CHAPTER III

DEVELOPMENT OF COMMERCIAL BANKS IN INDIA - AN OVERVIEW
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The previous chapter discussed the conceptual framework of human resource management wherein the concept, definitions, scope, objectives and importance of human resource management have been thoroughly examined. Moreover, an attempt has also been made to highlight the significant areas of human resource management. The present chapter focuses on almost all the aspects of the growth and Development of commercial banks in India.

Introduction

Banking industry in India has traversed a long path to assume its present stature. It has undergone a major structural transformation after the nationalization of 14 major banks in 19th July, 1969 and again 6 more banks on 15th April, 1980 (Pandey and Kumar: 2005). During the last three decades of nationalization, there has been a phenomenal expansion of branch network, particularly in the hitherto under-banked rural areas. Besides, a massive qualitative change in the operations of banking system, has occurred and our banks have been called upon to assume a great variety of new responsibilities in the area of social banking for which there are no precedent or guidelines in the history of modern banking anywhere in the world (Singh: 1986). However, the journey has not all along been even and smooth. “There have been hurdles and impediments, stresses and strain but the dynamic fashion in which the banking industry has taken them in its stride and surged ahead only demonstrates its
resilience and interest potentialities as catalytic agent for social economic
development (Goiporia:1986). The history of the growth of Indian Banking, therefore,
makes an interesting reading. It covers in its scope from a small money lender with
limited resources and area of operation to a large joint stock bank with huge resources
and diversified business activities.

**Origin and Growth of Commercial Banks in India**

There seems to be no unanimity amongst the economists about the origin of
the World 'Bank'. According to some economists, the word 'Bank' has been derived
from the German Word 'BANC' which means a joint stock firm, while others say that
it has been derived from the Italian word 'BANCO' which means a leap or mound. As
a matter of fact, at the time of establishment of Bank of Venice in 1157, the Germans
were influential and hence, perhaps the word 'Banc' or 'Banco' was used by Italians
to denote the accumulation of securities or money with a joint stock firm which, later
on with the passage of time, came to be known as 'Bank'.

There is still another group of people who believe that the word 'Bank' has
been derived from the Greek work 'BANQUE' which means a bench. In the older
days Jews used to enter into money transactions sitting on benches in a market place.
When a banker was not in a position to meet his obligations, the bench on which he
was carrying on the money business was broken into pieces and he was taken as
bankrupt. Thus, both the words Bank or Bankrupt are said to have their origin from
the word 'Banque'.

However, the first view of the origin of the word 'Bank' from the words Banc
or Banco seems to be more convincing since it was used in the establishment of the
Bank of Venice which is supposed to be the most ancient bank. As a matter of fact, it was originally not a bank in the modern sense but simply an office for the transfer of public debt.

The business of banking is as old as the civilization itself. As early as 2000 B.C. the Babylonians had developed a system of banks. They used their temples for sending at high rates of interest against gold and silver which had been left with them for safe custody. Around the same time, the Greek temples were used as depositaries for people's surplus funds and these were the centers of money lending transactions. The priests of the temples acted as financial agents till they lost public confidence on account of people's disbelief in religion. The development of banking in ancient Rome resembled the Greek Pattern. After the death of Emperor Justinian in 565 A.D. the mighty Roman Empire failed resulting in serve damage to the banking business. It was only with the revival of trade and commerce in the Middle Ages that the lessons of finance were learnt afresh from the beginning. However, during this period, banking was mainly confined to money-lending activities which were largely in the hands of one Jews and the Lombardy who lent money to all. The Christians were forbidden by their religion to lend money on interest since it was considered to be a sinful activity. However, with the passage of time, the hold of Church on the Christians weakened and with development of process of trade and commerce around the 13th century, the Christians also started money lending business. They thus started giving keen competition to the Jews who had hitherto, monopolized the business.

