CHAPTER 3

AN OVERVIEW OF BANKING SERVICES

3.1 INTRODUCTION

A bank is a financial institution which provides banking and other financial services to its customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also nonbanking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. A banking system is also referred as a system which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day.

The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India’s banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers.

All the banks safeguard the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier’s cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among
finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits.

3.2 NEED OF THE BANKS

Before the establishment of banks, the financial activities were handled by money lenders and individuals. At that time the interest rates were very high. Again there was no security for public savings and no uniformity regarding loans. So as to overcome such problems, the organized banking sector was established, which was fully regulated by the government. The organized banking sector works within the financial system to provide loans, accepts deposits and provides other services to its customers. The following functions of the bank explain the need of the bank and its importance:

1. To provide the security to the savings of customers.
2. To control the supply of money and credit
3. To encourage public confidence in the working of the financial system, increase Savings quickly and efficiently.
4. To avoid focus on financial powers in the hands of a few individuals and Institutions.
5. To set equal norms and conditions (i.e. rate of interest, period of lending etc) to all types of customers.

3.3 HISTORY OF INDIAN BANKING SYSTEM

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank
of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was the Bank of Hindustan which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865 was the first bank to be completely run by Indians. Punjab National Bank Ltd. was set up in 1894 with head quarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders. After that the Reserve Bank of India was established in April 1935.

At the time of the first phase, the growth of banking sector was very slow. Between 1913 and 1948 there were approximately 1100 small banks in India. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per the amendent 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 a Central Banking Authority.

After independence, Government has taken most important steps regarding the Indian Banking Sector reforms. In 1955, the Imperial Bank of
nationalized banks to 20. Seven more banks were nationalized with deposits over 200Crores.

Till the year 1980 approximately 80% of the banking segment in India was under the government’s ownership. On the suggestions of Narsimhan Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened. The following are the major steps taken by the Government of India to Regulate Banking institutions in the country:-

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

Before the 20th century, lending money at a high rate of interest, was widely prevalent in rural India. In the Indian Banking System,
Banking in India originated in the first decade of 18th century with The General Bank of India coming into existence in 1786. This was followed by Bank of Hindustan. Both these banks are now defunct. After this, the Indian government established three presidency banks in India. The first of these three was the Bank of Bengal, which obtained charter in 1809. The other two were presidency banks, viz., the Bank of Bombay and the Bank of Madras, established in 1840 and 1843 respectively. The three presidency banks were subsequently amalgamated into the Imperial Bank of India (IBI) under the Imperial Bank of India Act, 1920 – which is now known as the State Bank of India.

The banks have shed their traditional functions and have been innovating, improving and coming out with new types of services to cater to the merging needs of their customers. Banks have been given greater freedom to frame their own policies. Rapid advancement of technology has contributed to significant reduction in transaction costs, facilitated greater diversification of portfolio and improvements in the credit delivery of banks. Prudential norms, in line with international standards, have been put in place for promoting and enhancing the efficiency of banks. The process of institution building has been strengthened with several measures in the areas of debt recovery, asset reconstruction and securitization, consolidation, convergence and mass banking etc.

The existing banks have wide branch network and geographic spread, whereas the new private banks have the clout of massive capital, lean personnel component, the expertise in developing sophisticated financial products and use of state-of-the-art technology. Gradual deregulation which is being ushered in while stimulating the competition would also facilitate forging mutually beneficial relationships, which would ultimately enhance the quality and content of banking.
In the final phase, the banking system in India will give a good account of itself only with the combined efforts of cooperative banks, regional rural banks and development banking institutions which are expected to provide an adequate number of effective retail outlets to meet the emerging socio-economic challenges during the next two decades. The electronic age has also affected the banking system, leading to very fast electronic fund transfer. However, the development of electronic banking has also led to new areas of risk such as data security and integrity requiring new techniques of risk management.

Figure 3.1  Scheduled banking structure in India

**Nationalised Banks / Public Sector Banks**

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. Indian Bank
10. Indian Overseas Bank
11. Oriental Bank of Commerce
12. Punjab National Bank
13. Punjab and Sind Bank
14. Syndicate Bank
15. UCO Bank
16. Union Bank of India
17. United Bank of India
18. Vijaya Bank
19. IDBI Bank
20. Dena Bank
21. ECGC

**SBI and Associate Banks**

1. State Bank of India
2. State Bank of Bikaner and jaipur
3. State Bank of Hyderabad
4. State Bank of Mysore
5. State Bank of Patiala
6. State Bank of Travancore
7. State Bank of Saurashtra (merged into SBI in 2008)
8. State Bank of Indore (merged into SBI in 2010)

**Private Sector Banks**

1. Axis Bank
2. ABN Amro Bank
3. Catholic syrian Bank
4. Development Credit Bank
5. Dhanalakshmi Bank
6. Federal Bank
7. HDFC Bank
8. ICICI Bank
9. IndusInd Bank Limited
10. ING Vysya Bank
11. Karnataka Bank
12. Karur Vysya Bank
13. Kotak Mahnidra Bank
14. Lakshmi Vilas Bank
15. Tamil Nadu Mercantile Bank
16. South Indian Bank
17. Yes Bank
18. UP Agro Corporation Bank
Foreign Banks in India

