CHAPTER-II

INDIAN BANKING:
AN OVERVIEW
A. Origin and evolution of banking in India

At the outset, it will be quite pertinent to study the origin and evolution of banking in India with special reference to financial sector reforms, its structure as it stands now.

In 1786, the English Agency Houses had established the Bank of Bengal at Calcutta. This heralded the beginning of modern banking in India. Subsequently, three Presidency Banks were set up, one each at Calcutta (1806), Bombay (1840), and Madras (1843). Till 1862, these Presidency Banks were allowed to issue currency notes. The banks in existence during that period opened branches in various cities and towns like Agra, Bombay, Madras, Banaras, Simla and Delhi.

**From 1860 to 1900**

In 1860, the concept of limited liability was introduced in banking. As a result, several joint stock banks were floated. Some of the prominent joint sector banks thus established were: (a) The Allahabad Bank, (b) The Alliance Bank of Simla (c) The Oundh Bank and (d) The Punjab National Bank. Thus, by the end of 1900, there were three classes of banks in India: (i) Presidency Banks numbering 3 (ii) Joint Sector banks numbering 9, and (iii) Exchange Banks or Foreign Banks numbering 8.

**From 1900 to 1950**

The Swadeshi movement started in the early 1900s gave stimulus to the growth of indigenous joint stock banks. Some of the banks established during the period
were: (i) The Peoples' Bank of India (ii) The Bank of India (iii) The Bank of Baroda, and (iv) The Central Bank of India. In 1921, three Presidency Banks were merged and formed the Imperial Bank of India. On the eve of Independence in 1947, there were 648 commercial banks comprising 97 scheduled and 551 non-scheduled banks. The number of offices of the banks stood at 2987, total deposits at Rs.1080 crores and advances at Rs. 475 crores.

During this period, the Indian joint stock banks specialized in providing short-term credit for trade in the form of cash credit and overdraft facilities. Foreign exchange business remained the monopoly of foreign banks. Between 1900 and 1925, many banks failed. The Central Banking Enquiry Committee, which was constituted by the Government of India in 1929 to examine the relevance of establishing a central banking authority for India, mentioned in the course of its discussion, some important reasons responsible for the failure of banks. They were: (a) insufficient capital, (b) poor liquidity of assets, (c) combination of non-banking activities with banking activities (d) irrational credit policy and (e) incompetent and inexperienced directors.

On the basis of major recommendations of the Central Banking Enquiry Committee, the Reserve Bank of India Act was passed in 1934 and the Reserve Bank of India (RBI) came into existence in 1935 as the central banking authority of the country. In 1949, the Banking Regulation Act (BR Act) was passed which provided the framework for the RBI's regulation and supervision of banks. The Act empowered RBI to regulate, supervise and develop the banking system. Such
powers encompassed the establishment of new banks, mergers and amalgamation of existing banks, opening of new branches, closing of existing branches and shifting of existing branches to other locations. The Act also empowered RBI to effect on-site inspection of banks. During the period following 1949, RBI attempted to institutionalize the savings of the public and to adapt a credit system suitable to the emerging needs of the economy.

From 1950 to 1969

During this period, two important developments took place. First, the All India Rural Credit Survey Committee, which examined the issue of credit availability at the rural areas, recommended the creation of a state partnered/sponsored bank entrusted with the task of opening branches in the rural areas. Accepting the recommendation, the State Bank of India Act, 1955 was passed, under which RBI took control of the Imperial Bank of India and renamed it as State Bank of India (SBI). Later in 1959, the State Bank of India (Subsidiary Banks) Act was passed enabling SBI to take over eight princely-state-associated banks as its subsidiaries. They were: (i) State Bank of Bikaner, (ii) State Bank of Hyderabad, (iii) State Bank of Indore, (iv) State Bank of Jaipur, (v) State Bank of Mysore, (vi) State Bank of Patiala, (vii) State Bank of Saurashtra, and (viii) State Bank of Travancore. Later on, of these, State Bank of Bikaner and State Bank of Jaipur merged into one bank and formed State Bank of Bikaner and Jaipur. The conversion of the Imperial Bank of India into State Bank of India and the
constitution of the associate banks accelerated the pace of extending banking facilities across the country.

