262</td>
<td>53,840</td>
<td>60,220</td>
</tr>
<tr>
<td>3. Total deposits of Scheduled banks (As. Crores)</td>
<td>908</td>
<td>4646</td>
<td>107,345</td>
<td>201,199</td>
</tr>
<tr>
<td>4. Total Credit of Scheduled banks (As. Crores)</td>
<td>547</td>
<td>3599</td>
<td>64,213</td>
<td>121,8865</td>
</tr>
</tbody>
</table>


**ROLE OF BANKS IN ECONOMIC DEVELOPMENT**

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

**BANKING SYSTEM**

**Economic Development through Banking System**

The contribution of the banking sector in the process of economic development can be summarized as under:

1. **Banks help in Capital Formation:**

   Banks mobilize the idle and dormant capital of a community and make it available for productive purposes. In fact, banks have designed a number of schemes to encourage the habit of savings among the people.

2. **Banks are the Creator of Money:**

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

3. **Banks act as a link between the organized and unorganized sectors:**

   In India, money market consists of organized and unorganized sectors. Both of them are required to be linked for economic development of the country and this function is performed by banks.

4. **Banks help in the effective implementation of monetary policy:**

   The effective implementation of monetary policy can be done only through properly organized banking system of the country.

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

6. **Banks act as catalyst in social change:**

In India banks are regarded as catalysts in bringing the desired social change in community. Banks are able to achieve the desired change through its sectoral priorities and other social development programmers.

7. **Banks help in the development of entrepreneurship:**

Banks have special drives and specific schemes for the development of entrepreneurship. Banks help in boosting their strength and health.

8. **Banks regulate the flow of national savings:**

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

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

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

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

Banks also help in promoting import and maintaining the balance of trade at favorable position. From the above, it became clear that the banking system occupies an important position in an economy. Bankers are regarded as, “Public Conservators of Commercial Virtues.” A country with an effective banking system has a secure foundation of economic development. It is a fact that in order to judge the financial
maturity, the size of bank assets of the economy plays an active role. The size of bank assets in relation to GDP has important implications for the financial development of any economy.

**NATIONALISATION**

By the 1960s, the Indian banking industry has become an important tool to facilitate the development of the Indian economy. At the same time, it has emerged as a large employer, and a debate has ensured about the possibility to nationalize the banking industry. Indra Gandhi, the-then Prime Minister of India expressed the intention of the Government of India (GOI) in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalization". The paper was received with positive enthusiasm. Thereafter, her move was swift and sudden and the GOI issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Jayaprakash Narayan, a national leader of India, described the step as a "Masterstroke of political sagacity". Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill and it received the presidential approval on 9 August, 1969.

A second step of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government, more control of credit delivery. With the second step of nationalization, the GOI controlled around 91% of the banking business in India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks
grew at a pace of around 4%, closer to the average growth rate of the Indian economy. The nationalized banks were credited by some; including Home minister P. Chidambaram, to have helped the Indian economy withstand the global financial crisis of 2007-2009.

LIBERALISATION

In the early 1990s, the then Narsimha Rao government embarked on a policy of liberalisation, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. This move along with the rapid growth in the economy of India revolutionized the banking sector in India which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks. The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 49% with some restrictions. The new policy shook the banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for the traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more. Currently (2007), banking in India is generally fairly mature in terms of supply, product range and reach—even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent
balance sheets as compared to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate and this has mostly been true. With the growth in the Indian economy expected to be strong for quite some time, especially in its services sector the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be voted by them. In recent years, critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the banks' loan recovery efforts have driven defaulting borrowers to suicide.

**GOVERNMENT POLICY ON BANKING INDUSTRY**

Banks operating in most of the countries must contend with heavy regulations, rules enforced by Federal and State agencies to govern their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public. A banker works within the financial system to provide loans, accept deposits, and provide other services to their customers. They must do so within a climate of extensive regulation, designed primarily to protect the public interests. The main reasons why the banks are heavily regulated are as follows:
• To protect the safety of the public’s savings.

