Chapter – II

Private Sector Banks and Economic Development
### CHAPTER - II

**PRIVATE SECTOR BANKS AND ECONOMIC DEVELOPMENT**

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CHAPTER - II

PRIVATE SECTOR BANKS AND ECONOMIC DEVELOPMENT

2.1 INTRODUCTION

Banking is the fulcrum of an Economy. The Banking Industry is one of the basic instruments of economic growth. It must be on a sound footing as it constitutes an important link in various socio-economic activities. Since it is considered the backbone of economic development, any change in its processes is deemed to have repercussions on the country’s growth. The essential part of the banking system is its financial viability. It is not only necessary for its survival but also to discharge its various obligations. There has been amazing growth in profits in banking industry over the last two decades.

The banking sector index has grown at a compounded annual rate of 51% since the year 2001. The growth in real Gross Domestic Product (GDP) is placed at 7.7 per cent in the first quarter of 2011-12; agriculture grew by 3.9 per cent; industry by 5.1 per cent and services by 10.0 per cent. As per the Revised Estimates (RE) of Central Statistics Office (CSO), the growth in GDP at factor cost at constant (2004-05) prices was estimated at 8.5 per cent in 2010-11 as compared to 8.0 per cent in 2009-10 (Quick Estimate). At disaggregated level, this (RE 2010-11) comprises growth of 6.6 per cent in agriculture and allied activities, 7.9 per cent in industry and 9.4 per cent in services as compared to a growth of 0.4 per cent, 8.0 per cent and 10.1 per cent respectively during 2009-10.1

Many of the private sector banks had significant exposure to global financial world. Due to the global exposure private banks were adversely affected during recession. Timely interventions by RBI made it easier for banks to overcome the adverse impacts of recession. Indian banking system remained resilient during the recession. It was due to conservative approach of banks, cost cutting measures, and following the guidelines of RBI. RBI reduced statutory liquidity ratio (SLR), cash reserve ratio (CRR), Repo rate, and Reverse repo rate to increase the money supply to ease the tight liquidity position. No single bank needed government bailout during recession.

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1 Trend and Progress of Banking in India, 2010-11, Reserve Bank of India.
Private sector banks pioneered the use of technology to provide enhanced customer services. Anywhere and anytime banking became a reality. The widespread application of internet banking has made it possible to market financial products and services on a global basis. Despite the sound and robust banking system, there are certain challenges. Indian banking is too fragmented as compared to global standards. To compete globally Indian banks need to scale up the size of their operations.

Public and Private Limited companies are classified as Private Corporate Sector (code 31 & 32) and other private sector entities such as Partnerships, Propriety concerns, Joint families, Self-Help Groups, NGOs Associations, Clubs, Trusts and Groups, etc., are taken as Private Sector - Others (codes 33, 34 and 35). Non-profit institutions serving business and privately funded quasi-corporate institutions are classified as private corporate sector. Loans granted to individuals, singly or jointly with one or more persons are assigned the code number 41 (Individuals - Male) or 42 (Individuals - Female) depending on the gender of the sole/first account holder.

2.2 HISTORY OF BANKING IN INDIA

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and 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 metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process. The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. 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 days when the most efficient bank transferred money from one branch to other in two days. Now it is as simple as an instant messaging or dials a pizza. Money has become the order of the day.

The first bank in India, though conservative, was established in 1786. From 1786 to till, the journey of Indian Banking System can be segregated into three distinct phases.
They are as mentioned below:

- Early phase from 1786 to 1969 of Indian Banks
- Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

### Phase I

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

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd, was set up in 1894 with headquarters at Lahore. From 1906 to 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 to 1948. There were approximately 1100 banks, mostly small. 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 amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority. During those day public had lesser confidence in the banks. As an aftermath deposit mobilization 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

Government took major steps in the Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking
facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July 1969, major process of nationalization was carried out. It was the effort of the Prime Minister of India, Mrs. Indra Gandhi 14 major commercial banks in the country were nationalized.

Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership. The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

- **1949**: Enactment of Banking Regulation Act.
- **1955**: Nationalization of State Bank of India
- **1959**: Nationalization of SBI subsidiaries.
- **1961**: Insurance coverage extended to deposits.
- **1969**: Nationalization of 14 major banks.
- **1971**: Creation of credit guarantee corporation.
- **1975**: Creation of regional rural banks.
- **1980**: Nationalization of seven banks with deposits over 200 crores.

After the nationalization of banks, the branches of the public sector bank in India rose to approximately 800% in deposits and advances took a high jump by 11,000%. Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

**Phase III**

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalization of banking practices.
The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. 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 macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible and banks and its customers have limited foreign exchange exposure.

2.3 BANK GROUPS: BANKS ARE BROADLY CATEGORIZED INTO

2.3.1 Public sector banks comprising

2.3.1.1 Nationalized banks: 14 banks were nationalized under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. Further, in 1980, six corresponding new banks were nationalized under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1980. Prior to their nationalization, these banks were in the Private sector. The minimum shareholding of the Government of India in these banks is 51 percent. IDBI converted itself into a bank w.e.f. October, 2004. It was included as „Other Public Sector Bank”.

2.3.1.2 State Bank of India and Associate Banks (SBI group): State Bank of India (SBI) was established under the State Bank of India Act, 1955 and it took over the undertaking of the Imperial Bank of India established in 1921. SBI has 7 associate banks established under the State Bank of India (Subsidiary Banks) Act of 1959 by taking over the banking undertakings of certain former princely States in India.

2.3.2 Private Sector Banks consist of:

2.3.2.1 Old Private Sector banks: These are the banks existing in the private sector before the issue of new guidelines for entry of private banks in 1993. These banks are registered under the Companies Act.
2.3.2.2 New Private Sector banks: These are banks that were established under the new guidelines in 1993 which enforces relatively stricter entry norms.

2.3.2.3 Foreign banks: These banks operate through branches only. The „tests of entry“ as applicable to Indian banks are also applied to branches of foreign banks. Besides, the RBI insists on prior consent of home country regulator and ensures that the laws of the home country do not discriminate in any way against banks incorporated in India.

2.3.2.4 Local Area Banks: Local area banks were set up in private sector to cater to the credit needs of the local people and to provide efficient and competitive financial intermediation services in their area of operation. They are registered as a public limited company under the Companies Act, 1956 and licensed under the Banking Regulation Act, 1949 and will be eligible for including in the Second Schedule of the Reserve Bank of India Act; 1934. The minimum paid up capital for such a bank shall be `5 crores. The promoter's contribution for such a bank shall at least be `2 crores. The area of operation of the proposed bank shall be a maximum of three geographically contiguous districts. 

2.3.3 Various Commercial Bank Groups currently in use

i) Public Sector Banks: (a) SBI and its 7 Associates, (b) 19 Nationalized Banks, (c) Other Public Sector Banks (IDBI Ltd.)

ii) Regional Rural Banks

iii) Foreign Banks

iv) Other Scheduled Commercial Banks (Private Banks): (a) Old Private Sector Banks and (b) New Private Sector Banks

v) Non-scheduled Commercial Banks (Local Area Banks)

These include 26 public sector banks (State Bank of India and its five associates, 19 nationalized banks and IDBI Bank Ltd.), 7 new private sector banks, 14 old private sector banks and 36 foreign banks. The number of SCBs increased to 83 in 2010-11, from 81 in 2009-10.

2 Banking Statistics by RBI 2010-11
2.4 CURRENT NUMBER OF VARIOUS TYPES OF BANKS

2.4.1 Nationalized Banks

There are 26 Nationalized Banks in the country at present. They are as follows:

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. IDBI Bank Ltd.
11. Indian Bank
12. Indian Overseas Bank
13. Oriental Bank of Commerce
14. Punjab & Sind Bank
15. Punjab National Bank
16. Syndicate Bank
17. UCO Bank
18. Union Bank of India
19. United Bank of India
20. Vijaya Bank

21. State Bank Group

i. State Bank of Bikaner and Jaipur
ii. State Bank of Hyderabad
iii. State Bank of India
iv. State Bank of Mysore
v. State Bank of Patiala
vi. State Bank of Travancore
State Bank of Indore has merged with SBI from August 26, 2010.

2.4.2 Old Private Sector Banks

There are **14 Old Private** sector Banks in the country as follows:

1. Catholic Syrian Bank Ltd.
2. City Union Bank Ltd.
3. Dhanalakshmi Bank Ltd.
4. Federal Bank Ltd.
5. ING Vysya Bank Ltd.
7. Kamataka Bank Ltd.
8. Karur Vysya Bank Ltd.
9. Lakshmi Vilas Bank Ltd.
10. Nainital Bank Ltd.
11. Ratnakar Bank Ltd.
12. SBI Commercial & International Bank Ltd
13. South Indian Bank Ltd.
14. Tamilnad Mercantile Bank Ltd.

The number of the old Private Banks in India was 15 until recently and the latest reports from RBI (2009-10) show this 15. The Bank of Rajasthan Ltd., has been recently merged with ICICI Bank Ltd.