Secondly, the need to bring about wider diffusion of banking facilities and to change the uneven distributive pattern of bank lending was realized. In view of the relative priorities of developmental needs and for ensuring an equitable and purposeful distribution of credit, the scheme of Social Control over Banks was announced in the Parliament in December 1967. The measures designed under the Social Control aimed at achieving a social orientation of banking within the framework of the then existing ownership. The National Credit Council was set up in 1968 to assess the demand for bank credit from various sectors of the economy and to determine their respective priorities in allocation.

The period witnessed further consolidation in banking. At the launch of the First Five Year Plan in 1951, there were 566 commercial banks consisting of 92 scheduled and 474 non-scheduled banks. In 1969, total number of banks declined to 89 out of which 73 were scheduled and 16 were non-scheduled.

**From 1969 to 1990: Era of Nationalization**

The Indian banking scene underwent significant changes during this period. Several structural and functional changes took place. In July 1969, the Government of India nationalized 14 major scheduled commercial banks, each having a minimum aggregate deposit of Rs. 50 crores. They were: (i) The Central Bank of India, (ii) The Bank of India, (iii) The Punjab National Bank, (iv) The Bank of Baroda, (v) The United Commercial Bank, (vi) The Canara Bank, (vii)
The United Bank of India, (viii) The Dena Bank, (ix) The Syndicate Bank, (x) The Union Bank of India, (xi) The Allahabad Bank, (xii) The Indian Bank, (xiii) The Bank of Maharashtra and (xiv) The Indian Overseas Bank. According to the Bank Nationalization Act 1969, the objective and reasons for the nationalization were: “an institution such as the banking system, which touches and should touch the lives of millions has to be inspired by a larger social purpose and has to subserve national priorities and objectives such as rapid growth in agriculture, small industry and exports, raising employment levels, encouragement of new entrepreneurs and the development of the backward areas. For this purpose, it is necessary for the Government to take direct responsibility for expansion and diversification of banking services and for the working of substantial part of the banking system”. The acquisition of ownership of banks was thus to enable banks to play, more effectively, the role of key agent for the economic growth by extending banking facilities to the most deserving classes.

Again, in 1980, the Government of India nationalized another six banks, (each having deposit of RS. 200 crores or above. They were: (i) The Andhra Bank Ltd. (ii) The Punjab and Sind Bank Ltd. (iii) The Corporation Bank Ltd. (iv) The Oriental Bank of Commerce Ltd. (v) The Vijaya Bank Ltd. and (vi) The New Bank of India Ltd. (The New Bank of India Ltd was merged with Punjab National Bank in the nineties).

Another important structural development was the formation of the Regional Rural Banks (RRBs). In 1973, the Government of India had set up a working
group to study the credit availability at the rural areas. The working group identified various weaknesses of the co-operative credit agencies and commercial banks and concluded that they may not be able to fill the regional and functional needs of the rural credit system. Therefore, the Study group recommended a new type of institution, which combined the rural touch, and experience of cooperatives with the modernized outlook and capacity to mobilize the deposits. Such an institution can carry on banking business within the local limits specified by the Government through notification. The Government of India accepted this recommendation and permitted the establishment of Regional Rural Banks (RRBs). The RRBs are state sponsored, region-based, rural oriented commercial banks, set up under the Regional Rural Banks Act 1976. Their ownership vests with the sponsoring commercial banks, the central government, and the government of the state in which they are geographically located. Under this policy, 196 RRBs were set up in the country.

**From 1990 onwards: Era of Reforms**

In 1991, the Government of India launched an extensive economic reform programme. As a part of this, reform measures were introduced in the financial sector. The financial sector reforms were based on the recommendations of the ‘Committee on Financial Sector Reforms 1991 (Narasimham I)’ and the ‘Committee on the Banking Sector Reform 1997 (Narasimham II)’. The main objective of the reform was to promote efficiency of the banking system through competitive forces. The strategy adopted was to improve operational efficiency of
the banking system and to impart functional autonomy through reduced interventions of the regulator (RBI) in the working of the institution. Reform measures not only imparted greater transparency in dealing and reporting by the entities but also integrated various segments of the financial system such as money market, debt market, foreign exchange market and capital market.