• To control the supply of money and credit in order to achieve a nation’s broad economic goal.

• To ensure equal opportunity and fairness in the public’s access to credit and other vital financial services.

• To promote public confidence in the financial system, so that savings are made speedily and efficiently.

• To avoid concentrations of financial power in the hands of a few individuals and institutions.

• Provide the Government with credit, tax revenues and other services.

• To help sectors of the economy that they have special credit needs for eg. Housing, small business and agricultural loans etc.

**CLASSIFICATION OF BANKING INDUSTRY IN INDIA**

Indian banking industry has been divided into two parts, organized and unorganized sectors. The organized sector consists of Reserve Bank of India, Commercial Banks and Co-operative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC etc). The unorganized sector, which is not homogeneous, is largely made up of money lenders and indigenous bankers.

An outline of the Indian Banking structure may be presented as follows:

1. Reserve banks of India.

2. Indian Scheduled Commercial Banks.

   a) State Bank of India and its associate banks.
b) Twenty nationalized banks.

c) Regional rural banks.

d) Other scheduled commercial banks.

3. Foreign Banks


5. Co-operative banks.

**RESERVE BANK OF INDIA**

The reserve bank of India is a central bank and was established in April 1, 1935 in accordance with the provisions of reserve bank of India act 1934. The central office of RBI is located at Mumbai since inception. Though originally the reserve bank of India was privately owned, since nationalization in 1949, RBI is fully owned by the Government of India. It was inaugurated with share capital of Rs. 5 Crores divided into shares of Rs. 100 each fully paid up. RBI is governed by a central board (headed by a governor) appointed by the central government of India. RBI has 22 regional offices across India. The reserve bank of India was nationalized in the year 1949. The general superintendence and direction of the bank are entrusted to central board of directors of 20 members, the Governor and four deputy Governors, one Governmental official from the ministry of Finance, ten nominated directors by the government to give representation to important elements in the economic life of the country, and the four nominated director by the Central Government to represent the four local boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Board consists of five members each central government appointed for a term of four years to represent territorial and economic interests and the interests of cooperative and indigenous banks.
The RBI Act 1934 was commenced on April 1, 1935. The Act, 1934 provides the statutory basis of the functioning of the bank. The bank was constituted for the need of following:

- To regulate the issues of banknotes.

- To maintain reserves with a view to securing monetary stability.

- To operate the credit and currency system of the country to its advantage.

Functions of RBI as a central bank of India are explained briefly as follows:

**Bank of Issue:**

The RBI formulates, implements, and monitors the monetary policy. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector.

Regulator-Supervisor of the financial system: RBI prescribes broad parameters of banking operations within which the country’s banking and financial system functions. Their main objective is to maintain public confidence in the system, protect depositor’s interest and provide cost effective banking services to the public.

**Manager of exchange control:**

The manager of exchange control department manages the foreign exchange, according to the foreign exchange management act, 1999. The manager’s main objective is to facilitate external trade, payment, promote orderly development and maintenance of foreign exchange market in India.

**Issuer of currency:**
A person who works as an issuer, issues and exchanges or destroys the currency and coins that are not fit for circulation. His main objective is to give the public adequate quantity of supplies of currency notes and coins and in good quality.

**Developmental role:**

The RBI performs the wide range of promotional functions to support national objectives such as contests, coupons, maintaining good public relations and many more.

Related functions: There are also some of the related functions to the above mentioned main functions. They are such as, banker to the government, banker to banks etc….

- Banker to government performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks maintains banking accounts to all scheduled banks.

**Controller of Credit:**

RBI performs the following tasks:

- It holds the cash reserves of all the scheduled banks.
- It controls the credit operations of banks through quantitative and qualitative controls.
- It controls the banking system through the system of licensing, inspection and calling for information.
• It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.