1. Abu Dhabi Commercial Banks
2. Australia and New Zealand Bank
3. Bank International Indonesia
4. Bank of America NA
5. Bank of Bahrain and Kuwait
6. Bank of Ceylon
7. Bank of Nova Scotia (Scotia Bank)
8. Bank of Tokyo Mitsubishi UFJ
9. Barcalys Bank PLC
10. BNP Paribas
11. Calyon Bank
12. Chinatrust commercial Bank
13. Citi Bank N.A
14. Credit Suissee
15. Common wealth Bank of Australia
16. DBS Bank
17. DBS Bank now RHB Bank
18. Dentsche Bank AG
19. FirstRand Bank
20. HSBC
21. JPMorgan Chase Bank
22. Krung Thai Bank
3.4 SCENARIO OF INDIAN BANKING INDUSTRY

The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories as non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign). These banks have over 67,000 branches spread across the country.

Current Scenario

The industry is currently in a transition phase. On the one hand, the PSBs, which are the mainstream of the Indian Banking system, are in the process of shedding their flab in terms of excessive manpower, excessive non Performing Assets (NPA) and excessive governmental equity, while on the
other hand the private sector banks are consolidating themselves through mergers and acquisitions.

### 3.5 RURAL AND SOCIAL BANKING ISSUES

The banking system is expected to reorient its approach to rural lending. “Going Rural” could be the new market mantra. Rural market comprises 74% of the population, 41% of Middle class and 58% of disposable income. Consumer growth is taking place at a fast pace in 17113 villages with a population of more than 5000. Of these, 9989 villages are in 7 States, namely Andhra Pradesh, Bihar, Kerala, Maharashtra, Tamilnadu, Uttar Pradesh and West Bengal. Banks approach to the rural lending will be guided mainly by commercial considerations in future.

Commercial Banks, Co-operatives and Regional Rural Banks are the three major segments of rural financial sector in India. Rural financial system, in future has a challenging task of facing the drastic changes taking place in the banking sector, especially in the wake of economic liberalization. There is an urgent need for rural financial system to enlarge their role functions and range of services offered, so as to emerge as "one stop destination" for all types of credit requirements of people in rural/semi-urban centres.

In the next ten years, SME sector will emerge more competitive and efficient and knowledge-based industries are likely to acquire greater prominence. SMEs will be dominating in industry segments such as Pharmaceuticals, Information Technology and Biotechnology. With SME sector emerging as a vibrant sector of the Indian economy, flow of credit to this sector would go up significantly. Banks will have to sharpen their skills for meeting the financial needs of this segment. Some of the Banks may emerge as niche players in handling SME finance. Flow of credit to this Sector will be guided purely by commercial considerations as Banks will find SMEs as an attractive business proposition.
3.6 SERVICES OFFERED BY BANKS

The services offered by banks can be broadly classified into four categories.

1. **Payment services**: The Payment service is the backbone of the entire money flow in an economy. Previously the payment system was supported by cheques, demand drafts etc., which have now been replaced with direct online money transfer with the evolution of technology.

2. **Financial intermediary**: This is one of the oldest functions of the bank which specifies accepting deposits from customers and then lending these funds to borrowers. This is the main core business of the banking system and will continue as long as the banking system exists.

3. **Financial Services**: Financial services include new services which were launched by different financial institutions with time. These services include investment banking, foreign exchange business, line of credit services, wealth management and broking services. These services generate income for the commercial bank in the form of commissions etc., which is also termed as non-fund income for banks.

4. **Ancillary Services**: other services that the banks offer to the common men along with the necessary banking services. These ancillary services form a very minuscule of the services offered by the banks. Typical ancillary services include safe deposits lockers for gold, cheque pick up facility, door step banking etc.
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<thead>
<tr>
<th>Traditional Services offered by Banks</th>
<th>New Services Offered by Banks</th>
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<tbody>
<tr>
<td>1. Offering savings deposits</td>
<td>1. Financial Advisory services</td>
</tr>
<tr>
<td>2. Currency exchange transactions</td>
<td>2. Credit, debit cards and gift cards</td>
</tr>
<tr>
<td>3. Providing business or personal loans</td>
<td>3. Cash management</td>
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<tr>
<td>4. Providing car and home loans to retail customers</td>
<td>4. Equipment Leasing</td>
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<tr>
<td>5. Safe keeping of Valuables</td>
<td>5. Venture Capital loans and private equity funds</td>
</tr>
<tr>
<td>6. Supporting government activities with credit by purchasing government bonds</td>
<td>6. Insurance services</td>
</tr>
<tr>
<td>7. Offering trust services, other property and financial management related services for a fee.</td>
<td>7. Retirement Plans</td>
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<td></td>
<td>8. Equity trading and Investment services</td>
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<td>9. Mutual fund</td>
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<td>10. Investment banking services</td>
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<td>11. Wealth management</td>
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Banks are now-a-days offering different new services to attract more customers and grow their business. The other services offered by the banks are increasing very fast and new accounts for a large portion of their income.
3.7 USERS OF BANKING SERVICES

There are two types of customers using the services of banks, such as general customers and the industrial customers.
**General Users:** Persons having an account in the bank and using the banking facilities at the terms and conditions fixed by a bank are known as general users of the banking services. Generally, they are the users having small sized and less frequent transactions or availing very limited services of banks.