B. Commercial banks in India

Introduction

Banks operating in India can be broadly classified into two categories viz. commercial bank and co-operative banks. Within the category of commercial banks, there are of two types of banks namely scheduled commercial banks (i.e. which are listed in Schedule II of the Reserve Bank of India Act 1934) and non-scheduled commercial banks. Depending upon the pattern of ownership, commercial banks can be classified into three groups. They are (i) Public Sector Banks which include the State Bank of India, its Associate Banks and Nationalized Banks (Annexure-14), (ii) Private Sector Banks consisting Indian Private Sector Banks (which can be sub-divided into two i.e. banks existing prior to 1991 and the banks established after 1991 (Annexure-15), and Foreign Banks operating in India (Annexure-16), (iii) Others comprising Regional Rural banks and Local Area Banks.

Banking industry in India is generally dominated by Public Sector Banks. They (PSB) have a countrywide network of branches and account for over 70 per cent of total banking business. They have strong presence in rural and semi-urban
areas. Compared to Public Sector Banks, Private Sector Banks and Foreign Banks are more techno-savvy and have limited number of branches. The Regional Rural Banks (RRBs) are sponsored by public sector banks and their activities are localized.

Economic reforms and latter

The economic reforms of 1991 are a defining moment in the Indian economic history. It has brought about irreversible changes in several sectors of the economy. The early initiatives of the reforms focused on external sector, industrial sector and financial sector. Consequently economy has been opened up, rupee has been made fully convertible on current account, customs duties have been brought down, industrial licensing has been abolished, foreign capital is being permitted in hitherto closed areas and communications revolution took place. Technology has become harbinger for growth. Liberalization of financial sector has compelled all the players to redefine what business they are in and strategically think how to stay ahead in the existing business.

Impact of economic reforms on banking

The post-reform era has been full of challenges and achievements. All banks followed the policy of growth with consolidation. With reference to banking sector, CRR and SLR have been brought down to 5% and 25% respectively. Throughout the decades of 70s and 80s, banks were struggling to find funds for increasing their lending operations. Consequent on liberalization and opening up
of the economy, banks are experiencing excess liquidity. As a result, interest rates on both deposits and advances steeply declined with adverse impact on net interest margin. Banks are advised by RBI to strengthen their balance sheets in line with stringent norms of asset classification, income recognition and capital adequacy. Simultaneously, banks have been computerizing their operations on a large scale and a technological transformation and convergence are the buzzwords today in the financial sector.

The reforms have placed the customer in the driver seat for development. Most of the organizations especially banks have been used to operate in well-demarcated boundaries, administered prices and common rules for all the competitors. But the reforms have created growing choices for the customers. Understanding the customer, in such a context, is difficult. Retaining him is even more so.

**Partial privatization and disinvestment of nationalised banks**

Partial privatization of the nationalized banks is a major development in the banking sector as a result of the reforms. The government permitted not only disinvestments of the portion of its equity in nationalized banks, but also permitted public issue of fresh equity by these banks. Both these moves paved the way for a substantive in-take of private equity into these banks and sizeable reduction of the percentage of government holding in the equity of these banks. State Bank of India was the first public sector bank to go in for a massive public issue, which resulted in a significant reduction in the share of the government holding in the equity of the bank. Other banks in the SBI Group like State Bank of
Travancore and State Bank of Hyderabad and other nationalized Banks like Bank of India, Dena Bank, Syndicate Bank, and Indian Overseas Bank, Allahabad Bank, Andhra Bank, Canara Bank and others followed suit. With the partial privatization of the nationalized banks, the banking sector environment in the country underwent rapid changes.

New private sectors banks

The reforms, witnessed the emergence of a number of new private sector banks (NPSBs). The norms for issue of licences for fresh banks in the private sector had been considerably relaxed. Many industrial houses and financial companies in the country applied for permission to start new banks. In fact, the RBI had received as many as 123 such applications within a few months of the relaxation of the policy. To start with, the RBI gave approval to ICICI, HDFC, UTI, HDFC, IDBI, 20th century finance, the global Trust Group, the times group and the Indusind Group for setting up new banks in the private sector. All of them set up their banks without losing any time and together they ushered in an era of new competition in the banking industry.

These private sector banks are more enthusiastic to provide a whole range of services such as round the clock ‘bank-on-phone’ services i.e. tele banking, desktop banking, relationship banking, any time money service, electronic transfer of funds, providing automatic terminal in select corporate office that enable them access their bank accounts from their very own premises, etc.
For better and qualitative services to the customers, the new private sector banks have concentrated on modern techniques of banking. Modern and technically innovated system of banking operations needs a thin staff structure. The bank ensures that on one hand the staff structure remains thin and on the other hand these staff members are superlatively trained and skilled. They make it possible by emphasizing on inducting leader staff and eliminating clerical staff.