**Supervisory Functions:**

In addition to its traditional central banking functions, the Reserve Bank performs certain non-monetary functions of the nature of supervision of banks and promotion of sound banking in India. The Reserve Bank Act 1934 and the banking regulation act 1949 have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation. The RBI is authorized to carry out periodical inspections of the banks and to call for returns and necessary information from them. The nationalization of 14 major Indian scheduled banks in July 1969 has imposed new responsibilities on the RBI for directing the growth of banking and credit policies towards more rapid development of the economy and realisation of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

**Promotional Functions:**

With economic growth assuming a new urgency since independence, the range of the Reserve Bank’s functions has steadily widened. The bank now performs a variety of developmental and promotional functions, which, at one time, were regarded as outside the normal scope of central banking. The Reserve bank was asked to promote banking habit, extend banking facilities to rural and semi-urban areas, and establish and promote new specialized financing agencies.
INDIAN SCHEDULED COMMERCIAL BANKS

The commercial banking structure in India consists of scheduled commercial banks, and Unscheduled banks.

Scheduled Banks: Scheduled Banks in India constitute those banks which have been included in the second schedule of RBI act 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6a) of the Act. “Scheduled banks in India,” means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the State Bank of India (subsidiary banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank, being a bank included in the Second Schedule to the Reserve bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank. For the purpose of assessment of performance of banks, the Reserve Bank of India categories those banks as public sector banks, old private sector banks, new private sector banks and foreign banks, i.e. private sector, public sector, and foreign banks come under the umbrella of scheduled commercial banks.

Regional Rural Bank: The government of India set up Regional Rural Banks (RRBs) on October 2, 1975. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, and small entrepreneurs. Initially, five RRBs were set up on October 2, 1975 which was sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The total authorized capital was fixed at Rs. 1 Crore which has since been raised to Rs. 5 Crores. There are several concessions enjoyed by the RRBs by Reserve Bank of India such as lower interest rates and
refinancing facilities from NABARD like lower cash ratio, lower statutory liquidity ratio, lower rate of interest on loans taken from sponsoring banks, managerial and staff assistance from the sponsoring bank and reimbursement of the expenses on staff training. The RRBs are under the control of NABARD. NABARD has the responsibility of laying down the policies for the RRBs, to oversee their operations, provide refinance facilities, to monitor their performance and to attend their problems.

**Unscheduled Banks:** “Unscheduled Bank in India” means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank”.

**NABARD** is an apex development bank with an authorization for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas

2. Bringing about or promoting institutions development and

3. Evaluating, monitoring and inspecting the client banks

Besides this fundamental role, NABARD also:

• Acts as a coordinator in the operations of rural credit institutions

• To help sectors of the economy that they have special credit needs for eg.
ADOPTION OF BANKING TECHNOLOGY

IT revolution had a great impact in the Indian banking system. The use of computers had led to introduction of online banking in India. The use of the modern innovation and computerization of the banking sector of India has increased many fold, after the economic liberalisation of 1991 as the country's banking sector has been exposed to the world's market. The Indian banks were finding it difficult to compete with the international banks in terms of the customer service without the use of the information technology and computers. The RBI in 1984 formed Committee on Mechanisation in the Banking Industry. (1984 whose chairman was Dr C Rangarajan, Deputy Governor, Reserve Bank of India). The major recommendations of this committee was introducing MICR Technology in all the banks in the metropolis in India. This provided use of standardized cheque forms and encoders. In 1988, the RBI set up Committee on Computerisation in Banks (1988) headed by Dr. C.R. Rangarajan which emphasized that settlement operation must be computerized in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It further stated that there should be National Clearing of inter-city cheques at Kolkata, Mumbai, Delhi, Chennai and MICR should be made Operational. It also focused on computerisation of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerisation began from 1993 with the settlement between IBA and bank employees' association. In 1994, Committee on Technology Issues relating to Payments System, Cheque Clearing and Securities Settlement in the Banking Industry (1994) was set up with chairman Shri WS Saraf, Executive Director, Reserve Bank of India. It emphasized on Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier. It
also said that MICR clearing should be set up in all branches of all branches of all banks with more than 100 branches.