2.4.3 New Private Banks

There are **7 New Private** sector Banks in India as follows:

1. Axis Bank Ltd.
2. Development Credit Bank Ltd
3. HDFC Bank Ltd.
4. ICICI Bank Ltd.
5. IndusInd Bank Ltd.
6. Kotak Mahindra Bank Ltd.
7. Yes Bank Ltd
2.4.4 Foreign Banks

As at the end of 2009, there were 32 Foreign Banks in India with 293 branches. 43 foreign banks were operating in India through representatives offices. Under the WTO agreements, the Reserve bank of India has to allow a minimum of 12 Branches of all the foreign banks to be opened in a year.\(^3\)

2.5 COMPONENTS OF INDIAN BANKING INDUSTRY

Banking Industry in India functions under the sunshade of Reserve Bank of India - the regulatory, central bank. Banking Industry mainly consists of:

- Commercial Banks
- Co-operative Banks

The commercial banking structure in India consists of: Scheduled Commercial Banks Unscheduled Bank. Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of 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 (60) of the Act. Some co-operative banks are scheduled commercial banks although not all co-operative banks are. Being a part of the second schedule confers some benefits to the bank in terms of access to accommodation by RBI during the times of liquidity constraints. At the same time, however, this status also subjects the bank certain conditions and obligations towards the reserve regulations of RBI.

2.5.1 Commercial Banks

Commercial Banks occupy a very significant position in the Indian banking structure. Commercial banks are working in public sector as well as private sector. Nationalized banks and banks of state bank group are public sector banks. Private sector bank includes Indian as well as foreign banks functioning in India. The commercial banking system in India comprises of scheduled commercial banks and non scheduled commercial banks.

\(^3\) www. General Knowledge Today / Articles.
2.5.1.1 Scheduled Commercial Banks

After the nationalization of 14 major commercial banks and later six banks, the tally has come to 20. These banks are wholly owned and managed by Government of India. But besides these 20 banks other banks were left in the private sector which are controlled and managed by private hands but they are regulated by national banking policy and are scheduled with the Reserve Bank under Section 42 (B) of the RBI Act. They have been kept in the second schedule of the RBI.

2.5.1.2 Non-scheduled Commercial Banks

These are those banks which are not included in the second schedule of the Reserve Bank of India. Usually those banks, the paid-up capital of which are less than 5 lacs or the banks which do not conform to the norms of the Reserve Bank of India within the meaning of the Act or according to specific functions etc. or according to judgment of the Reserve Bank, are not capable of serving and protecting the interest of depositors. Certainly these banks do not enjoy the facilities enjoyed by scheduled banks; they are under obligation to maintain a minimum deposit of five percent with the RBI or with themselves under information to the RBI. The Reserve Bank may help these banks in case of need, if these banks are keeping their deposits with the RBI. Non-scheduled banks may be listed in the Approved List maintained by the Reserve Bank. If a bank is included in the list it starts enjoying the facilities of postal concession for their remittances etc. For inclusion in such an approved list the non-scheduled banks must:-

- Be registered under Indian Companies Act;
- Engage itself in banking business;
- Have a minimum paid-up capital of `50,000.

2.5.1.3 Co-operative Banks

Co-operative banks are a group of financial institutions organized under the provisions of the Co-operative societies Act of the states. The main objective of co-operative banks is to provide cheap credits to their members. They are based on the principle of self-reliance and mutual co-operation. People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business.
Any co-operative bank as a society is to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India. Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative banking institutions take deposits and lend money in most parts of the world. Co-operative banking includes retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations (such as co-operative federations) to co-operative businesses. The structure of commercial banking is of branch-banking type; while the co-operative banking structure is a three tier federal one.

- A State Co-operative Bank works at the apex level (ie. works at state level).
- The Central Co-operative Bank works at the Intermediate Level.
  (ie. District Co-operative Banks ltd. works at district level)
- Primary co-operative credit societies at base level (At village level)

Even if co-operative banks organizational rules can vary according to their respective national legislations.

2.5.1.4 Co-operative Banks in India

The co-operative banks in India play an important role even today in rural financing. The business of cooperative bank in the urban areas also has increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks. Co-operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965. Cooperative banks in India finance rural areas under Farming, Cattle, Milk, Hatchery, Personal finance. Cooperative banks in India finance urban areas under Self-employment, Industries, Small scale units, Home finance, Consumer finance and Personal finance. Some cooperative banks in India are more forward than many of the state and private sector banks. According to NAFCUB (National Federation of Urban Cooperative Banks And Credit Societies Ltd.) the total deposits & lending of Cooperative Banks in India is much more than Old Private Sector Banks & also the New Private Sector Banks. This exponential growth of Co-operative Banks in India is attributed mainly to their much better local reach, personal interaction with customers, their abilities to catch the nerve of the local clientele. The cooperative banks are formed at state
and district and city levels. There are a large number of such banks in every state in India⁴.

2.5.1.5 Types of Co-operative Banks

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 components⁵:

2.5.1.6 Primary Co-operative Credit Society

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc.

2.5.1.7 Central Co-operative Banks

These are the federations of primary credit societies in a district and are of two types—those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

2.5.1.8 State Co-operative Banks

The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state co-operative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

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⁵ www.rbi.org.in
2.5.1.9 Primary Agricultural and Rural Development Banks

The Primary Agricultural and Rural Development banks are organized in 2 tiers namely; State and Primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

2.5.1.10 Urban Co-operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996 were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably.\(^6\)

The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization.

They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.

\(^6\) www.Banknetindia.com
2.5.1.11 Functions of Co-operative Banks

Co-operative banks also perform the basic banking functions of banking but they differ from commercial banks in the following respects

- Commercial banks are joint-stock companies under the companies’ act of 1956, or public sector bank under a separate act of a parliament whereas co-operative banks were established under the co-operative society’s acts of different states.

- Commercial bank structure is branch banking structure whereas co-operative banks have a three tier setup, with state co-operative bank at apex level, central / district co-operative bank at district level, and primary co-operative societies at rural level.

- Only some of the sections of banking regulation act of 1949 (fully applicable to commercial banks), are applicable to co-operative banks, resulting only in partial control by RBI of co-operative banks and Co-operative banks function on the principle of cooperation and not entirely on commercial parameters.7

2.6 STRUCTURE OF INDIAN BANKING INDUSTRY

The banking system, largely, comprises of scheduled banks (banks that are listed under the Second Schedule of the RBI Act, 1934). Unscheduled banks form a very small component (function in the form of Local Area Bank). Scheduled banks are further classified into commercial and cooperative banks, with the basic difference in their holding pattern. Societies Act and work according to the cooperative principles of mutual assistance.

7 India banking sector: http://www.scribd.com
Chart 2.1
Chart showing the Structure of Banking Industry

Source: stockshastra.moneyworks4me.com
Table 2.1
Table showing offices of Commercial Banks in India – 2007 to 2011

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>2007 (1)</th>
<th>2008 (2)</th>
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<td>State Bank and its Associates</td>
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<td>16894</td>
<td>18186</td>
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<td>Nationalized Banks</td>
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<td>43467</td>
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<td><strong>Public Sector Banks</strong></td>
<td><strong>52088</strong></td>
<td><strong>55083</strong></td>
<td><strong>57831</strong></td>
<td><strong>61653</strong></td>
<td><strong>64673</strong></td>
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<td>Old Private Sector Banks</td>
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<td>5231</td>
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<td><strong>Private Sector Banks</strong></td>
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<td>Foreign Banks</td>
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<td><strong>All Commercial Banks</strong></td>
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<td><strong>82897</strong></td>
<td><strong>88203</strong></td>
<td><strong>93080</strong></td>
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</table>

Source: Master Office File (latest updated version) on commercial banks, Department of Statistics and Information Management, RBI.

**Notes:** 1. Data is as per information reported by banks.
2. $ Includes IDBI Bank Ltd.
3. Data on number of offices include administrative offices.

The total number of public sector banks as on 31st March, 2007 were 52,088 and increased to 64,673 as on 31st March, 2011. The total number of private sector banks as on 31st March, 2007 were 7,424 and increased to 12,001 as on 31st March, 2011. The total number of foreign banks as on 31st March, 2007 were 272 and increased to 319 as on 31st March, 2011.