**Industrial Users:** The industrialists, entrepreneurs having an account in the bank and using credit facilities and other services for their numerous operations like establishments and expansion, mergers, acquisitions etc. of their businesses are known as industrial users. Generally, they are found to be a few but large sized customers.

### 3.8 CONCEPTUAL FRAMEWORK OF BANKING SERVICES

![Customer Satisfaction](customer_satisfaction.png)

- Customer Satisfaction
- Customer Perception
- Customer Expectation
- Customer Relationship Management
- Customer Loyalty

#### 3.8.1 Banking Services

With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. A competition has been established within the banks operating in India. With stiff competition and advancement of technology, the services provided by banks have become more easy and convenient.
A decade before it was tough to believe that banking sector will be at a finger tip. Now it’s possible. A mobile hand set with a connection is the only instrument needed to make a gateway to your banking transaction, the latest innovation of technology. With the advancement of technology, banking sector has become easier, fast, accurate and also time saving. Different types of accounts and loans, facilitating with plastic money and money transfer across the globe, ATMs, Mobile Banking, SMS Banking and Net Banking is only the tip of an ice-berg.

The various services provided by the banks should attract and should be planned in a way according to the customer’s perception and expectations towards the bank. The perception of the customers differs from one to another. It is essential for the bank to understand the perception of the customers and customise the services. In the current scenario the customer expectations towards the banking services keep on increasing enormously. Based on the living standards of the people and life style of the customers they started enjoying more facilities in which the banking services have no exemptions.

Understanding the perception of the customer and meeting the expectations of the customer will result in customer satisfaction. The customer satisfaction is of a crucial concern to all the organisations which provide services to the customers like the banking services to attract the customers and to retain them they have to facilitate more value added services and augmented services which will result in high satisfaction of customers.

Customer Relationship Management plays a vital role which helps the bank to understand them in a better way and maintain them in the organisation for a longer period. Creating a loyal customer is the most important factor which will ensure the business development of the organisation.
Considering the importance of the above said five dimensions in this research it has been emphasized that empirically evaluating the five dimensions like Customer satisfaction, Customer Perception, Customer Expectation, Customer Relationship Management and Customer Loyalty will give better inputs in formulating better strategies for the banking sector.

3.8.2 Customer Satisfaction

Customer satisfaction is generally defined as meeting out one’s expectation. Customer satisfaction is the main concern in the banking sector. This has been necessitated by the stiff competition in the banking industry. Banks are striking hard to offer quality services and products to maintain the existing customer and to attract new customers as well. Customers on the other hand, expecting more customised services for their money so that they are always coming around to get the best services from banks. Customer satisfaction is a crucial concern for both customers and to all the organisations including banks. Banks need to attract and establish a customer market and would need to retain it through satisfaction. In order to attain this goal, the banking sectors should have a high satisfaction rate from their customers.

3.8.3 Customer Perception

The bank’s customer perception is formed as a result of interpreting the experience on the basis of the services received by them. There is a growing interest in understanding the users’ experience as it is observed as a larger concept than user satisfaction. From this perspective, assessing the user experience is essential for many technology products and services. Customers have started perceiving the services of bank through internet as a prime attractive feature than any other prime product features of the bank. Customers have started evaluating the banks based on the convenience and comforts it provides to them. Bankers have started developing various product
features and services on the basis of customer preference and need. Which in turn will satisfy the existing customers and to attract the new ones.

3.8.4 Customer Expectation

Every customer expects that innovative thinking is the need of the hour in banking sector these days. The basic expectations of the customers towards the banks are,

1. End to end transparency
2. Global Transaction Banking
3. Experience driven distribution model
4. Solutions driven from customer’s pain points
5. Embedded risk understanding and management
6. Banking Technology to integrate into customers' internal IT systems

In a nut shell, what the corporate customers expect from their bankers are reliability, assurance, empathy, responsiveness and pro-activity as they are the back bone of any relationship. In order to meet the expectations of the customers the banks need to:

1. Know their customers’ requirements well in advance and serve them better.
2. Recognize and practice what is right for customers
3. Introduce sophisticated, yet simple, processes and services to enhance end customer experience.
3.8.5 Customer Relationship Management

Today, banks are facing an aggressive competition and they have to make efforts to survive in a competitive and uncertain market place. Banks have realised that managing customer relationships is a very important factor for their success. Customer Relationship Management (CRM) is a strategy which can help them to build long-lasting relationships with their customers and increase their profits through the right management system and the application of customer-focused strategies. CRM in the banking sector is of strategic importance. Many businesses such as banks, insurance companies, and other service providers realize the importance of CRM and its potential to help them acquire new customers retain the existing ones and maximize their lifetime value.

At this point, close relationship with customers will require a strong coordination between IT and marketing departments to provide a long-term retention of selected customers. CRM is a sound business strategy to identify the bank’s most profitable customers and prospects, and devotes time and attention to the expanding account relationships with those customers through individualized marketing, reprising, discretionary decision making, and customized service—all delivered through the various sales channels that the bank uses.

3.8.6 Customer Loyalty

Building customer loyalty occurs through building the relationship between customers and banks. Customer loyalty is one of the most important factors used to evaluate the quality of services offered by a banking industry. Therefore, gaining customer loyalty becomes a key objective for banking organizations which decide to adopt for customer relationship and customer retention. Returning to growth and profitability will require banks to earn
customer loyalty and the superior economics it brings, while dramatically reducing costs. Because loyal customers buy more, stay longer and refer valuable new customers, the stakes are high for banks to deliver the right experience for the interactions that most matter to customers, using the most cost-effective channel that will earn their loyalty. In the case of a loyal customer, otherwise referred to as the “true customer”, the bank has to identify him and ensure that such persons are given preferential treatment.