Committee for proposing Legislation On Electronic Funds Transfer and other Electronic Payments (1995) emphasized on EFT system. Electronic banking refers to DOING BANKING by using technologies like computers, internet and networking, MICR,EFT so as to increase efficiency, quick service ,productivity and transparency in the transaction.

EMERGING TRENDS IN TECHNOLOGY ADOPTION BY INDIAN BANKS AND IT

Technology as the differentiator has become the driver of the Indian banking business since the past decade with the financial sector reforms providing firm foundation. The question of implementing technology has now transformed into 'how from the estimate, the cost per transaction through a branch, ATM and Internet works out to about Rs.66, Rs.22 and Rs.10 respectively, ignoring the extreme variations owing to the investment cost vis-à-vis the number and nature of the transactions. Moreover, technology has resulted in improved quality of service, any time/any where banking, focused product delivery, cross selling opportunities, multi-channel touch points for consumption of services, etc.

IT governance – an overview

As the success of the banking business increasingly tends to hinge on the proper adoption and utilization of technology, IT Governance has assumed great significance. Simply put, IT Governance is nothing but a subset of Corporate Governance concerned about ensuring appropriate direction and control of IT activities
to the benefit of an organization. IT Governance implies adoption of a defined framework of plan, do, check and act using performance metrics, key goal indicators and maturity models. This paper attempts to present the current status of technology adoption by the banks in India, the trend and opportunities, challenges and, finally, with the developed appreciation of the overall context, it provides a practical guide to the process of IT Governance.

**Status of IT adoption by banks**

While the foreign banks operating in India made the beginning, the new private sector banks aggressively started pursuing technology-based service offering. However, the public sector banks had to move over from the load of the past legacy. The technology adoption by these banks had been dictated more by regulatory roadmap (notably, the two Rangarajan Committees, the Saraf Committee and the Vasudevan Committee) and mandates by CVC till recently than by any conscious alignment with business strategy. The poor communication infrastructure and the hostile labour unions of the then era did not help the cause either. However, the rapid strides made by the technology sector and their swift adoption by the competitors since the middle of the past decade have forced these banks also to get into the act by beginning to offer IT-facilitated products and services. Today, almost very commercial bank branch is at some stage of technology adoption, be it Automated Ledger Posting Machines, Total Branch automation or Core Banking Solution (CBS). Keeping in view the large branch network of these banks, the Core Banking solution (CBS) is being laid across by them in a phased manner. According to latest estimates, CBS covers around 40% of the bank branches accounting for nearly 70% of the business volume. ATMs (including shared ATMs aided further by the National financial Switch initiative of RBI), internet banking, any branch banking, credit
cards, debit cards, etc, are being increasingly offered. There are over 11,000 ATMs across the country and 11 million net connections with around 23 million users.

**KEY STUDIES ON INDIVIDUAL OUTCOMES OF STRESS IN BANKING.**

**Organizational outcomes of stress**

The main organizational outcome of stress is absence from work. As this is a significant cost to the employer (due to funding sick pay and covering the work of the absent employee), this is the main trigger in terms of employer action to combat stress in the workplace. Absence from work due to stress is also one of the easiest indictors to monitor, provided data are collected. There are therefore a range of surveys available with data on absence, of which stress is often a major cause. Other organisational outcomes, which are perhaps harder to measure with any certainty, include:

- reduced productivity;
- reduced employee engagement and motivation;
- reduced quality of products and services. In addition, absence from work can have an impact on organizational performance and innovation capacity, through both the reduced performance of existing employees and higher staff turnover. There are many examples of organizations that have made an effort to tackle work-related stress and thereby reduce sickness and absence due to stress (see later in this CAR for a number of case studies). While investing in stress management and it is a long-term issue that requires organizational commitment, it can repay the time and money, invested in it many times over.
Organization structure and climate.