**Role of foreign banks**

Most foreign banks perform essentially the same range of services as local banks, except that their focus in terms of product and customers may be different due to their limited branch network. In addition, some foreign banks have been introducers or provider of 'de novo' financial engineering products –such as swaps, electronic funds transfer etc. The foreign banks bring in technology and product expertise and help the introduction and assimilation of international products into domestic markets. They import ideas & systems and adapt them to the local environment. They help introduce a high degree of professional management and marketing concept into banking. The presence of these banks helps easily to provide Indian corporate and government agencies access to international markets. The main advantage of the foreign banks lies in the excellence of their services. Their services are designed to enable the customers get the maximum returns.
Capital market, FI, MF and NBFC

In the liberalized regime, companies start raising equity from the capital market for many purposes, besides capital projects. For example, they now look to the equity route for raising funds for repaying borrowings and augmenting working capital. And this means new competition for banks as hitherto the companies were depending on the banks for such fund requirements. Later on, when the equity route became difficult with the slump in stock market, the companies look to the debt route. In either case, they are concentrating on the capital markets. And in both the cases, banks are the ultimate losers. Financial institutions too, give stiff competition to banks, as they could offer more attractive interest rates and therefore, mobilize deposits and bonds. Besides, banks have to face competition even from the mutual funds, especially the newly emerging private mutual funds. Competition from non-banking financial companies (NBFCs) makes the situation more precarious. NBFCs are able to manage the changes arising from the liberalization much more diligently compared to the banks. Moreover banks especially public sector ones, have to operate under several constraints, while the NBFCs enjoy greater freedom. Banks are, in particular, losing out their non-resident Indian (NRI) deposit accounts to NBFCs.

Deregulation of interest rates

Earlier, interest rates on bank deposits were strictly controlled by Reserve Bank of India (RBI). With the reforms, RBI started loosening its control on the deposit interest rates. First, it reduced the multiplicity of rates. Then it permitted the banks
to make differentiated offers on deposits within separated parameters. Subsequently, the RBI deregulated the matter further. It also deregulated interest rates on deposits of NBFCs. As a result, competition started growing with respect to deposit mobilization. Similar is the position for advances also.

These are only a few of the stiff competitions, the commercial banks are facing. These banks are at cross roads, with increasing disintermediation, automation, growing customers expectation, competition from new generation private sector banks & foreign banks, assets liabilities management coupled with stringent prudential accounting norms etc. Banking has become more & more complex. Bottom line of many public sector banks is at strain. With liberalization process set in motion by the Government, the banks have to survive on their own with no capital support forthcoming from the Government. The situation is one of ‘survival of the fittest’.

With every commercial bank trying to attract & catch the best & profitable business available in the market, the bank that is able to serve the customer beyond his expectation, will only survive. The banks that do not rise up to the expectation of the customers have to ultimately go out of the business. Now ‘customers’ are the focal point of all types of banking activities. Banks have to innovate & devise the products and services, which are most suitable & convenient to any particular customer-segment.
Strategic planning in banks

With all these developments as enumerated above in banking sectors, particularly in public sector banks; things have become more difficult than before. The pertinent question before them is how to go about the task of transformation and emerge as a competitive, efficient and modern banking system capable of effectively serving the needs of the changing economy and in the process, securing their own prosperous existence.

Certain basic issues before them are:

What business they are in?

Who is their customer?

What products does he want from them?

At what price/terms does he want it?

What service level does he expect?

Who are their competitors within and outside the banking industry?

What is the nature and intensity of the competition?

In the new context what should be their mission and business scope?

What kind of growth should be sought?

What opportunities do they see?

What threats do they face?

What should be their strategy?

These are the questions any strategic planner raises as a part of the strategic planning process. Some of these questions relate to corporate mission and
business definition. Banks have to raise these questions and recast their mission and business definition.

Even the Narasimham Committee report has spoken of the need to recast the mission and business definition of banks. The other questions tackle objectives and strategies. Suffice to state here that the challenges that stared at the public sector banks in the post-reform period are all in the realm of business planning and strategy formulation. They are the direct outcome of the all round environmental transformation brought by the economic reforms.