3.9 TECHNOLOGY IN BANKING

1. **Technology** will bring fundamental shift in the functioning of banks. It would not only help them bring improvements in their internal functioning but also enable them to provide better customer service. Technology will break all boundaries and encourage cross border banking business. Banks would have to undertake extensive Business Process Re-Engineering and tackle issues like

a) How best to deliver products and services to customers

b) Designing an appropriate organizational model to fully capture the benefits of technology and business process changes brought about.

c) How to exploit technology for deriving economies of scale and how to create cost efficiencies, and

d) How to create a customer - centric operation model.

2. **Entry of ATMs** has changed the profile of front offices in bank branches. Customers no longer need to visit branches for their day to day banking transactions like cash deposits, withdrawals, cheque collection, balance enquiry etc. E-banking
and Internet banking have opened new avenues in “convenience banking”. Internet banking has also led to reduction in transaction costs for banks about a tenth of branch banking.

3. **Technology solutions** would make flow of information much faster, more accurate and enable quicker analysis of data received. This would make the decision making process faster and more efficient. For the Banks, this would also enable development of appraisal and monitoring tools which would make credit management much more effective. The result would be a definite reduction in transaction costs and the benefits of which would be shared between banks and customers.

4. **Payment and Settlement system** is the backbone of any financial market place. The present Payment and Settlement systems such as Structured Financial Messaging System (SFMS), Centralised Funds Management System (CFMS), Centralised Funds Transfer System (CFTS) and Real Time Gross Settlement System (RTGS) will undergo further fine-tuning to meet international standards. Needless to add, necessary security checks and controls will have to be in place. In this regard, Institutions such as IDRBT will have a greater role to play.

3.10 **VALUE ADDED SERVICES RENDERED BY BANKS IN INDIA**

Adding more value to the services will ensure customer satisfaction. Now-a-days, the customers expect the maximum from the service providers. It is essential for the service providers to fulfil those expectations. In the banking sector after the globalization due to the entries of
the foreign banks, the Indian public sector and private sector banks are forced to multiple their services which will attract more number of customers. In the banking sector, the following are the value addition which has been designed and successfully keep the satisfaction of the customers. Some of them are ATM facilities, Debit card facilities, Credit card facilities, Mobile banking, Internet banking, Core banking, RTGs facility, NEFT and E-pay.

3.10.1 Mobile Banking

A forecast study by the Boston Consulting Group in July 2011 claims that mobile banking in India is set to generate approximately $4.5 billion in fee based revenue by 2015. This revenue would be generated from $350 billion of mobile transaction volumes predicted to occur by 2015, in contrast to $235 billion today. Recent research from Capgemini Consulting suggests that the chances of overall success in mobile banking are much higher in the developing countries (such as India) than in developed countries. This difference is due to inherent factors such as tech-savvy younger populations, low Internet and high mobile penetrations and high remittance requirements. The major banks in India have all rolled out mobile banking applications which are restricted to individual banks and sometimes to individual operators. The official department, the National Payments Corporation of India, launched the Interbank Mobile Payment Service (IMPS) in August 2010 which offers instant, 24/7, interbank electronic fund transfer service through mobile phones.

A solid strength of 23 banks joined the IMPS as of July 2011 out of the 32 that were approved. However, the customer can link only one bank account to a single mobile number. In urban areas, many consumers have bank accounts but still rely on cash for 90 to 95 percent of small-ticket transactions. Mobile payments would be a tremendous convenience for these consumers. Although 60 percent of mobile banking transactions are restricted
to customers’ checking account balances, the industry claims that this is a significant step in building consumer trust. Over the next five years, unbanked rural markets could begin to rival the urban market in size.

The SBI recently announced plans to quadruple its representation in unbanked villages in India. Its ability to extend services to an additional 50,000 unbanked villages by the end of March 2012 created excitement in the mobile banking community. Maintaining a conventional rural bank branch costs INR 500,000 per year in salaries alone which would need about INR 20 million in deposits to sustain that at a breakeven point. A typical Indian village with a population of 2,000 can’t support a conventional bank branch. Hence, banking outreach can solely be achieved through a banking agent network which in turn, largely operates through a mobile phone network. Mobile banking may be the only viable method to extend banking services to rural areas in these regions. Even through the banking agent network, the margins continue to be thin. Profitability would be achieved by generating large volumes quickly and extending it to as many villages as possible.

Features/services offered by “United Mobile Banking”

1. Balance enquiry
2. Mini Statement
3. Cheque Status
4. Stop Cheque facility
5. Intra Bank fund transfer (Mobile to Mobile and Mobile to Account)
6. Inter Bank Fund Transfer through NEFT
7. ATM and branch locator
Very soon, the bank will also introduce the following additional features in “United Mobile Banking”

1. Inter Bank fund transfer through IMPS (Inter Bank Mobile Payment Service).

2. Request based services like cheque book, Demand draft, account opening, etc)

3.10.2 ATM

ATM channel provides opportunity for banks to go for competent and cost effective models. With the advent of ATMs, banks are able to serve customers outside the banking halls. The most exciting experience for the customers as well as the bankers is that the plastic card is replacing all the hassles of bank transactions, personal attendance of the Customers, banking hour constraints, and paper based validations.