In India, the ancient Hindu scriptures refer to the money-lending activities in the Vedic period. During the era of Ramayana and Mahabharata, the banking had become a full-fledged activity. During the Smrity period which followed the Vedic
period, the business of banking was largely carried on by the members of the Vaish community. They in this period performed many of the functions which a modern banker performs these days viz. accepting deposits, granting of advances, acting as banker to the state and issuing and managing currency of the country. However, in the ancient times, the main functions of the banks related to grating of loans to individuals or the state in times of crisis. Later on, they developed other activities which we now call as banking business. Smith (1776) rightly observed, "The earliest banks of Italy where the name began were finance companies to make loans to and float for the Government of the cities in which they were formed. After these banks had been long established, they began to do what we call as banking business, but at first they never thought of it". In the initial stages, the banking largely meant money-lending and it was restricted to selected number of families working as sole proprietary firms. The Bank of Venice founded in Italy in 1157 was the first public banking institution. The Bank of Barcelona (Spain) was established in 1401 followed by Bank of Geneva in 1407. The Bank of Amsterdam was established in 1609. All these banks accepted the deposits which could be drawn on demand or transferred from the account of one person to another. In England, the development of business of banking can mainly be attributed to the London Goldsmiths during the region of Queen Elizabeth I. They used to receive their customer's valuables and funds for safe custody. Their receipts acknowledging the same in the course of time became payable to the bearer on demand and hence enjoyed considerable circulation.

The business of Goldsmiths suffered a rude set back as a result of the ill treatment by Government of Charles II in 1640. The Goldsmiths used to deposit their funds/resources in the exchequers with the sanction and under the care of the
Government. However, King Charles II issued a directive in his regime that no payment would be made to the Goldsmiths and as a result; the Goldsmiths were ruined. However, the ruin of Goldsmiths proved a turning point in the history of English banking. It led to the growth of private banking and later on establishment of Bank of England in 1694.

The Goldsmiths mainly functioned in England. They received gold and silver for safe custody and the receipts issued by them acknowledging the same were initially used for withdrawals of the deposits made with them. These receipts, with passage of time, became payable to bearer on demand and enjoyed considerable circulation. In this way, the goldsmiths’ note became the fore-runner of modern bank note. Later on, when the goldsmiths started transferring of the deposits made with them on the basis of letters issued by the depositors, this led to the origin of modern cheque currency. Thus, in a way, the goldsmiths can rightly be termed as the fore-runners of the modern banking institutions.

The discussions of the previous studies show that though the banking business in this naïve form is in operation since ancient times, the banking in its present form is of recent origin. As a matter of fact, even after the establishment of Bank of England in 1694 (as stated earlier) in England, the development of modern commercial banking institutions had to wait even in England for nearly another one and half century, till the passage of Banking Act of 1833. Of course, the origin of banking and its development in some countries was earlier and faster. However, it was only in the 19th century that the modern joint stock commercial banking system developed in most of the leading countries of the world. In India, during the second half of the eighteenth century, Agency Houses used to perform banking business as an adjunct to
their main business. In the following pages an attempt has been made to trace the
developments in Indian banking industry during the following two periods i.e. before
and after Independence.

**Development of Commercial Banks in India before Independence**

Banking Institutions before independence primarily consisted of indigenous
banks, money-lenders, nidhis, loan offices etc. These institutions are, to some extent,
still popular in rural or semi-urban areas. In the last quarter of the 18th century, many
English agency houses also started banks on modern lines. In 1850, the passing of the
Joint Stock Companies, Act greatly helped in the establishment of many banks. Later
on in 1921, the Imperial Bank of India and in 1935 the Reserve Bank of India were
also established. All these developments have been explained by the researcher in
brief in the following paragraphs:

Indigenous bankers have existed in the Indian society since very ancient days.
They are individuals or firms dealing in hundis and sometimes accepting deposits
also. They generally combine banking with trading and commission business
activities. They belong to different-caste groups operating in particular areas like
Multanis and Marwari's operate mainly in Mumbai, Kolkata and Rajasthan, Guajaratis
and Bengalese in Calcutta, Chetties and Kalidakurichi Brahmins in Chennai etc. Most
of the indigenous bankers have their offices or branches in major business centers of
the country.

Indigenous bankers enjoy a prominent place among the various agencies
providing finance to trade, industries and business activities. They provide both short-
term and long-term loans to trade, industries and business activities. However, they
finance agricultural activities through the village money-lenders. The loans are advanced against all kinds of securities *viz.* gold, jewellery, land, promissory notes, hundis etc.