Every bank is alive to this situation. Each bank devises products and services demanded by the market to suit specific customer segment. Understanding the customers has always been a major task. With multiple options available, retaining a loyal customer base will be an overwhelming challenge. Banks will be seeking to segment more precisely in order to generate differential pricing strategies, such as that of rewarding profitable and low risk customers. Banks will also need to develop product throughout the span of a customer’s need-cycle so as to retain him. Competition is peaking unprecedented height. With universal banking concept catching up and with advent of latest technology, automation & latest management thoughts; certainly the banking scenario will be brighter in the coming days.

**Marketing of products and services**

Today, marketing has become an important word for business organizations world over. Those who understand the significance of marketing and adopt appropriate
strategies will only flourish in a highly competitive business environment. For a service organization like banks, good customer service is an equally important dimension. The customer today not only has multiple and complex needs, but is also conscious of his rights and privileges. For banks in India, there will not be much of differences either in products or in pricing. The only difference will be sustained marketing efforts, efficiency of operations and good customer service. This will provide the value addition needed for customer to choose the bank.

Pricing of banking services

Banks offer various services to customers at their specified branches—multicast/payable at par cheque facility, any where banking facility, trade services, phone banking facilities, internet banking facilities, credit card, ATM card, mobile banking, electronic funds transfer and Real Time Gross Settlement (RTGS) etc. Several banks are expanding the number of products such as derivatives, e-see banking and leverage financing etc. Private banks are extending HNI (High net worth Individual) services including door step banking, wealth management, insurance and equity trading.

The pricing mechanism of banks is dependent on client relationship, size, and the nature of the transactions. Profiling of customers with different segments is of great help for arriving at appropriate pricing. Broadly the segments comprise of large corporate, brokers, Small and Medium Enterprises (SMEs) and retail segments. The large corporate segments comprise on the basis of the nature of transactions and bank’s relationship. Hence this segment is priced differently and

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then the SME segment where the transactions typically are of low value and high volume. In the retail segment, the bank publishes its tariff by way of service charges schedule.

The banks are witnessing a growth in their non interest or fee based incomes. With interest spread decreasing, banks have little option but to ramp up their revenue from the fee based income. Treasury income of public sector banks is no longer the major revenue driver and has been coming down as result of rising interest rates. Volatility of interest rates is compelling banks to increase their fee based income. Fee based income consists a major portion of a bank’s other income. The ratio of other income to total income is an indicator of the size of fee based income.

Banks price their service such a way that it should be reasonable and fair both from customer point of view as well as from bank’s profitability point of view.

**Internet banking**

Internet banking involves use of Internet as a medium of communication for accessing and utilizing host of banking and financial services. The customer’s demand for personalized service and the concept of “anywhere & anytime banking” has made “internet banking” as one of the primary delivery channel available to present day customers.

As a business tool, internet banking is rapidly transforming the banking and financial world and has made banks more efficient and fast in providing personalized services to the end users i.e. the customers. Internet banking has not
only transformed the “ways” of banking but also all the aspects of the finance and commerce. Internet banking has predominantly become a new delivery mechanism for the banks in reaching the customers. With the advent of internet banking, there is a perceptible shift in the customer preferences of the delivery channels. According to a study in USA by the Pew Internet & American Life Project, about 44 percent of the U.S Internet Surfers- i.e. 53 million people use online banking.

In India, new generation private sector banks namely ICICI Bank, HDFC Bank, IDBI Bank, UTI Bank etc. are pioneers in introducing internet banking. They have the advantage of technology platform and also don’t have ‘legacy problems’. Incase of public sector banks, with the technology transformation in recent years, many of them have started offering the internet banking facility to their customers. Advancement in technology used by banks, especially centralized Core Banking Solution (CBS), and growth of internet usage are propelling the growth of internet banking. This is supplemented by the wide range of services possible through internet banking, anywhere-anytime at the click of the mouse at customer’s convenience.

Apart from providing routine banking services, internet banking has enhanced capabilities like providing online utility bill presentment and payment systems, online share trading, demat and brokerage services, online purchases and auctions, funds management and payment gateway.
Thrust on rural credit

In the aftermath of reforms, rural credit has not increased to the desired extent. RBI and Central Government have been consistently advising banks to lend more to agriculture and other activities in rural areas. Because of continuous thrust for lending to agriculture sector, banks have enhanced credit to the tune of Rs.120000 crores. This is a major turn around in lending to rural areas. This is to be sustained in future also. It must be recognized that without development of the rural areas India cannot banish poverty. Availability of institutional credit at low affordable rates would only accelerate the development process leading to greater social equality. Rural lending is a ‘great opportunity’ at the present juncture for the following reasons:

(i) Vital historical linkages

The current scenario offers vast opportunity for the nationalized banks and old private sector banks with large branch network in rural and semi-urban areas. The gap between demand for and supply of institutional credit is very wide in rural and semi-urban areas. Many of the semi-urban branches are located in bigger villages. Such of these branches are classified as semi-urban because population of these villages is more than ten thousand according to 1991 census. For all practical purposes, these are rural branches. These rural/semi-urban branches have established vital linkages and inherent advantages have to be converted into a profitable opportunity by the commercial banks. The distinct advantage of rural branches lies in their intimate knowledge of the people and the business potential
of command area. This vital piece of information will help banks in rural areas to lend profitably. The time and cost of due diligence in rural and semi-urban areas is relatively less as compared to urban and metro areas. The traditional ethics are generally intact amongst a large section of rural/semi urban population. The historical linkages coupled with traditional ethics offer a unique advantage to the existing rural and semi-urban branches in expanding their business.

(ii) Technology advantages

Technology is a big boon to the present day commercial banker. It was not available to the banker of 70s and 80s. Information and communication technologies have to be leveraged to serve the customers in general and rural customers in particular. Traditional money lender offers wide range of products to the rural borrower while charging higher interest rates. Commercial banks have to leverage technology on a greater scale to bring down the cost of borrowing. Once the cost is brought down, the possibility for arbitrage would diminish, luring greater number of rural borrowers to migrate to formal banking system from the traditional money lender.

Smart Cards, CDMA technology, ATMs and Credit Cards are some of the new products that can be introduced in a large scale. One major advantage of technology is that: as the number of users becomes large, the transaction cost would come down sharply. New generation private banks like ICICI Bank and YES Bank are making successful forays into rural lending by leveraging technology.
(iii) **Forward and backward linkages**

One area where traditional money lender is superior to that of bank is with regard to input/output chain. The traditional money lender supplies inputs like seeds, fertilizers and also gets repayment by way of produce which banks are unable to provide. Now technology would enable the banks to penetrate into these activities also. For example, traders of seeds and fertilizer would be having accounts with one commercial bank or the other. Instead of giving cash, by lending through smart cards and keeping the point of sale terminal with bio-metric facilities at the input seller’s premises, banks would be able to achieve many objectives such as reduced transaction cost, ensuring the purchase of inputs, giving customer convenience etc. Similarly, through financing marketing chains, banks would be able to ensure better prices to farm produce leading to value addition etc.

(iv) **SME sector and value addition**

Unemployment in general and rural unemployment in particular, is the cause of socio-economic discontentment. Admittedly, Government and organized sectors are not in a position to generate adequate employment to meet the unemployment problem to the fullest extent. Financing self employment ventures for value addition to the agricultural products would be another area banks can concentrate. India is the second largest producer of rice and wheat in the world, first in the pulses production, fourth in coarse grains and second largest producer of fruit and vegetables. New technologies are emerging to preserve these products and also
for value addition. By financing these activities, banks can generate better profits for themselves while making the country more competitive in several aspects.

(v) Self Help Groups (SHG)

Self help groups have time and again demonstrated their ability to improve the standard of living of the disadvantaged sections of the society. Banks, by working with SHG can productively lend and alleviate poverty successfully.

(vi) Financing tenant farmers

Many farmers and landless laborers are cultivating lands through formal and informal tenancy. By forming farmers groups like that of Self Help Group, many banks are financing tenant farmers. This can be replicated on larger scale.

On the whole, an in-depth study of operations of public sector banks gives an impression that the nationalized banks now serve as an instrument of national policy of growth with social justice and, not as an agency of business houses. The results have however revealed certain disquieting features and the dimensions of the challenges; have vastly increased. True, the nationalized banks have made special efforts in opening branches in the rural and semi urban areas and the main springs of development are derived from thrift, austerity, entrepreneurship, technological progress, work discipline, social responsibility and social accountability. The future functioning of the banks has to be viewed in this perspective.
Reorientation of human resources

In the new seamless world market that is emerging as a result of deregulation and liberalization, human resources is the most important asset of the banking industry. Service industry like banking, is posting the highest growth in India and it is a place where interaction with customers is probably the highest. Banks that will emerge winners are those which will use all their employees and their skills all the time, focus on speed and action, break barriers to foray into new areas and create bench marks instead of playing by the rules.