Now a customer can withdraw money, deposit money with and without envelope, transfer fund from card to account, pay insurance bills, apply for loan, book air and train tickets, movie tickets, and avail coupons. Even it is possible to withdraw gold coins from ATM counters. Now there is a societal shift towards ATM, as a personalized delivery channel. **Multivendor** software has brought a revolution in leading banks around the Globe. Here, banks do not depend on a single vendor to purchase software and hardware equipments of ATM. As the technology supports to integrate multiple parts of ATMs from different vendors, this arrangement puts a competitive pressure on ATM vendors.

Multivendor software facilitates and independent decision making for the banks in opting for hardware vendors reduces the cost of ownership of ATMs for the banks. Deployment of Multivendor Software (MVS) has also
reduced Infrastructure management issues in these banks. Definitely, it is a revolutionary concept to execute a single software application in the entire ATM network. The ATM technology has developed to such an extent that some ATMs can memorize consumer preferences as per their past transactions, behaviour, and tailor services accordingly. In many cases, ATMs have internet scope which facilitates two way communications with live agents, provide biometric options, and have the ability to demonstrate personalized advertisements.

Gone are the days when customers were limited to only withdrawing cash from ATM’s. We have now reached an era, where we can use multi function and biometric ATMs, equipped with touch sensitive and user friendly options to transfer funds, book air and train tickets, go for mobile recharge, and even deposit cheques with scanning.

<table>
<thead>
<tr>
<th>Period</th>
<th>Features/ Functionalities</th>
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| 1988-1994 (the initial product) | Deposit of Cash  
Withdrawal of Cash                                          |
| 1995-1999 (Early Developments) | Mini Statement  
Balance Enquiry                                               |
| 2000-2001 (first Extension)   | Coupon Dispensing                                             |
| 2002-2004 (Extended Functionalities) | Fulfilling Requests from customers  
(check book)  
Account Transfers  
Touch Screen Menus/ Facilities                                  |
| 2001-2006 (non-banking services) | Ticket Booking – Railway and Airlines  
Bill Payments  
Mobile Recharges                                                 |
| 2007 (onwards )               | Check deposit with Scanning  
Customized ATMs  
Ubiquitous Multifunction  
ATMs Biometric ATMs                                              |

Source: Journal of Economic Studies
Facts about ATM industry in India

Based on a survey conducted by international consultancy firm IDC in India on behalf of NCR Corporation:

1. Around 88 percent of the cardholders make use of the facility only for cash withdrawal.

2. A cardholder on an average uses an ATM for 3.5 times a month for cash withdrawal, while he uses the machine around 2.5 times for balance inquiry.

3. 9000 ATMs in India with a Growth Rate of 60% per annum

4. Rs.1500 crore already spent to set up this infrastructure

5. Rs.2000 - Rs.3000 per day is the cost of maintaining a single ATM.

6. Number of Transactions per ATM: up to 400 per day

7. Price of an ATM: Rs.7-10 lakh

8. The cost per transaction is about Rs.20/-

Growth of the ATM Industry

As per the Global ATM Market and Forecasts to 2016, the maximum growth of ATMs is happening in Asia pacific region. India and Indonesia are having one fourth of the number of ATMs, and china is accounted for half of the new ATMs. Worldwide growth of ATMs is steadily increasing. The growth of ATMs in Western countries and other advanced countries has reached a mature stage. However, there is a lot of scope of
growth of ATM industry in developing countries like India. In India, ATM industry is growing at an exponential rate. So to say, ATM has brought a self service revolution.

ATM terminals in India will be expected to grow at a compounded average growth rate of 25% between 2011 and 2015. There is now a major focus on financial inclusion, which means ATMs now have a wider reach in rural and remote corners of the country. There is also a huge demand from the urban population who are looking for instant services, alongside seeking to avail more value-based features.

No. of ATMs, 2006 to 2016
(Source: Global ATM Market and Forecasts to 2016 (Retail Banking Research))

Figure 3.2 Global ATM market and forecasts
Future Directions

There is a huge opportunity for growth of the ATM market in India. The future will see multi vendor ATM popularity, which will provide personalized features and a user friendly interface. ATM will be a popular “Public Technology”. Original equipment manufacturers and vendors will get ample scope for handling ATM machines. Modern ATMs are now capable of personalized branding, CRM applications, integrated fraud alert, customer notifications, and flexible services.
Few banks have introduced biometric ATMs in rural India, which are quite secure and easy to use by a common man. Banks are trying to shift slowly from multi vendor to multi channel integration, so as to get a complete picture of the activities of customers.

3.10.3 Internet Banking

Banks have traditionally been in the forefront of harnessing technology to improve their products, services and efficiency. They have, over a long time, been using electronic and telecommunication networks for delivering a wide range of value added products and services. The delivery channels include direct dial – up connections, private networks, public networks etc and the devices include telephone, Personal Computers including the Automated Teller Machines, etc. With the popularity of PCs, easy access to Internet and World Wide Web (WWW), Internet is increasingly used by banks as a channel for receiving instructions and delivering their products and services to their customers. This form of banking is generally referred to as Internet Banking, although the range of products and services offered by different banks vary widely both in their content and sophistication.