The role and job characteristics, certain features of the structure, climate, and culture of the organization also cause severe psychological stress to its members. The potential effects of the structure of an organization on individual performance and job attitudes have only recently been studied and better understood. The extent to which individual employees are involved in direction and decision making in work, their leads to the definition of two kinds of organizational structures; centralized (tall organization) and decentralized (flat organization). It is generally observed that the structure which allows employees more decision making power, produces less stress. Ivancevich and Donnelly (1975)3 in their study noted, that employees in flat organization reported less job stress and more job satisfaction. This differential effect might be linked to the fact that decision making, enhances the meaningfulness that employees find in work and provides the employees with a greater sense of autonomy, responsibility, certainty, control and ownership.

Climate and culture of the organization has also been found to be the source of satisfaction and stress. Culture of the organization is defined as to refer to the beliefs and expectations shared by the members of the organizations. An important stress that results from organizational culture is the existence of competition. For instance, as organization declines, especially in relation to downsizing and budget cut, five job stressors emerge, namely, feeling of job insecurity, work overload because of unrealistic deadlines, underutilization of employees skills, promotional obstacles, and intra-and inter-group competitions. Many workers feel stress due to power struggles or office politics prevailing in the organization. Office politics are said to be an important factor in number of organisational practices, viz., promotions and transfers, allocation of supplies or equipments, division of authority and coordination.
between high level managers. Managers who are engaged in power games and political alliances can place stressful expectations and demands on subordinates. Cooper and Melhuish (1980) reported “relationship within the organization”, and “poor organizational climate” to be causing stress and health strains among executives. In a study, Srivastav (1990) found that inadequate organizational climate was positively correlated with the symptoms of mental ill-health among its employees.

Another factor of organizational climate which might cause stress to its employees involve territory or personal space. Organizational territory is defined as the personal space or area of activities within which an employee works. Territoriality has been identified as a powerful stressor for workers. Territoriality cause stress by arousing the feeling of alienation or isolation in new or distant department.

**Societal outcomes**

There are many societal and labour market outcomes from work-related stress. The absence from work that it causes, leads to a significant number of days lost per year, which is measured in all countries, although it is sometimes difficult to isolate stress as the particular cause of absence. Nevertheless, many sets of absence statistics contain a category of ‘stress, anxiety and depression’. Absence from work entails costs to employers (see above) and to sickness insurance funds. If workers become unable to work on a long-term basis, this in turn places an extra burden on social security systems such as disability, incapacity and unemployment benefit systems. In Ireland, it is noted that significantly more working days per year are lost through absence due to work-related stress than to industrial action, a fact that is reported to be frequently overlooked. In Austria, it is reported that work-related stress often leads to
early retirement – psychosocial disorders are reported to be the main reason why white-collar workers retire early, causing over 42% of all early retirements among this category of workers. In addition to the likely costs to society of absence from work, in terms of lost productivity, there are also costs relating to the medical treatment and rehabilitation of workers on long-term sick leave due to stress.

Occupational stress

Stress at work resulting from increasing complexities of work and its divergent demand, has become a prominent and pervading feature of the modern organizations. The researchers in the area of organizational psychology and management have used the term job stress to denote employees’ mental state aroused by a job situation or a combination of job situations perceived as presenting excessive and divergent demands. Some stress researchers have emphasized the role of job situations in their definition of job occupational stress. Caplan Cobb, and French (1975)5 have accordingly defined occupational stress as “any characteristics of job environment which poses a threat to the individual”. Copper and Marshall (1976)6 have expressed that by “occupational stress is meant negative environmental factors or stressors associated with a particular job”.