The total number of all commercial banks were 74,653 as 31st March, 2007. It shows an increasing trend year by year. As on 31st March, 2008, they were 78,787 and increased to 93,080 as on 31st March, 2011.
Table 2.2
Table showing Growth in Balance Sheet of Scheduled Commercial Banks\(^8\) (Percent)

<table>
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<tr>
<th>Item</th>
<th>Public Sector</th>
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<th>New Private Sector</th>
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<tr>
<td>1. Capital</td>
<td>0.1</td>
<td>40.7</td>
<td>7.3</td>
<td>5.6</td>
<td>8.7</td>
<td>9.7</td>
</tr>
<tr>
<td>2. Reserves and Surplus</td>
<td>16.8</td>
<td>19.2</td>
<td>21.0</td>
<td>15.9</td>
<td>15.9</td>
<td>18.7</td>
</tr>
<tr>
<td>3. Deposits</td>
<td>18.6</td>
<td>18.4</td>
<td>11.7</td>
<td>21.9</td>
<td>15.4</td>
<td>14.9</td>
</tr>
<tr>
<td>3.1 Demand Deposits</td>
<td>18.4</td>
<td>11.3</td>
<td>33.5</td>
<td>18.1</td>
<td>22.5</td>
<td>12.2</td>
</tr>
<tr>
<td>3.2 Savings Bank Deposits</td>
<td>25.8</td>
<td>22.1</td>
<td>32.8</td>
<td>23.0</td>
<td>26.2</td>
<td>14.0</td>
</tr>
<tr>
<td>3.3 Term Deposits</td>
<td>16.2</td>
<td>18.2</td>
<td>1.3</td>
<td>22.5</td>
<td>12.0</td>
<td>15.5</td>
</tr>
<tr>
<td>4. Borrowings</td>
<td>21.4</td>
<td>25.9</td>
<td>8.5</td>
<td>24.5</td>
<td>40.6</td>
<td>26.4</td>
</tr>
<tr>
<td>5. Other Liabilities &amp; Provisions</td>
<td>4.2</td>
<td>21.4</td>
<td>8.5</td>
<td>20.9</td>
<td>8.4</td>
<td>-1.0</td>
</tr>
<tr>
<td><strong>Total Liabilities / Assets</strong></td>
<td>17.9</td>
<td>19.2</td>
<td>12.0</td>
<td>21.5</td>
<td>15.8</td>
<td>14.9</td>
</tr>
<tr>
<td>1. Cash &amp; with RBI</td>
<td>20.8</td>
<td>30.1</td>
<td>32.0</td>
<td>13.5</td>
<td>27.7</td>
<td>7.4</td>
</tr>
<tr>
<td>2. Balance with Banks</td>
<td>-12.9</td>
<td>15.6</td>
<td>13.9</td>
<td>-18.2</td>
<td>-43.3</td>
<td>-31.3</td>
</tr>
<tr>
<td>3. Investments</td>
<td>20.0</td>
<td>9.3</td>
<td>15.5</td>
<td>19.2</td>
<td>15.3</td>
<td>10.9</td>
</tr>
<tr>
<td>3.1 Government Securities (A+B)</td>
<td>19.0</td>
<td>7.4</td>
<td>10.6</td>
<td>9.1</td>
<td>13.4</td>
<td>6.2</td>
</tr>
<tr>
<td>a. In India</td>
<td>18.8</td>
<td>7.4</td>
<td>10.6</td>
<td>8.8</td>
<td>13.4</td>
<td>6.2</td>
</tr>
<tr>
<td>b. Outside India</td>
<td>48.2</td>
<td>-3.0</td>
<td>72.6</td>
<td>464.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3.2 Other Approved Securities</td>
<td>-36.8</td>
<td>-38.2</td>
<td>43.4</td>
<td>-71.4</td>
<td>56.2</td>
<td>-82.2</td>
</tr>
<tr>
<td>3.3 Non-Approved Securities</td>
<td>28.4</td>
<td>20.1</td>
<td>27.6</td>
<td>41.0</td>
<td>20.5</td>
<td>24.9</td>
</tr>
<tr>
<td>4. Loans &amp; Advances</td>
<td>19.6</td>
<td>22.4</td>
<td>9.9</td>
<td>26.1</td>
<td>19.9</td>
<td>19.8</td>
</tr>
<tr>
<td>4.1 Bills Purchased &amp; Discounted</td>
<td>10.4</td>
<td>30.3</td>
<td>30.7</td>
<td>20.2</td>
<td>19.1</td>
<td>10.3</td>
</tr>
<tr>
<td>4.2 CC / OD etc.,</td>
<td>22.9</td>
<td>26.9</td>
<td>9.6</td>
<td>28.4</td>
<td>20.8</td>
<td>23.4</td>
</tr>
<tr>
<td>4.3 Term Loans</td>
<td>18.1</td>
<td>18.2</td>
<td>9.0</td>
<td>23.7</td>
<td>19.2</td>
<td>17.8</td>
</tr>
<tr>
<td>5. Fixed Assets</td>
<td>2.2</td>
<td>4.9</td>
<td>3.6</td>
<td>26.8</td>
<td>8.0</td>
<td>6.5</td>
</tr>
<tr>
<td>6. Other Assets</td>
<td>-0.2</td>
<td>32.9</td>
<td>-11.6</td>
<td>21.6</td>
<td>7.4</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Source: Balance sheets of respective banks

\(-\) Negligible/Nil

\(^8\) Trend and Progress of Banking in India, 2010-11, Reserve Bank of India.
The upward revision in the savings deposit rate from 3.5 per cent to 4.0 per cent in April 2011 and deregulation of interest rate on savings deposits in October 2011, may improve the savings deposit mobilization going forward. However, in a competitive environment, with the deregulation of interest rates, savings deposits will no longer be as less expensive as they were in the past. In tune with the growth deceleration, the share of CASA deposits in total incremental deposits declined to 36 per cent in 2010-11 as compared with 48 per cent in the previous year. An analysis at the bank group level indicated that foreign banks had the highest share of CASA deposits followed by NPRBs and PSBs.

2.6.1 Deposits

Deposits, which constitute 78 per cent of total liabilities of the banking sector registered higher growth in 2010-11 in contrast to the trend observed in the recent years. This was mainly because of the accelerated deposit mobilization of new private sector banks in 2010-11 over the previous year. The higher growth in deposits emanated mainly from term deposits. As earlier, this could be due to the higher interest rate environment leading to an increase in term deposit rates. While accelerated growth rate of term deposits is a welcome development from the point of view of stability of balance sheet as it strengthens the retail deposit base and reduces asset liability mismatches; it may increase the interest expenses of the banking sector, thus, adversely impacting profitability.

2.6.2 Borrowings

Borrowings, which constitute nine per cent of the total liabilities of the banking sector, recorded accelerated growth in 2010-11 as compared with the previous year. At the bank group level, the share of borrowings in total liabilities exhibited wide variation. The dependence of foreign banks and new private sector banks on borrowings was relatively high as compared with other bank groups.
Chart 2.2
Chart showing composition of Deposits

<table>
<thead>
<tr>
<th>SCBs</th>
<th>64.5</th>
<th>35.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>FBs</td>
<td>53.2</td>
<td>46.8</td>
</tr>
<tr>
<td>NPRBs</td>
<td>57.5</td>
<td>42.5</td>
</tr>
<tr>
<td>OPRBs</td>
<td>72.0</td>
<td>28.0</td>
</tr>
<tr>
<td>PSBs</td>
<td>65.9</td>
<td>34.1</td>
</tr>
</tbody>
</table>

Chart 2.3
Chart showing Deposits and Borrowings

<table>
<thead>
<tr>
<th>PSBs</th>
<th>OPRBs</th>
<th>NPRBs</th>
<th>FBs</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>82.6</td>
<td>88.5</td>
<td>84.5</td>
<td>67.1</td>
<td>79.1</td>
</tr>
<tr>
<td>17.5</td>
<td>11.5</td>
<td>15.1</td>
<td>32.9</td>
<td>21.3</td>
</tr>
<tr>
<td>2.6</td>
<td>2.5</td>
<td>2.8</td>
<td>5.3</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Term Deposit | CASA

Deposits | Borrowings
2.7 TECHNOLOGICAL DEVELOPMENTS IN SCHEDULED COMMERCIAL BANKS

During the recent years, the pace and quality of banking was changed by the technological advancements made in this area. Computerization as well as the adoption of core banking solutions was one of the major steps in improving the efficiency of banking services. The new private sector banks and most of the foreign banks, which started their operations in the mid nineties followed by liberalization, were the fore runners in adopting technology. For old private sector banks and public sector banks adoption of technology was an arduous job because of the historical records and practices. However, it is important to note that presently almost 98 per cent of the branches of public sector banks are fully computerized, and within which almost 90 per cent of the branches are on core banking platform.

Further, introduction of Automated Teller Machines (ATMs) enabled customers to do banking without visiting the bank branch. In 2010-11 the number of ATMs witnessed a growth of 24 per cent over the previous year. However, the percentage of off-site ATMs to total ATMs witnessed a marginal decline to 45.3 per cent in 2010-11 from 45.7 per cent in 2009-10. More than 65 per cent of the total ATMs belonged to the public sector banks at the end of March 2011.