When the challenges are new, responses can not continue to be old. To meet the new challenges banks are keen to devise novel ways of meeting the customers' demands. Banking is probably the only profession where employees start learning the job after securing one. In a service industry like banking, human resources occupy crucial role in extending qualitative services needed for business development. From generalist orientation the focus may shift to specialist orientation in the banking field. A variety of new competencies at various levels including top management level are implemented. Many specialists in technology and financial services are employed. Now the focus is on the followings:

- Increased concern for quality services and products
  - Innovativeness to remain competitive
  - Single window operations

It becomes imperative that for meeting the challenges and opportunities in future, there is a great need for changes in the mind-set of the human resources available
in banks. In this context, training assumes paramount importance in updating the skills to face the emerging challenges. Assessment of the training needs and designing ways for achieving them is absolutely necessary and the staff will have to improve their own skills and resources in meeting the new requirements. With the entry of private banks and foreign banks, the system of hire and fire may become unavoidable. In the competitive environment it may not be conducive to continue with age old Indian practices. Attitudes and aptitudes of bank personnel need to undergo radical transformation to meet the future challenges in the industry with the gradual privatization of state-owned banks. Globalization of Indian banking also put strains on the human resources who have to adopt flexibility to face the challenges to build strong, vibrant and sound banking system in India. Human resources departments in banks need to be actively involved in preparing appropriate man power plans and strategies. Reorganization, re-structuring and reengineering are needed for meeting challenges. Succession manpower plans also become important and inevitable. More objective and transparent policies even in routine personnel functions such as transfer and placement are implemented.

In the above mentioned scenario, there has been perceivable change in the mindset of the entire workforce of banks; from the lowest employee to the top most executive and also Government, IBA and RBI. One positive aspect is that there has been focus on internal customers (i.e. employees); and improving the satisfaction of their needs and expectations to enable them work whole heartedly
for improving (external) customers’ satisfaction. All the employees need to believe that they are all internal customers of each other and interdepartmental relationship should be enhanced with customer service in mind.

**Banking Industry – Vision 2011**

The traditional banking functions would give way to a system geared to meet all the financial needs of the customers. One could see the emergence of highly varied financial products, which are tailored to meet specific needs of the customers in the retail as well as corporate segments. Some banks might emerge as specialist in mortgage products, credit cards etc. whereas others may choose to concentrate on particular business system while outsourcing all other functions. Banks would use multiple delivery channels to suit the requirements and tastes of customers. The emphasis would be more towards fee based services rather than lending operations. Use of intermediaries or franchise agents could emerge as means to reduce transaction costs.

- Technology: It would be the key to the competitiveness of banking and finance system. In future, the banks have to be essentially marketing organizations; which also sells banking products. Customers will prefer more of e-banking products and would like to operate from their residences through internet, mobile banking etc.

- Pension products: The pension products as in the case of insurance products have immense growth potential in India due to large number of pensioners. It is possible to acquire a good market share by focusing and excelling in this area.
-Rural market: If one wishes to gaze into the India of 2011, he will see a land of one-and-a-quarter billion consumers, many of them with rural back ground, with real choices that they exercise with earthy common sense. These consumers will have money that will attract many from all over the world. Mahatma Gandhi used to say, "India lives in villages". Although seven out of ten Indians live in villages, bankers in general behave as though it is a world separate from them. Now banks have enlarged their role functions and range of services so as to emerge as 'one stop shop' for all types of credit requirements.

-Housing: The market for housing in India is worth Rs.150000 crores. Banks are aggressive in this niche segment especially in rural areas where others fear to tread.

-Employees in unorganized sector: Another development will be the rapid rise of employment in unorganized sectors. By 2011 there will be 430 million workers in the unorganized sector and only 30 million in the organized sector. While organized sector employment will double in 60 years, in the unorganized sector it will increase by over three times. Banks have enormous scope to tap this burgeoning market.

-Products for women: The National Perspective Plan for women states that 94 percentage of women workers are engaged in the unorganized sector and 83 percentage of them are in agriculture & allied activities like dairy, animal husbandry, sericulture, handloom, handicrafts and forestry. Banks will certainly try to do something to improve their access to credit to this sector.
Micro credit innovations: The SHG-bank linkage has become a movement and banks have realized the potential in this vastly untapped segment. Micro credit is no longer a charity but a business proposition. With proper orientation, banks will market their products to this sector both in the deposit and credit front.