The definition proposed by Margolis, Kores, and Quinn (1974)7 falls in this category. They defined stress as “a condition at work interacting with worker’s characteristics to disrupt his psychological or physiological homeostasis”. similarly, Beehr and Newman (1978)8 described job stress as “a condition wherein job related factors interact with the worker to change (disrupt or enhance) his psychological conditions such that the person is forced to deviate from normal functioning.
Parasuraman and Alluto (1981) also reported that job demands, constraints, and job related events or situations were not in themselves stressful, but that may be capable of producing psychological stress and strain, depending upon personal attributes and other factors. Green (1982) has defined “occupational stress as disruption in individual’s psychological or physiological homeostasis that force them to deviate from normal functioning in interaction with their jobs and work environment”.

**Person-environment fit perspective of occupational stress.**

P-E fit perspective of stress proposed by French, Rodgers and Cobb (1974) well explains the concept of stress. According to this theory, poor fit or misfit between employee and his work and its environment results in stress and psychological and health strains. The theory is based on the assumption that people vary in their needs, expectations and abilities just as jobs vary in their requirements, demands and incentives, when there is poor fit between the characteristics of the employee and of the job, P-E fit theory predicts the employee’s well-being will be affected. In this theory, the fit is not unilateral. It is rather bilateral fit between employee and his job. Both should satisfy each other’s demands or expectations. Poor or insufficient supply from either side would cause stress. One form of fit involved the discrepancy between the needs and aspirations of the employee and the supplies in the job, an environment to meet his needs and goals. A good P-E fit occurs when the supplies in the environment are sufficient to satisfy the motives of the employee.

Second form of fit involves the relationship between the requirements and demands of the job and the abilities of the employee to meet those demands. If the demands of the job exceed the abilities of the employees or do not match with the
temperament and interests of the employees, it will cause stress and results in psychological strain. If supplies for the motives of the person are threatened by discrepancies between demands and abilities, the individuals will experience stress. P_E fit theory emphasizes the casual relationship between misfit and strains.

The degree of P_E fit can be determined objectively or subjectively. Objective P_E fit refers to fit between the objective person and the objective environment.

Subjective P_E fit refers to the fit between subjective person and the subjective environment. P_E fit represents the interaction of the person and the environment rather than an outcome which each cause. The central theme of the theory was that misfit of either kind results in stress and threat to well-being of the focal employee.

**TRENDS AND OPPORTUNITIES**

Technology has enabled the banks to conceive deliver, manage and integrate their products in line with the customers' need. A range of services is now provided to both retail and corporate customers covering different financial products, sweep-in/sweep-out facilities, channel financing, straight through processing, etc. to name a few. The multi-channel banking has acquired further dimensions to include third party payments, such as utility bills, through different channels including ATMs (the new ATM technologies come with nearly 150 types of offerings), mobile banking, etc. Further extension of RTGS in scope and width and the introduction of the cheque truncation systems should raise the customer expectation bar even higher. The day is not far off when the banks would be viewed more as technology companies offering banking products and services. While bank branches would continue to function, they would reorient themselves as relationship centers rather than routine banking service
providers. More technology spends are expected in the near future on areas such as implementation of data centre, expansion of CBS, Business Continuity Plan (BCP)/Disaster Recovery Plan (DRP) installations, IT Security, Electronic Data Interchange (EDI), Storage solutions such as Storage Area Network (SAN)/Network Access Storage (NAS) to take care of the hundreds of terabytes of electronic data being generated, cheque truncation solutions, compliance to regulatory standards like Basel II implementations, customer Relationship Management (CRM) solutions, data ware house and data mining tools, channel integration, global treasury, performance monitoring tools etc. Another area of great interest concerns the mergers and acquisitions of banks wherein banks with techno-synergy can combine to benefit from the same. A case in point is the recent acquisition of Global Trust Bank by the Oriental Bank of Commerce. It is pertinent to note that, on an average, IT constitutes about 20% of the total expenditure of the banks. A major opportunity lies in the outreach to rural centers which could bridge the urban-rural digital divide. As noted in the draft report of the Bank's Internal Group set-up to examine the issues relating to rural credit and micro-finance, opportunities abound in the sector with several possible options like smart card-based Kisan Credit Cards, smart card solutions for Self-Help Groups (SHG), bio-metric ATMs, information kiosks with local language and voice facility, call centers, e-marketing of SHG's products through the bank's payment gateways, etc.