Table 2.3
Table showing ATMs of Scheduled Commercial Banks (As at the end of March 2011)\(^9\)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Bank Group</th>
<th>On-site ATMs</th>
<th>Off-site ATMs</th>
<th>Total No. of ATMs</th>
<th>Off-site ATMs per cent of total ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Public Sector Banks</td>
<td>29,795</td>
<td>19,692</td>
<td>49,487</td>
<td>39.8</td>
</tr>
<tr>
<td>1.1</td>
<td>Nationalized Banks*</td>
<td>15,691</td>
<td>9,145</td>
<td>24,836</td>
<td>36.8</td>
</tr>
<tr>
<td>1.2</td>
<td>SBI Group</td>
<td>14,104</td>
<td>10,547</td>
<td>24,651</td>
<td>42.8</td>
</tr>
<tr>
<td>2.</td>
<td>Private Sector Banks</td>
<td>10,648</td>
<td>13,003</td>
<td>23,651</td>
<td>55.0</td>
</tr>
<tr>
<td>2.1</td>
<td>Old Private Sector Banks</td>
<td>2,641</td>
<td>1,485</td>
<td>4,126</td>
<td>36.0</td>
</tr>
<tr>
<td>2.2</td>
<td>New Private Sector Banks</td>
<td>8,007</td>
<td>11,518</td>
<td>19,525</td>
<td>59.0</td>
</tr>
<tr>
<td>3.</td>
<td>Foreign Banks</td>
<td>286</td>
<td>1,081</td>
<td>1,367</td>
<td>79.1</td>
</tr>
<tr>
<td>4.</td>
<td>All SCBs (1+2+3)</td>
<td>40,729</td>
<td>33,776</td>
<td>74,505</td>
<td>45.3</td>
</tr>
</tbody>
</table>

\(^9\) Trend and Progress of Banking in India, 2010-11, Reserve Bank of India

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* Include IDBI Bank Ltd.,
During 2010-11, the number of debit cards grew at the rate of 25 per cent over the previous year. In sync with the trend observed in case of ATMs, nearly three fourths of the total debit cards were issued by PSBs as at end March 2011. The share of PSBs in outstanding debit cards witnessed an increase during the recent years, while that of new private sector banks and foreign banks witnessed a decline over the same period. However, in absolute terms, the number of outstanding debit cards witnessed an increase for new private sector banks during the recent years.

Table 2.4
Table showing Debit Cards Issued by Scheduled Commercial Banks
(As at the end of March 2011)\(^\text{10}\)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Bank Group</th>
<th>Outstanding No. of Debit Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Nationalized Banks</td>
<td>19.24</td>
</tr>
<tr>
<td>1.2</td>
<td>SBI Group</td>
<td>24.85</td>
</tr>
<tr>
<td>2.</td>
<td>Private Sector Banks</td>
<td>27.19</td>
</tr>
<tr>
<td>2.1</td>
<td>Old Private Sector Banks</td>
<td>3.94</td>
</tr>
<tr>
<td>2.2</td>
<td>New Private Sector Banks</td>
<td>23.25</td>
</tr>
<tr>
<td>3.</td>
<td>Foreign Banks</td>
<td>3.70</td>
</tr>
<tr>
<td>All SCBs (1+2+3)</td>
<td></td>
<td>74.98</td>
</tr>
</tbody>
</table>

2.7.1 Outstanding number of credit cards declined

The issuance of credit cards facilitates transactions without having to carry paper money. Despite the decline in the number of outstanding number of credit cards, the volume and value of transactions with credit card recorded a growth of 13 per cent and 22 per cent, respectively in 2010-11. New private sector banks and foreign banks accounted for more than 80 per cent of the total outstanding credit cards as at end March 2011.

2.7.2 Electronic banking transactions have been on steady increase

The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit, National Electronic Fund Transfer (NEFT) for retail transactions and Real Time Gross Settlement (RTGS) for large value, improved the speed of financial transactions, across the country.

\(^{10}\) Trend and Progress of Banking in India, 2010-11, Reserve Bank of India
Table 2.5
Table showing Credit Cards Issued by Scheduled Commercial Banks
(As at the end of March 2011)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Bank Group</th>
<th>Outstanding No. of Credit Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2006-07</td>
</tr>
<tr>
<td>1.</td>
<td>Public Sector Banks</td>
<td>4.14</td>
</tr>
<tr>
<td>1.1</td>
<td>Nationalized Banks</td>
<td>0.75</td>
</tr>
<tr>
<td>1.2</td>
<td>SBI Group</td>
<td>3.39</td>
</tr>
<tr>
<td>2.</td>
<td>Private Sector Banks</td>
<td>10.68</td>
</tr>
<tr>
<td>2.1</td>
<td>Old Private Sector Banks</td>
<td>0.03</td>
</tr>
<tr>
<td>2.2</td>
<td>New Private Sector Banks</td>
<td>10.65</td>
</tr>
<tr>
<td>3.</td>
<td>Foreign Banks</td>
<td>8.31</td>
</tr>
<tr>
<td></td>
<td>All SCBs (1+2+3)</td>
<td>23.12</td>
</tr>
</tbody>
</table>

2.8 ROLE OF BANKS AND FINANCIAL INSTITUTIONS IN ECONOMY

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 mainstay of the economic development of a country. In India, as in many other developing countries, the commercial banking sector has been the dominant element in the country’s financial system. The sector has performed the key function of providing liquidity and payment services to the real sector and has accounted for the Bulk of the financial intermediation process.

Besides institutionalizing savings, the banking sector has contributed to the process of economic development by serving as a major source of credit to households, government, and business and to weaker sectors of the economy like village and small scale industries and agriculture. Over the years, over 30-40% of gross household savings have been in the form of bank deposits and around 60% of the assets of all financial institutions accounted for by commercial banks.

The growth story of an economy depends on the robustness of its banking industry. Banks act as the store as well as the power house of the country’s wealth. They accept deposits from individuals and corporate and lends to the businesses. They use the deposits collected for productive purposes which help in the capital formation in the country.
An important landmark in the development of banking sector in recent years has been the initiation of reforms, following the recommendations of the first Narasimham Committee on Financial System. In reviewing the strengths and weaknesses of these banks, the Committee suggested several measures to transform the Indian banking sector from a highly regulated to a more market-oriented system and to enable it to compete effectively in an increasingly globalised environment. Many of the recommendations of the Committee especially those pertaining to Interest rate, an institution of prudential regulation and transparent accounting norms were in line with banking policy reforms implemented by a host of developing countries since 1970's.

Money lending in one form or the other has evolved along with the history of mankind. Even in the ancient times there are references to the moneylenders. Shakespeare also referred to "Shylocks" who made unreasonable demands in case the loans were not repaid in time along with interest. Indian history is also replete with the instances referring to indigenous money lenders, Sahukars and Zamindars involved in the business of money lending by mortgaging the land or property of the borrowers.
Towards the beginning of the twentieth century, with the onset of modern industry in the country, the need for government regulated banking system was felt. The British government began to pay attention towards the need for an organized banking sector in the country and Reserve Bank of India was set up to regulate the formal banking sector in the country. But the growth of modern banking remained slow mainly due to lack of surplus capital in the Indian economic system at that point of time. Modern banking institutions came up only in big cities and industrial centers. The rural areas, representing vast majority of Indian society, remained dependent on the indigenous money lenders for their credit needs.

Independence of the country heralded a new era in the growth of modern banking. Many new commercial banks came up in various parts of the country. As the modern banking network grew, the government began to realize that the banking sector was catering only to the needs of the well-to-do and the capitalists. The interests of the poorer sections as well as those of the common man were being ignored. In 1969, Indian government took a historic decision to nationalize 14 biggest private commercial banks. A few more were nationalized after a couple of years. This resulted in transferring the ownership of these banks to the State and the Reserve Bank of India could then issue directions to these banks to fund the national programmes, the rural sector, the plan priorities and the priority sector at differential rate of interest. This resulted in providing fillip the banking facilities to the rural areas, to the under-privileged and the downtrodden. It also resulted in financial inclusion of all categories of people in almost all the regions of the country.

However, after almost two decades of bank nationalization some new issues became contextual. The service standards of the public sector banks began to decline. Their profitability came down and the efficiency of the staff became suspect. Non-performing assets of these banks began to rise. The wheel of time had turned a full circle by early nineties and the government after the introduction of structural and economic reforms in the financial sector, allowed the setting up of new banks in the private sector. The new generation private banks have now established themselves in the system and have set new standards of service and efficiency. These banks have also given tough but healthy competition to the public sector banks.
2.9 **MODERN DAY ROLE OF BANKS AND FINANCIAL INSTITUTIONS IN PRESENT ECONOMY**

Banking system and the Financial Institutions play very significant role in the economy. First and foremost is in the form of catering to the need of credit for all the sections of society. The modern economies in the world have developed primarily by making best use of the credit availability in their systems. An efficient banking system must cater to the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units. Rural sector in a country like India can grow only if cheaper credit is available to the farmers for their short and medium term needs. Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and adequate credit for infrastructure projects. Fortunately, during the past about one decade there has been increased participation of the private sector in infrastructure projects.

The banks and the financial institutions also cater to another important need of the society i.e. mopping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds. In addition to the above traditional role, the banks and the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the services provided by the banks are commendable.

While the commercial banks cater to the banking needs of the people in the cities and towns, there is another category of banks that looks after the credit and banking needs of the
people living in the rural areas, particularly the farmers. Regional Rural Banks (RRBs) have been sponsored by many commercial banks in several States. These banks, along with the cooperative banks, take care of the farmer are specific needs of credit and other banking facilities.

2.10 FUTURE ROLE OF BANKS AND FINANCIAL INSTITUTIONS IN ECONOMY

Till few years ago, the government largely patronized the small savings schemes in which, not only the interest rates were higher, but the income tax rebates and incentives were also in plenty. The bank deposits, on the other hand, did not entail such benefits. As a result, the small savings were the first choice of the investors. But for the last few years the trend has been reversed. The small savings, the bank deposits and the mutual funds have been brought at par for the purpose of incentives under the income tax. Moreover, the interest rates in the small savings schemes are no longer higher than those offered by the banks.