Some of the distinctive features of i-banking are:

1. It removes the traditional geographical barriers as it could reach out to customers of different countries / legal jurisdiction. This has raised the question of jurisdiction of law / supervisory system to which such transactions should be subjected

2. It has added a new dimension to different kinds of risks traditionally associated with banking, heightening some of them and throwing new risk control challenges,

3. Security of banking transactions, validity of electronic contract, customers’ privacy, etc., which have all along been
concerns of both bankers and supervisors have assumed different dimensions given that Internet is a public domain, not subject to control by any single authority or group of users,

4. It poses a strategic risk of loss of business to those banks who does not respond in time, to this new technology, being the efficient and cost effective delivery mechanism of banking services,

5. A new form of competition has emerged both from the existing players and new players of the market who are not strictly banks.

**Benefiting from Internet Banking**

1. Internet banking provides **24 hour banking facility**, which helps a customer to access the account anytime.

2. Helps to skip the long queues and the endless wait to get things done in a bank.

3. **Access account from anywhere** by just logging into the bank’s site and entering one’s id and password. Account information can be checked and transactions can be performed from anywhere via a smart phone, laptop, or any other Internet-accessible device.

4. Apply online for a majority of the services such as loans, credit cards, savings accounts, and mortgages.

5. Also, insurance products can be bought using internet banking.

6. Some banks provide **online portfolio management** services. Stocks, bonds, and other investments can be managed with
online banking at one’s convenience, independent of a financial intermediary like a stockbroker. For example, through HDFC Securities, customers can trade in the stock market or keep track of the portfolio.

7. **Booking Railway tickets** through online banking has become a widely used service by customers. This is because, in India a huge population uses trains to travel across the country.

8. Another area where online banking is making headway is in the **Online Shopping** industry.

The market size of online shopping industry in India is estimated at Rs. 2000 crores and is expected to reach Rs. 7000 crore by 2015. One of the important reasons for this huge growth will be the increase in internet banking.

1. Online banking also helps to pay **utility bills** like electricity, telephone, and satellite TV. This is turning out to be a great service for those who are short on time.

2. Now **insurance payments can also be made over** the net.

3. What’s more, even mobile can be recharged through online banking.

### 3.10.4 Debit Card

A debit card (also known as a bank card) is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be called as an electronic cheque, as the funds are withdrawn directly from either the bank account or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card. Debit cards are accepted at
many locations, including grocery stores, retail stores, gasoline stations, and restaurants. The card can be used anywhere, where merchants display the card's brand name or logo. They offer an alternative to carrying a cheque book or cash.

3.10.5 Credit Card

A credit card is a small plastic card issued to users as a system of payment. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Opening of one bank account per family

Opening of a Bank Account is one of the key requirements in Financial Inclusion. The country has made appreciable progress on this parameter during 2001-2011 as per census data on Households (HHS) Availing Banking Services.

Table 3.1 Number of households availing banking services in 2001 and 2011

<table>
<thead>
<tr>
<th>Area</th>
<th>Number of Households availing Banking Services</th>
<th>Total Number of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>2011</td>
</tr>
<tr>
<td>Total</td>
<td>68,230,642</td>
<td>144,814,788</td>
</tr>
<tr>
<td>Rural</td>
<td>41,639,949</td>
<td>91,369,805</td>
</tr>
<tr>
<td>Urban</td>
<td>26,590,693</td>
<td>53,444,983</td>
</tr>
</tbody>
</table>
Table 3.2  Percentage of households availing banking services in 2001 and 2011

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage of Households availing banking Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Total</td>
<td>35.5</td>
</tr>
<tr>
<td>Rural</td>
<td>30.1</td>
</tr>
<tr>
<td>Urban</td>
<td>49.5</td>
</tr>
</tbody>
</table>

Source: Census of India

Access to Banking: Major States

In 2011, percentage of Households availing Banking Services in major states.

![Figure 3.4 Households availing banking services- state wise position](image)

Source: Department of Financial services
3.11  CHALLENGES TO INDIAN BANKING

The banking industry in India is undergoing a major change due to the advancement in Indian economy and continuous deregulation. These multiple changes happening in series has a ripple effect on banking industry which is trying to be organized completely.

**Deregulation:** This continuous deregulation has given rise to extreme competition with greater autonomy, operational flexibility, and decontrolled interest rate and liberalized norms and policies for foreign exchange in banking market. The deregulation of the industry coupled with decontrol in the interest rates has led to entry of a number of players in the banking industry and thereby reduced corporate credit off which has resulted in large number of competitors battling for the same pie.

**Modified New Rules:** As a result, the market place has been redefined with new rules of the game. Banks are transforming to universal banking, adding new channels with lucrative pricing and freebees to offer. New channels squeezed spreads, demanding customer’s better service, marketing skills heightened competition, defined new rules of the game pressure on efficiency. Need for new orientation diffused customer loyalty. Bank has led to a series of innovative product offerings catering to various customer segments, specifically retail credit.