CHALLENGES

While development in technology has thrown-up an array of opportunities for the banks, they have also brought along a whole set of challenges to deal with. One of the major challenges has been the requirement to integrate several islands of applications developed on varied platforms for catering to different services over a
period of time. There is, realistically speaking, no single banking solution available to
take care of the enterprise-wide requirements like SAP in the manufacturing sector. In
the circumstances, the option seems to be to go for the best of breed solutions. As the
life cycle of the technological products is becoming shorter, banks have to consider
the costs of huge investments made in the hardware and software vis-à-vis their
expected benefits. Unfortunately, the response of the customers to the services offered
through the new channels can be fickle. For example, as per a survey conducted
sometime ago by C Fore for Outlook Money in the four metros and Bangalore, 63%
of the respondents used ATMs while 80% went to branches. The utilisation of tele/net
banking was just around 4%. The insufficient penetration may be attributable to lack
of awareness, fear, need for personalized service, unrealistic expectations and, in
some cases (like need for java enabled mobile hand sets), upgradation cost of
equipments with the customer. All these point, to the need for appropriate publicity
and education exercise. Further, the new dispensations should be carefully planned to
prevent channel cannibalization unless otherwise, they benefit in the long run.

The technological upgradation necessitated by obsolescence in due course
would call for fool-proof mechanism for migration to the new system to ensure
complete data integrity. Considering the need to maintain 42x7 real time capabilities,
the switch-over to the new system should also be non-disruptive and totally
transparent to the customers. The risks arising out of outsourcing need to be suitably
mitigated through proper selection of vendors, comprehensive agreement, etc.
Dependency on third party service providers for provision of certain services (say, for
example, ATMs) does pose certain limitations on the range and level of services
offered to the customers. An appropriate Service Level Agreement (SLA) with the
vendors should cover the service needs of the banks. Security is a major issue in a
technology-based, networked environment. As per a study conducted by the Research International, 81% of the surveyed business units agreed that information/data is a key business asset and 86% perceived impact of crisis caused by failure of systems, etc. as drastic. An insecure system can expose a bank to serious operational.

Human Resources (HR) can be an important limiting factor in the IT-based delivery initiatives of any bank and, particularly so, of the Indian public sector banks. The average age profile of the employees in these banks is back to around 48 years (as against about 30 years in new private sector banks) after the marginal initial dip consequent to the implementation of the VRS earlier. The process reengineering and change management aspects require motivation and intensive training of the staff. Apart from off-site reporting, the technological solutions should also take care of other regulatory requirements such as, Know Your Customer (KYC), Anti-Money Laundering (AML), etc. Banks would be increasingly required to maintain a profile of each and every customer and filter the transactions not matching the profile in a straight through transaction processing (STP) environment. Further, regulatory issues concerning e-banking and risk management need to be kept in view.

**ROLE OF IT GOVERNANCE:**

From the above discussion, it would appear obvious that IT Governance in the Indian banking industry has to assume the importance it deserves to seize the emerging opportunities as well as to manage the challenges. The responsibility in this regard should range from setting the IT strategy to reviewing the performance of the IT function and organisation for suitable direction. This chapter provided detailed profile of banking industry and role in Indian economy and how stress correlated to bank employees were discussed.
The next chapter presents the technical analysis of the study to present the analysis and interpretation of the findings of the study.

Reference


4. Ibid., Cooper (1980)


6. Ibid., Cooper (1980)