Banks today are free to determine their interest rates within the given limits prescribed by the RBI. It is now easier for the banks to open new branches. But the banking sector reforms are still not complete. A lot more is required to be done to revamp the public sector banks. Mergers and amalgamation is the next measure on the agenda of the government. The government is also preparing to disinvest some of its equity from the PSU banks. The option of allowing foreign direct investment beyond 50 per cent in the Indian banking sector has also been under consideration. Banks and financial intuitions have played major role in the economic development of the country and most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The role of the banks has been important, but it is going to be even more important in the future.11

2.11 PRIVATE BANKS IN INDIA

Initially all the banks in India were private banks, which were founded in the pre-independence era to cater to the banking needs of the people. In 1921, three major banks i.e. Banks of Bengal, Bank of Bombay, and Bank of Madras, were merged to form Imperial Bank of India. In 1935, the Reserve Bank of India (RBI) was established and it took over the

11 http://business.mapofindia.com
central banking responsibilities from the Imperial Bank of India, transferring commercial 
banking functions completely to IBI. In 1955, after the declaration of the first-five year plan, 
Imperial Bank of India was subsequently transformed into State Bank of India (SBI).

Following this, occurred the nationalization of major banks in India on 19 July 1969. 
The Government of India (GOI) issued an ordinance and nationalized the 14 largest 
commercial banks of India, including Punjab National Bank (PNB), Allahabad Bank, Canara 
Bank, Central Bank of India, etc. Thus, public sector banks revived to take up leading role in 
the banking structure. In 1980, the GOI nationalized 6 more commercial banks, with control 
over 91% of banking business of India. In 1994, the Reserve Bank of India issued a policy of 
liberalization to license limited number of private banks, which came to be known as New 
Generation tech-savvy banks. Global Trust Bank was, thus, the first private bank after 
liberalization; it was later amalgamated with Oriental Bank of Commerce (OBC). Then 
Housing Development Finance Corporation Limited (HDFC) became the first (still existing) 
to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in 
the private sector. At present, Private Banks in India includes leading banks like ICICI 
Banks, ING Vysya Bank, Jammu & Kashmir Bank, Karnataka Bank, Kotak Mahindra Bank, 
SBI Commercial and International Bank, etc. Undoubtedly, being tech-savvy and full of 
expertise, private banks have played a major role in the development of Indian banking 
industry. They have made banking more efficient and customer friendly. In the process they 
have jolted public sector banks out of complacency and forced them to become more 
competitive.

2.11.1 Major Private banks in India are

Bank of Rajasthan

A leading private sector bank, the Bank of Rajasthan was founded on the auspicious 
day of Akshya Tritiya on May 8, 1943, at Udaipur. Shri Rai Bahadur P.C. Chatterji, then the 
finance minister of the erstwhile Mewar Government, extensively contributed towards the 
establishment of the Bank.

Catholic Syrian Bank

With the Swadeshi Movement of early 20th century as its base, Catholic Syrian Bank 
was incorporated on 26th November 1920, in the Thrissur district of Kerala. The bank 
commenced its operations on 1st January 1921, with an authorized capital of ` 5 lakhs and a 
paid up capital of ` 45270.
Dhanalakshmi Bank

The foundation of Dhanalakshmi Bank Limited was laid down on 14th November 1927, in the Thrissur district of Kerala. A group of innovative entrepreneurs had started the bank with a capital of `11, 000 and only 7 employees.

Federal Bank

Federal Bank Limited was founded as Travancore Federal Bank Limited in the year 1931, with an authorized capital of ` 5000. It was established at Nedumpuram, a place near Tiruvalla, in Central Travancore (a princely state later merged into Kerala), under Travancore Company's Act.

HDFC Bank

Housing Development Finance Corporation Limited, more popularly known as HDFC Bank Ltd, was established in the year 1994, as a part of the liberalization of the Indian Banking Industry by Reserve Bank of India (RBI). It was one of the first banks to receive an 'in principle' approval from RBI, for setting up a bank in the private sector.

ICICI Bank

ICICI Bank started as a wholly owned subsidiary of ICICI Limited, an Indian financial institution, in 1994. Four years later, when the company offered ICICI Bank's shares to the public, ICICI's shareholding was reduced to 46%. In the year 2000, ICICI Bank offered made an equity offering in the form of ADRs on the New York Stock Exchange (NYSE).

ING Vysya Bank

ING Vysya Bank Ltd came into being in October 2002, when erstwhile Vysya Bank Ltd was merged with ING, a global financial powerhouse boasting of Dutch origin. Vysya Bank Ltd, one of initial banks to be set up in the private sector of India.

Jammu & Kashmir Bank

The origin of Jammu and Kashmir Bank Limited, more commonly referred to as J&K Bank, can be traced back to the year 1938, when it was established as the first state-owned bank in India. The bank was incorporated on 1st October 1938 and it was in the following year (more precisely on 4th July 1939) that it commenced its business, in Kashmir (India).
Karnataka Bank

Karnataka Bank Limited is a leading private sector bank in India. It was incorporated on 18th February 1924 at Mangalore, a town located in the Kannada district of Karnataka. The bank emerged as a major player during the freedom movement of 20th Century India.

Karur Vysya Bank

The Karur Vysya Bank Limited commonly known as KVB was set up by Late Shri M.A. Venkatarama Chettiar and the Late Shri Athi Krishna Chettiar, the two great visionaries in 1916 in Karur, a textile town in the Tamil Nadu state of India.

Kotak Mahindra Bank

Kotak Mahindra Bank is one of India's leading financial private banking institutions. It offers banking solutions that covers almost every sphere of life. Some of its financial services include commercial banking, stock broking, mutual funds, life insurance and investment banking.

SBI Commercial and International Bank

SBI Commercial and International Bank, (SBICI) is a completely owned private auxiliary of India's biggest banking and financial services set up, the State Bank of India. Established in 1995 to back SBI's corporate and international banking services, the SBI Commercial and International Bank is the only bank in India to be been awarded ISO-9002 quality systems certification for the Bank as a whole.

UTI Bank

Axis Bank was formed as UTI when it was incorporated in 1994 when Government of India allowed private players in the banking sector. The bank was sponsored together by the administrator of the specified undertaking of the Unit Trust of India, Life Insurance Corporation of India (LIC) and General Insurance Corporation ltd.

YES Bank

Yes Bank is one of the top most private Indian banks. Awarded by the only Greenfield license award by RBI in last 14 years, this bank is established and run by Rana Kapoor and Ashok Kapoor with the financial support of Rabo bank Netherland, the world's single AAA rated private Bank. For the purpose of assessment of performance of banks, the Reserve Bank of India categories them as follows.
Table 2.6