**Efficiency:** Excellent efficiencies are required at the banker's end to establish a balance between the commercial and social considerations. The Bank needs to access low cost funds and simultaneously improve the efficiency and efficacy. Owing to cutthroat competition in the industry, banks are facing pricing pressure and have to give thrust on retail assets.
**Diffused Customer Loyalty:** As a result of attractive offers by MNC and other nationalized banks, customers have become more demanding and the loyalties are diffused. Value added offerings bound customers to change their preferences and perspective. These are multiple choices. The wallet share is reduced per bank with demand on flexibility and customization. Given the relatively low switching costs, customer retention calls for customized service and hassle free, flawless service delivery.

**Misaligned Mindset:** These changes are creating challenges, as employees are made to adapt to changing conditions. The employees are resisting change and the seller market’s mindset is yet to be changed. These problems are coupled with fear of uncertainty and control orientation. Moreover banking industry is accepting the latest technology but utilization is far below from satisfactory level.

**Competency Gap:** The competency gap needs to be addressed simultaneously otherwise there will be missed opportunities. Placing the right skill at the right place will determine success. The focus of people will be doing work but not providing solutions, on escalating problems rather than solving them and on disposing customer instead of using the opportunity to cross sell.

**3.12 STRATEGIC OPTIONS OF BANKS TO COPE WITH THE CHALLENGES**

Dominant players in the industry have embarked on a series of strategic and tactical initiatives to sustain leadership. The major initiatives incorporate:

a) Focus on ensuring reliable service delivery through Investing on and implementing right technology.
b) Leveraging the branch networks and sales structure to mobilize low cost Current and savings deposits.

c) Making aggressive forays in the retail advances segments of home and personal loans.

d) Implementing initiatives involving people, process and technology to reduce the fixed costs and the cost per transaction.

e) Innovating products to capture customer 'mind share' to begin with and later the wallet share.

f) Improving the asset quality as Basel II norms.

3.13 FUTURE LANDSCAPE OF INDIAN BANKING

The Liberalization and de-regulation process started in 1991-92 has made a sea change in the banking system. From a totally regulated environment, it has gradually moved into a market driven competitive system. The move towards global benchmarks has been, by and large, calibrated and regulator driven. The pace of changes gained momentum in the last few years. Four trends change the banking industry world over, viz.

1) Consolidation of players through mergers and acquisitions

2) Globalisation of operations

3) Development of new technology and

4) Universalisation of banking.

With technology acting as a catalyst, it is expected to see great changes in the banking scene in the coming years. The Committee has
attempted to visualize the financial world 5-10 years from now. It entails emergence of an integrated and diversified financial system. The move towards universal banking has already begun. This will gather further momentum bringing non-banking financial institutions also, into an integrated financial system.

**International trade** is an area where India’s presence is expected to show appreciable increase. Presently, Indian share in the global trade is just about 0.8%. The long term projections for growth in international trade are placed at an average of 6% per annum. With the growth in IT sector and other IT Enabled Services, there is tremendous potential for business opportunities. Keeping in view the GDP growth forecast under India Vision 2020, Indian exports can be expected to grow at a sustainable rate of 15% per annum in the period ending with 2010. This again will offer enormous scope to Banks in India to increase their forex business and international presence.

**Retail lending** will receive greater focus. Banks would compete with one another to provide full range of financial services to this segment. Banks would use multiple delivery channels to suit the requirements and tastes of customers. While some customers might value relationship banking (conventional branch banking), others might prefer convenience banking (e-banking).

One of the concerns is quality of bank lending. The most significant challenge before banks is the maintenance of rigorous credit standards, especially in an environment of increased competition for new and the existing clients. Experience has shown that the worst loans are often made in the best of times. Compensation through trading gains is not going to support the banks forever. Large-scale efforts are needed to upgrade skills in credit risk measuring, controlling and monitoring as also.
Revamping the operating procedures: Credit evaluation may have to shift from cash flow based analysis to “borrower account behaviour”. The emphasis in future would be towards more of fee based services rather than lending operations.

Structure and ownership pattern would undergo changes. There would be greater presence of international players in the Indian financial system. Similarly, some of the Indian banks would become global players. Government is taking steps to reduce its holdings in Public sector banks to 33%. However the indications are that their PSB character may still be retained.

Mergers and acquisitions would gather momentum as managements will strive to meet the expectations of stakeholders. This could see the emergence of 4-5 world class Indian Banks. As Banks seek niche areas, the emergence of some national banks of global scale and a number of regional players could be seen. Changes could be expected in the delivery channels used for lending to small borrowers and agriculturalists and unorganized sectors (micro credit). Use of intermediaries or franchise agents could emerge as a means to reduce transaction costs.

Technology In the ultimate analysis, successful institutions will be those which continue to leverage the advancements in technology in reengineering processes and delivery modes and offering state-of-the-art products and services providing complete financial solutions for different types of customers.
3.14 RECENT TRENDS OF BANKING SECTOR IN INDIA: 2013

Indian Banking Sector: Brief Introduction

India’s Rs 77 trillion (US $ 1.30 trillion) banking industry is well at par with global standards and norms. Prudent practises and conventional framework adopted by the regulator, RBI have insulated Indian banks from the global financial crisis.

The country has 87 Scheduled commercial banks with deposits worth Rs 71.6 trillion (US $ 1.21 trillion) as on 31st May, 2013 Of this, 26 are public sector banks, which control over 70% of India’s banking sector, 20 are private banks and 41 are foreign banks. Of the total, 41 banks are listed with a total market Capitalisation of RS 9.35 trillion (US $ 158.16 billion) as per the recent statistics.