Table showing Scheduled Commercial Banks Operating in India

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Nationalized Banks</th>
<th>Old Private Sector Banks</th>
<th>New Private Sector Banks</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Allahabad Bank Ltd.</td>
<td>Catholic Syrian Bank Ltd.</td>
<td>Axis Bank Ltd.</td>
<td>Abu Dhabi Commercial Bank</td>
</tr>
<tr>
<td>2</td>
<td>Andhra Bank Ltd.</td>
<td>City Union Bank Ltd.</td>
<td>Development Credit Bank Ltd.</td>
<td>American Express Bank</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Baroda Ltd.</td>
<td>Dhanalakshmi Bank Ltd.</td>
<td>HDFC Bank Ltd.</td>
<td>Bank International Indonesia</td>
</tr>
<tr>
<td>4</td>
<td>Bank of India Ltd.</td>
<td>Federal Bank Ltd.</td>
<td>ICICI Bank Ltd.</td>
<td>Bank of America NA</td>
</tr>
<tr>
<td>5</td>
<td>Bank of Maharashtra Ltd.</td>
<td>ING Vysya Bank Ltd.</td>
<td>IndusInd Bank Ltd.</td>
<td>Bank of Ceylon</td>
</tr>
<tr>
<td>7</td>
<td>Central Bank of India Ltd.</td>
<td>Karnataka Bank Ltd.</td>
<td>Yes Bank Ltd.</td>
<td>Bank of Tokyo Mitsubishi UFJ</td>
</tr>
<tr>
<td>8</td>
<td>Corporation Bank Ltd.</td>
<td>Karur Vysya Bank Ltd.</td>
<td></td>
<td>Barclays Bank PLC</td>
</tr>
<tr>
<td>9</td>
<td>Dena Bank Ltd.</td>
<td>Lakshmi Vilas Bank Ltd.</td>
<td></td>
<td>BNP Paribas</td>
</tr>
<tr>
<td>10</td>
<td>IDBI Bank Ltd.</td>
<td>Nainital Bank Ltd.</td>
<td></td>
<td>Calyon Bank</td>
</tr>
<tr>
<td>11</td>
<td>Indian Bank Ltd.</td>
<td>Ratnakar Bank Ltd.</td>
<td></td>
<td>China Trust Commercial Bank</td>
</tr>
<tr>
<td>12</td>
<td>Indian Overseas Bank Ltd.</td>
<td>SBI Commercial &amp; International Bank Ltd.</td>
<td></td>
<td>Citibank N.A.</td>
</tr>
<tr>
<td>13</td>
<td>Oriental Bank of Commerce Ltd.</td>
<td>South Indian Bank Ltd.</td>
<td></td>
<td>DBS Bank</td>
</tr>
<tr>
<td>14</td>
<td>Punjab and Sind Bank Ltd.</td>
<td>Tamilnadu Mercantile Bank Ltd.</td>
<td></td>
<td>Deutsche Bank AG</td>
</tr>
<tr>
<td>15</td>
<td>Punjab National Bank Ltd.</td>
<td></td>
<td></td>
<td>HSBC</td>
</tr>
<tr>
<td>16</td>
<td>Syndicate Bank Ltd.</td>
<td></td>
<td></td>
<td>JP Morgan Chase Bank</td>
</tr>
<tr>
<td>17</td>
<td>UCO Bank Ltd.</td>
<td></td>
<td></td>
<td>Krung Thai Bank</td>
</tr>
<tr>
<td>18</td>
<td>Union Bank of India Ltd.</td>
<td></td>
<td></td>
<td>Mashreq Bank PSC</td>
</tr>
<tr>
<td>19</td>
<td>United Bank of India Ltd.</td>
<td></td>
<td></td>
<td>Mizuho Corporate Bank</td>
</tr>
<tr>
<td>20</td>
<td>Vijaya Bank Ltd.</td>
<td></td>
<td></td>
<td>Royal Bank of Scotland</td>
</tr>
<tr>
<td>21</td>
<td>State Bank of Bikaner &amp; Jaipur Ltd.</td>
<td></td>
<td></td>
<td>Shinhan Bank</td>
</tr>
<tr>
<td>22</td>
<td>State Bank of Hyderabad Ltd.</td>
<td></td>
<td></td>
<td>Société Générale</td>
</tr>
<tr>
<td>23</td>
<td>State Bank of India Ltd.</td>
<td></td>
<td></td>
<td>Sonali Bank</td>
</tr>
<tr>
<td>24</td>
<td>State Bank of Mysore Ltd.</td>
<td></td>
<td></td>
<td>Standard Chartered Bank</td>
</tr>
<tr>
<td>25</td>
<td>State Bank of Patiala Ltd.</td>
<td></td>
<td></td>
<td>State Bank of Mauritius</td>
</tr>
<tr>
<td>26</td>
<td>State Bank of Travancore</td>
<td></td>
<td></td>
<td>UBS</td>
</tr>
<tr>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td>VTB</td>
</tr>
</tbody>
</table>

Source: finance.indiamart.com/investment_in_india/scheduled_commercial_banks.html
2.12 IMPORTANCE OF PRIVATE SECTOR IN INDIAN ECONOMY

The importance of private sector in Indian economy over the last 15 years has been tremendous. The opening up of Indian economy has led to free inflow of foreign direct investment (FDI) along with modern cutting edge technology, which increased the importance of private sector in Indian economy considerably. Previously, the Indian markets were ruled by the government enterprises but the scene in Indian market has changed as soon as the markets were opened for investments. This saw the rise of the Indian private sector companies, which prioritized customer's need and speedy service. This further fueled competition amongst same industry players and even in government organizations. The post 1990 era witnessed total investment in favor of Indian private sector. The investment quantum grew from 56% in the first half of 1990 to 71 % in the second half of 1990. This trend of investment continued for over a considerable period of time. These investments were especially made in sector like financial services, transport and social services.

The late 1990"s and the period thereafter witnessed investments in sector like manufacturing, infrastructure, agriculture products and most importantly in Information technology and telecommunication. The present trend shows a marked increase in investment in areas covering pharmaceutical, biotechnology, semiconductor, contract research and product research and development. The importance of private sector in Indian economy has been very commendable in generating employment and thus eliminating poverty. Further, it also effected the following:

- Increased quality of life
- Increased access to essential items
- Increased production opportunities
- Lowered prices of essential items
- Increased value of human capital
- Improved social life of the middle class Indian
- Decreased the percentage of people living below the poverty line in India
- Changed the age old perception of poor agriculture based country to a rising manufacturing based country
- Effected increased research and development activity and spending
- Effected better higher education facilities especially in technical fields
- Ensured fair competition amongst market players
➢ Dissolved the concept of monopoly and thus neutralized market manipulation practices.

The importance of private sector in Indian economy can be witnessed from the tremendous growth of Indian BPOs, Indian software companies, Indian private banks and financial service companies. The manufacturing industry of India is flooded with private Indian companies and in fact they dominate the said industry. Manufacturing companies covering sectors like automobile, chemicals, textiles, agro-foods, computer hardware, telecommunication equipment, and petrochemical products were the main drive of growth. The Indian BPO sector is more concentrated with rendering services to overseas clients. The KPO sector is engaged in delivering knowledge based high-end services to clients. It is estimated, that out of the total US $ 15 billion KPO service business around US $ 12 billion of business would be outsourced to India by the end of 2010.

2.12.1 Major Private Companies of India

With an Annual GDP growth rate of 7-8 percent India is one of the fastest growing economies in the world. This stable annual GDP growth rate that India is witnessing is mostly due to the rise of the major private sector companies in the country. Private Sector companies play a very important role in the Indian economy. Over the last 15 years or so the major Private companies in India have contributed more than significantly to the growth of the Indian economy. After the liberalization policies in the 1990's India started receiving huge amounts of foreign direct investment (FDI) which was one of the most important reasons behind the success of the private companies in the country. Prior to this the Indian economy was ruled mostly by the public sector enterprises which were known for their strict rules and regulations and bureaucratization. The liberalization policies proved to be a boon for the Indian economy.

The economy witnessed huge amounts of foreign funds and along with it came in cutting edge technology and new ideas which started changing the functioning of India business. Slowly and steadily more and more private sector companies started coming up and establishing themselves in this part of the globe. Since 1990 most of the Foreign Direct Investment that India received was in favor of the private sector. The total amount of investment increased from 56 percent in the first five years of the decade to almost 71 percent in the next five years the decade. This became the investment trend and it is continuing till today. Investments in private sector generally cover sectors like transport, manufacturing,
infrastructure, financial services, social services, agriculture, telecommunication and Information technology. However the present investment trends show that sectors like pharmaceutical, contract research, semiconductor, biotechnology and product research and development are also gaining immense importance.

The Major Private companies of India prioritized customer's need and speedy service, which further fueled competition amongst same industry players. This healthy competition has benefited the end consumers, since the cost of service or products has come down substantially. B grade companies are also offering lucrative and competitively priced products or service, whose quality is at par with 'A' grade companies. Over the last few years the country has witnessed a sea change in its economy and this is mostly due to some of the finest private sector BPOs, software companies, private banks and financial companies. India's manufacturing sector is also flooded with a number of private Indian companies that dominate the Indian industry and have also made a mark in the global forefront. The manufacturing companies in the country encompass sectors such as chemicals, textiles, petrochemical products, automobile, agro-foods, telecommunication equipment, and computer hardware. With an Annual GDP growth rate of 7-8 percent India is the one of the fastest growing economies in the world. This stable annual GDP growth rate that India is witnessing is mostly due to the rise of the major private sector companies in the country.

2.12.2 Private Sector and Public Sector in India

As of the last decade, the growth and investment in the private sector has well surpassed the growth in the public sector. Figures suggest that the share of the private sector in the net sales of manufacturing and services industry augmented from 48.83% in 2001-02 to 68.55% in 2009-10. Subsequently the share of the public sector reached to 31.45% from a higher percentage of 51.17%. The shares of private sector in the net profit in the non-agricultural economy rose to 63.86% from 39.17%. The share of the public sector subsequently declined to 36.14% from 60.83%. This increase in the private sector's share is largely due to the higher foreign direct investment over the last decade. Over the last decade or so, with the liberalization of the economic policies, India has been able to achieve higher investment from the private sector. For instance due to modifications and changes in the economic policies the transport and telecommunication industry witnesses a higher percentage of growth and investment in the private sector.
2.12.3 Economic Development through Banking System

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

- **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 attract the prospective customers to encourage the habit of savings among the people.

- **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.

- **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.

- **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.

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

- **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 it sectoral priorities and other social development programmes.

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

- **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.

- **Banks help in maintaining the positive balance of trade:**
  Banks also help in promoting import and maintaining the balance of trade at a favourable 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. The nationalization of the banks bestowed upon them variety of new obligations in the area of social banking. The major achievements of the nationalized banks are in the sphere of branch, expansion deposit mobilization and expansion of credit to heather to neglect sectors which are important for the national economy in terms of their contribution to the growth, employment generation and broadening the base of income distribution.

  After the nationalization of banks, the major concern was the productivity and profitability of public sector banks. It was believed that the new direction given to the banks since their nationalization in 1969, and the slacking productivity, has led to declining trends in the profits and profitability. It is even held that unless the present trend is reversed, the financial viability of banking system may be undermined. It was confirmed by the Narasimham"s Report in 1991, which stated the bank” profitability has been under severe stress. But the banking system must be on a sound footing not only to instill public confidence but also to make banks capable of discharging their social responsibility. A number of factors like the entry of the overseas financial intermediaries into domestic financial markets necessitated some kinds of charges. Banking sector being the heart line of the financial market, their upgradation and financial strength is more vital for an efficient financial system. With these views, RBI and Government had initiated the process of banks reforms by setting up Narasimham Committee 1 in 1991. Thus the bank reforms heralded the beginning of implementing prudential norms consisting of capital adequacy ratio, asset classification, income recognition, and provisioning. Broadly, banking sector
reforms have been concerned with improving.

1. The policy framework,
2. The financial health, and
3. The institutional infrastructure.

In the Indian context, banking is really the mirror of economic growth of the country. Before liberalization, the Indian banking structure was largely controlled and parameters like branch size and location were given paramount importance. The Indian banking industry has come from a long way from being a sleepy business institution to a highly proactive and dynamic entity. Now, the Indian banking industry is going through a period of intense change, where global trends are affecting the banking business increasing competition, liberalization, rising customer expectations, shrinking spreads, increasing disintermediation, competitive pricing and possibilities macro-volatility. This transformation has been largely brought about by the large dose of liberalization and economic reforms.

2.13 IMPLICATIONS OF THE REFORMS FOR THE BANKING SECTOR

1) Entry barriers were lowered.
2) Interest rates were deregulated.
3) Regulation w.r.t. Branch licensing, credit control, approach to capital market were lowered.
4) The prudential norms were introduced w.r.t. income recognition, asset classification, and provision, capital adequacy to strengthen the bank’s balance and enhance the transparency.

In fact, the main aim of these regulations was to induce the financial discipline into operations. The reform measures were not only aimed at liberalizing the regulatory framework but also to keep them in tune with international standards. Further, regulations aimed at enhancing the transparency and accountability in the operations of the banks is to support the economic growth while the productivity and the profitability do not take back seat in that set up. To strengthen the banking system in general and public sector banks in particularly, the institution building measures taken are

1. Recapitalization,
2. Improving the quality of the loan portfolio,
3. Instilling a greater element of competition, and
4. Strengthening the supervisory process.
The Indian Banking Industry is full of competition, due to liberalization. The players are competing like never before. Yesterdays stars are no longer stars, new stars are emerging on the scene. Now banks have performed better than others to keep ahead in race. So there has arisen a need to improve the performance level lest the banks are likely to be left far behind. It is imperative to know the terms which have been used widely in the study. These are:

2.13.1 Liberalization

Liberalization involves freeing prizes, trade and entry from state controls. In fact, the degree to which an economy is free can be defined by scope of state involvement, either directly by ownership or indirectly by regulation, in markets for products or services. Liberalization does not raise real interests and results in an increased diversity of financial instruments. Unwary investors may be taken by the rather fanciful terms offered. In fact, as a result of liberalization, now there is a pressure on profits and portability of public sector banks. It can lead to speculation and create problems of systematic failures. In fact, liberalization and deregulation encompasses the following:

1. Interest rate and other price deregulation measures.
2. Removal of direct credit controls and mandatory investment regulations.
3. Measures design to promote entry of new competitors.
4. Supportive merger and ownership policy.
5. Prudential regulation and reliance on indirect tools for controls, and
6. Transparency.

2.13.2 Productivity

Productivity is a vital indicator of economic performance. In simple words, it is output-input ratio. It is a relationship between given output and the means used to produce it. Banking is primarily a service industry. There are number of indicators to measure the productivity of banking sector. Measures of productivity at bank or industry level may differ from the indicators of productivity at branch level. Productivity is affected by man power, mechanization, system and the procedures, costing of operations, customer services and various external aspects. There are number of ratios of compute productivity as:
Per Employee Indicators (Labour Productivity):

1. Deposit per employee
2. Advance per employee
3. Business per employee
4. Total expenditure per employee
5. Total income per employee
6. Spread per employee
7. Net profit per employee
8. Burden per employee

Per Branch Indicators (Branch Productivity):

1. Deposits per branch
2. Advance per branch
3. Business per branch
4. Total income per branch
5. Total expenditure per branch
6. Burden per branch
7. Net profit per branch
8. Spread per branch

2.13.3 Profitability

Profitability is a rate expressing profit as a percentage of total assets or sales or any other variable to represent the relationship. In fact, there may be various dimensions of profitability analysis. A large number of ratios can be used in order to measure the bank's profitability as:

1. Interest Income to Working Funds Ratio
2. Interest Expended to Working Funds Ratio
3. Spread to Working Funds Ratio
4. Non-Interest Income to Working Funds Ratio
5. Non-Interest Expenditure to Working Funds Ratio

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12 Angadi, V.V. and Devraj, V.J., “Profitability and Productivity of Banks in India,” Economic and Political Weekly, Nov.26, 1983.
6. Burden to Working Funds Ratio
7. Net Profit to Working Funds Ratio
8. Interest Income to Total Income Ratio
9. Interest Expended to Total Expenditure Ratio
10. Staff Expenditure to Operating Expenditure Ratio.  

2.14 ECONOMIC GROWTH AND PRIVATIZATION IN INDIA

Indian economy is a big and rapidly growing economy – both in terms of the share in global population as well as in terms of its production structure and size. India resides more than one billion population now and it makes one-sixth of the world population. As far economic progress is concerned, now India ranks among the few fastest growing economies in world. In 1951 India economic growth pattern of economic growth in India has been quite curious and its understanding will help us in taking the story forward. Growth pattern of the Indian economy has been since 1950"s when India started taking its own independent economic decisions after getting independence from the British rule in 1947. The economic growth in India where 1980-81 seems to have become a true turning point as before that there has been more uneven and slow economic performance. However, since 1980-81 there has been upward trend with better performance quantitatively as well as qualitatively. It can be seen for national income as well as for the per capita income.

Chart 2.5
Chart showing the structure of GDP in India

Structure of GDP in India (At current prices; in %)

- Agri & Allied
- Industry
- Services
It is for this reason that the scissor has been formed between the agriculture and the services whose front blades are getting more and more distanced from each other reflecting rapid expansion of the services sector and its role in economic growth as it is now contributing more than 60 percent of the GDP. Now, the agriculture has become the smallest sector with below 20 percent contribution whereas the industrial sector has also become larger than the latter despite almost stagnant share of the industrial sector with around 20 percent share since last two decades. Moreover the agriculture is now making scissor with the industrial sector for the last few years. All these suggest that the service sector is growing at the highest pace followed by the industrial sector which has a tendency to grow at a pace similar to GDP while the agriculture is taking a quite slow pace. It is remarkable that despite such changes the population structure between agriculture and non-agriculture remains almost unchanged as the latter has been sheltering around two-third of the total population all these decades. This suggests that the population shifting is not taking place despite accelerated pace of economic development and increasing population size.\\footnote{International Conference on “The Role of the Private Sector In Development : Assessment and Prospects” (23-25 March 2009, Beirut - Lebanon)}

2.15 EMERGENCE OF THE PRIVATE SECTOR IN INDIAN ECONOMY

Indian economy has been mainly under colonial rule before 1947 and therefore generally there was not much government participation in the direct business activities even if it would have been profitable as the colonial rulers were interested in their native country’s welfare and progress and therefore they were not much interested to invest in the Indian economy. Therefore, before 1947 there was no national government and not much investment in the economy by the government in any meaningful way. Alternatively, it might be inferred that there was mainly the private sector that played the role, whatever it could do, in that situation where market was not developed. However, since 1950-51 there have been conscious efforts on the part of the Government of India, given its federal structure, to take the economy forward with limited resources. Government started playing active role in the economy and started investing in the economy in a big way.

2.15.1 Fiscal Reforms

Structure and pattern of the government finances play critical role in economic growth, development and also functioning of the private sector. It is known that the size of public expenditures keeps on increasing. Poor management of finances by the government
may become counterproductive for the public sector. In India, it may be found that with the passage of the 1980’s fiscal trend worsened as the major indicators like revenue deficit, fiscal deficit etc became larger and unmanageable resulting in poor prospects for the private sector. This also reduced the government’s ability to spend on capital account. Poor fiscal management also resulted in low borrowing capacity of the government. Consequently, the government has to leave behind discretionary and subjective approach towards fiscal management and rather it shifted towards mechanical and institutional approach that left little scope for subjectivity.

2.15.2 Financial Inclusion

Financial Inclusion is an important priority of the Government as only approx. 38% (33,495) of the 89,622 bank, branches of Scheduled Commercial Banks are in rural areas and only 40% (approx.) of the country’s population has bank accounts. While there are about 600,000 villages in India, as per the 2001 Census, there are only 33,495 rural bank branches. Average Population per Bank Branch Office (APBBO) in India, as on 31.3.2011, is 13,503.