3.15 KEY STATISTICS

According to RBI’s quarterly statistics on Deposit and credit of scheduled commercial banks, September 2012, Nationalised banks accounted for 52.01% of the aggregate deposits, while the SBI and its associates accounted for 22.3%. The share of new private sector banks, old private sector banks, foreign banks and Regional Rural banks in aggregate deposits was 13.6%, 4.8%, 4.3% and 2.9% respectively.

Nationalised banks accounted for the highest share of 50.9% in gross bank credit followed by state bank of India and its Associates (22.1%) and new private sector banks (14.7%). Foreign banks, old private sector banks and Regional rural banks have their shares around 4.9%, 4.9% and 2.6% respectively.
India’s foreign exchange reserves stood at US $ 280.189 billion for the week ended July 12, 2013, according to data released by the central bank. The value of foreign currency assets (FCA) – the biggest component of the FOREX reserves stood at US $ 252.14 billion, according to the weekly statistical supplement released by the RBI.

The number of mobile banks transactions doubled to 5.6 million in January 2013 from 2.8 million in January 2012. The value of these transactions increased three times to Rs 625 crore (US $ 105.73 million) during the month from Rs 191 crore (US $ 32.31 million) in the corresponding month last year. Moreover, Non – Resident Indians (NRIs) parked deposits aggregating US $ 14.18 billion in the financial year ended March 2013, depicting an increase of 19% over the previous year.

3.16  RECENT DEVELOPMENTS

1. India’s leading infrastructure development and finance company Infrastructure Leasing and Financial Services limited (IL & FS), has linked a Memorandum Of Understanding (MOU) with industrial and commercial bank of China (Asia) limited (ICBC (Asia)), for mutual co-operation in infrastructure project development services and financial services related thereto.

2. The agreement envisages a scope of co-operation between the two financial entities for providing infrastructure project development services, including financial services relating thereto, trade, corporate banking, Investment banking and treasury related services, debt raising, advisory and other forms of permissible economic co-operation for such projects across northern and eastern Asia and is expected to facilitate
more business opportunities for both the institutions in these geographies.

3. Meanwhile, standard chartered bank has announced that it will buy US-based Morgan Stanley’s domestic private wealth Management business. The deal, to be completed by the end of 2013, would boost Standard Charterer’s private wealth assets under management by 25% or about US $ 750 million.

4. Making another milestone in achieving financial inclusion, Vodafone India and ICICI bank have partnered to launch a mobile money transfer and payment service, M-Pesa. The service will allow customers to transfer money to any mobile phone in India, remit funds to bank Accounts, deposit and withdraw cash from designated outlets, pay utility bills, and shop at select merchant establishments.

The new service will initially be offered in west Bengal, Bihar and Tharkh and through 8,300 authorised agents. It will be made available across India by 2014-2015.

1. Public sector lender SBI intends to make a strong position in refinance market in 2013. The bank offers lowest lending rates for buying homes. The fast growing market of ‘Home loans transferred from other banks consists 25% of the total home loans disbursed by the bank in FY 13. SBI made Rs 30,000 crore (US $ 5.08 billion) of home loans in 2012-13.

2. Meanwhile, US-Based Customers Bancorp Inc (CUBI) has plans to infuse US $ 51 million in multiple in multiple securities of Religare Enterprises ltd. Religare is currently aspiring for a banks licence to enter the banking industry.
3. The investments will take place through a combination of primary and secondary market transactions.

3.17 BANKING INDUSTRY VISION

Emerging Economic Scene

The financial system is the lifeline of the economy. The changes in the economy get mirrored in the performance of the financial system, more so of the banking industry. The Committee, therefore felt that it would be desirable to look at the direction of growth of the economy while drawing the emerging contours of the financial system. The “India Vision 2020” prepared by the Planning Commission, Government of India, is an important document, which is likely to guide the policy makers, in the years to come. The Committee has taken into consideration the economic profile drawn in India Vision 2020 document while attempting to visualise the future landscape of banking Industry.

India Vision 2020 sees a nation of 1.3 billion people who are better educated, healthier, and more prosperous. Urban India would encompass 40% of the population as against 28% now. With more urban conglomerations coming up, only 40% of the population would be engaged in agricultural sector as against nearly two thirds of people depending on this sector for livelihood. Share of agriculture in the GDP will come down to 6% (down from 28%). Services sector would assume greater prominence in the country’s economy. The shift in demographic profile and composition of GDP are significant for strategy planning’s in the banking sector.

The India Vision document of Planning Commission envisages Foreign Direct Investments (FDI) to contribute 35% (21% now) to gross capital formation of the country by 2020. Government has announced a policy
to encourage greater flow of FDI into the banking sector. The recent amendment bill introduced in Parliament to remove the 10% ceiling on the voting rights of shareholders of banking companies is a move in this direction. The working group expects this to have an impact on the capital structure of the banks in India in the coming years.

3.18 CONCLUSION

The concept of banking sector origin has passed various hurdles and strains. At present the banks in India, particularly in four zones like Chennai, Coimbatore, Salem and Trichy have started many banks with many branches, and with many ATM Centres and they have also realized the importance of marketing their services. But still many banks are not sure about the expectations of the customers. They are not aware of the satisfaction levels of the customers who are utilizing their services. This current study emphasises the parameters to be considered by the banks for framing their marketing strategies effectively.