<table>
<thead>
<tr>
<th>Rural Branches</th>
<th>Semi-Urban Branches</th>
<th>Urban Branches</th>
<th>Metropolitan Branches</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>33,495 (37.37%)</td>
<td>22,631 (25.25%)</td>
<td>17,712 (19.76%)</td>
<td>15,784 (17.62%)</td>
<td>89,622</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India

An under banked district is a district where the average population per branch office (APPBBO) is more than the national average. As per Reserve Bank of India, there were 296 under banked districts in the under banked States in the country as on July, 2010. Inclusive growth as a strategy for economic development aims at making products and services, including financial services, available to those who for various reasons stand excluded. Financial Inclusion is important as it provides an avenue to the poor for bringing their savings into the formal financial system, an avenue to remit money to their families in villages besides weaning them away from the clutches of the usurious money lenders. It is thus essential to extend banking services to the rural hinterland at the earliest in order to include these regions in India’s growth story. The provision of banking and financial services to the rural hinterland would be an enabler for inclusive growth.16

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16 Source: Trend and Progress of Banking in India, 2010-11, Reserve Bank of India
Chart 2.6

Chart showing the details of Scheduled Commercial Bank branches as on 31-03-2011

Chart 2.7

Chart showing the Geographical Distribution of Private Banks
2.16 GEOGRAPHICAL DISTRIBUTION

The private banks started from the metropolitan cities. After growth in metros, the private sector banks are expanding their network into urban, semi urban, and rural areas. Table shows the network spread of private banks in different types of population group. Private Banks are not just concentrated in metros but they have started making inroads into the rural market as well. The semi urban areas have benefitted significantly from the presence of private sector banks. 30% of the branches of private banks are in semi urban areas. Initially private bank branches were concentrated in the southern and western states. But the trend of new branches indicates that there is increase in branches in other regions also like Uttar Pradesh added 265 more branches over 91 old branches, Rajasthan added 141 new branches, Madhya Pradesh 117, Assam 46. The enhanced standard of governance in Bihar is also reflecting in terms of growth in number of branches. Bihar added 40 new branches.

The rank correlation according to spearman rank correlation is +0.52. A positive association was observed between number of branches and economic freedom in states of Tamil Nadu, Andhra Pradesh, Rajasthan, Punjab, Orissa, Chhattisgarh, and Bihar.

**TABLE 2.8**

Table showing Rank Correlation of Branches of Private Banks and Economic Freedom

<table>
<thead>
<tr>
<th>States</th>
<th>No. of Branches</th>
<th>Eco. Freedom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil Nadu</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Kerala</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Karnataka</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Gujarat</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Punjab</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>West Bengal</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Haryana</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Orissa</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Bihar</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India – www.scribd.com*
Chart 2.8
Chart showing the State Wise Distribution of Private Sector Banks
Chart 2.9

Chart showing that ranking of top 20 states on the basis of new branches
Chart 2.10
Chart showing that ranking of top 20 states on the basis of old branches
TABLE 2.9
Table Showing the Number of ATM’s Located at Various Centers

<table>
<thead>
<tr>
<th>Banks</th>
<th>Rural</th>
<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>4289</td>
<td>10968</td>
<td>13451</td>
<td>11972</td>
<td>40680</td>
</tr>
<tr>
<td>Private Sector</td>
<td>901</td>
<td>3499</td>
<td>6124</td>
<td>7923</td>
<td>18447</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>6</td>
<td>11</td>
<td>188</td>
<td>821</td>
<td>1026</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5196</strong></td>
<td><strong>14478</strong></td>
<td><strong>19763</strong></td>
<td><strong>20716</strong></td>
<td><strong>60153</strong></td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India*

TABLE 2.10
Table Showing the Geographical Distribution (%) of ATM’S in India

<table>
<thead>
<tr>
<th>Banks</th>
<th>Rural</th>
<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>10.5</td>
<td>27.0</td>
<td>33.1</td>
<td>29.4</td>
<td>100</td>
</tr>
<tr>
<td>Private Sector</td>
<td>4.9</td>
<td>19.0</td>
<td>33.2</td>
<td>43.0</td>
<td>100</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>0.6</td>
<td>1.1</td>
<td>18.3</td>
<td>80.0</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8.6</strong></td>
<td><strong>24.1</strong></td>
<td><strong>32.9</strong></td>
<td><strong>34.4</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India*

Private and foreign banks contribute 17.45% of ATM’s in rural areas. This provides the opportunity for banks to improve financial inclusion, leveraging technology to provide other services like microfinance. 24.24% of ATM's in semi urban areas belong to private and foreign banks. Semi urban areas are the biggest beneficiaries of private sector banks in terms of improved ATM density. In urban areas 31.94% of ATM's are owned by private and foreign\(^\text{17}\)

\(^{17}\) *International Journal of Multidisciplinary Research Vol.2 Issue 1, January 2012, ISSN 2231 5780*
Chart 2.11
Chart showing the Number of ATM’s Located at Various Centers

Chart 2.12
Chart showing the Geographical Distribution (%) of ATM’S in India
2.17 NEED FOR EFFECTIVE CORPORATE GOVERNANCE IN BANKS

Banks are different from other corporate in important respects and that makes corporate governance of banks not only different but also more critical. Banks facilitate economic growth, are the conduits of monetary policy transmission and constitute the economy’s payment and settlement system. By the very nature of their business, banks are highly leveraged. They accept large amounts of uncollateralized public funds as deposits in a fiduciary capacity and further leverage those funds through credit creation. Banks are interconnected in diverse, complex and opaque ways underscoring their “contagion” potential. If a corporate fails, the fallout can be restricted to the stakeholders. If a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy. While regulation has a role to play in ensuring robust corporate standards in banks, the point to recognize is that effective regulation is a necessary, but not a sufficient condition for good corporate governance.

In this context, the relevant issues pertaining to corporate governance of banks in India are bank ownership, accountability, transparency, ethics, compensation, splitting the posts of chairman and CEO of banks and corporate governance under financial holding company structure, which should engage adequate attention.18

2.18 CONCLUSION

The private sector banks are providing their services to all groups of population. They have started expansion plans in semi urban and rural areas. This is a good sign for ensuring financial inclusion and better quality of service in these areas. The number of branches of private banks with economic freedom of states shows better rank correlation than with ratio of development expenditure and gross state domestic product. Information and communication technology offers the opportunity for the private banks to improve financial inclusion for the unbanked people.

In view of the fast changes taking place in the banking industry in response to the rapid growth of the real sector of the economy, the conclusions presented here should be viewed as broadly indicative. In retrospect, despite the demanding operational environment, the Indian banking sector demonstrated continued revival from the peripheral spillover

18 Source: Trend and Progress of Banking in India, 2010-11, Reserve Bank of India by RBI
effects of the recent global financial turmoil in 2010-11. This was evident in the higher credit growth, deposit growth, better RoA, sound CRAR and improvement in GNPA ratio, among others. However, despite the positives, certain concerns continued to persist in the Indian banking sector.

Maintaining profitability is a challenge especially in a highly competitive and high interest rate environment. Yet the Indian banking sector managed to improve the RoA marginally in 2010-11 over the previous year. However, the detailed analysis showed that NIM, which is already high in India as compared with some of the emerging market economies, increased further. Thus, there is a need to reduce NIM, increase „other income”, and reduce banking sector managed to improve the RoA marginally in 2010-11 over the previous year. Net Interest Margin (NIM) which is already high in India as compared with some of the emerging market economies, increased further. Thus, there is a need to reduce NIM, increase „other income”, and reduce.

A challenging task in the midst of regular policy rate hikes was the management of the quality of assets. Though the GNPA ratio witnessed improvement in 2010-11 over the previous year, certain concerns with regard to asset quality of the banking sector continued to loom large. During the last two years, the writing off ratios was high in the Indian banking sector, which implies foregone profitability in an attempt to clean balance sheets. Further, there was always a concern with regard to the restructured standard accounts, i.e., how many of them will again fall back into the NPA category. Further, it is a concern that a substantial portion of the total incremental NPAs of domestic banks in 2010-11 was contributed by agricultural NPAs.

Quality of banking services is another area, which requires continuous improvement to attract more customers to the formal banking channels. It is a welcome development that at the aggregate level the number of complaints received at various banking ombudsman offices registered a decline in 2010-11 over the previous year. It analysis revealed that both foreign banks and new private sector banks need to make continuous efforts to improve the quality of service offered by Direct Selling Agent (DSA) as more than 90 per cent of the complaints with regard to DSA were received against these two bank groups. Further, these two bank groups need to promote transparency by way of informing customers about different charges levied by them. This is because, majority of complaints with regard to hidden charges were also received against these two bank groups. The area in which the public sector banks have
to pay attention is pension services. In general, all bank groups should take more care while offering cards both debit and credits, as almost one fourth of the total complaints were with regard to cards.\(^{19}\)

To conclude, focused attention on the issues that are being confronted by the banking sector may be imperative in the larger interest of securing economic growth with equity. Once these issues are addressed, the Indian banking sector has the potential to become further deeper and stronger. Greater attention to these issues would facilitate better financial condition of the economy and in the medium to long-term lead to broad-based economic growth.

\(^{19}\) Source: Trend and Progress of Banking in India, 2010-11, Reserve Bank of India by RBI