**Indigenous Bankers and Reserve Bank of India**

The Reserve Bank of India's efforts to regulate and provide facilities to the indigenous bankers has met with little success. As early as in 1937, the Reserve Bank of India in its report to the government agreed to provide certain facilities to indigenous banker provided they satisfied the following conditions (Maheshwari: 2002):

- The indigenous bankers would file proper statements, information etc. as was required from scheduled banks.
- The indigenous bankers would confine their business to 'banking' only. They were to close down, in a reasonable time, any other business activity.
- The Reserve Banks would have the right of regulating the business of indigenous bankers on the banking lines, if required.
- The indigenous bankers would maintain proper books of accounts get them audited and make them available for inspection to the Reserve Bank.
- The indigenous bankers would have a minimum working capital of Rs.1 Lakh, it was gradually to be increased to Rs.6 lakh within next five years.

These suggestions met hardly with any response from the indigenous bankers. In 1951 All India Shroffs' Conference again recommended for the linkage of indigenous bankers with the Reserve Bank of India. Moreover, in the changed
circumstances, the importance of indigenous bankers has also considerably declined. Thus, there seems to be practically no possibility, in the near future, of the indigenous bankers establishing some sort of support or link with the Reserve Bank of India.

Money Lenders have existed side by side with the indigenous bankers in our society since ancient days. They grant both secured as well as unsecured loans. The security may be land, house, personal jewellery or even crops to be grown. They have a better personal support with their clients as compared to the indigenous bankers and hence the borrowers are more punctual in payment of the loans granted by the money-lenders.

**Nidhis, Chit Funds and Loan Offices**

Nidhis are registered as companies under the Companies Act. They are semi-banking companies. They raise funds either through deposits in monthly installments or through withdrawal of share capital. Chit funds are mostly registered as companies or societies under the Companies Act or The Societies Registration Act. They work on a small scale and raise funds from a small number of persons and lend them to their members. They function basically as prize fund or chit fund companies. Loan Offices are mostly found in West Bengal. They raise their funds through deposits and lend money generally to zamindars and their tenant cultivators. Of late, these loan offices have also started trading and business activities for augmenting projects. As already stated, the money lenders and indigenous bankers are gradually outlining their utility. As a matter of fact, they played a significant role in the development of banking till pre-independence period.
European Banks

The history of modern banking in India dates back to the last quarter of 18th century when the English Agency Houses combined banking with their trading and business activities. The earliest European Bank was started by them in 1770 in the name of “Bank of Hindustan”. This was followed by setting up of the Bengal Bank in 1784, General Bank of India in 1786. However, all these banks failed sooner or later due various reasons. In order to cater to the needs of the foreign rulers, a number of quasi-government banking institutions were established. They included Presidency Bank of Bengal (1806), Presidency Bank of Bombay (1840) and Presidency Bank of Madras (1840). In 1921, all these banks were amalgamated to constitute Imperial Bank of India.

Indian Joint Stock Banks

The Joint Stock Companies Act, 1850 was the first legislative enactment in the century to mould the corporate sector into an organized system. It was extended to joint stock companies except banks. The year 1860, therefore, formed a new era in the history of banking industry in India when the principle of limited liability was first applied to joint stock banks. From 1860 till the end of the 19th century several joint stock banks came into existence. The first amongst them was the Oudh Commercial Bank established in 1881. It was followed by the Punjab National Bank Ltd., in 1895 and People's Bank in 1901. The Swadeshi Movement in 1905 gave great stimulus to the starting of Indian banks and several banks were established. They included the
Bank of India Ltd. (1906), the Bank of Baroda Ltd. (1908) and the Central Bank of India Ltd. (1911).

A study of early history of banking system in India reveals that the banking industry had grown through a series of origin and consequent bank failures. The situation changed completely after the country's independence due to several regulatory measures through the Banking Regulation Act, 1949.

**Imperial Bank**

There was a strong demand during the early years of 20th the Presidency Banks of Bengal, Bombay and Madras. The Imperial Bank was empowered to manage the clearing house and the Government funds. The function of issuing currency notes remained with the Government.

**Reserve Bank of India**

The Imperial Bank was intended to be gradually developed in a full-fledged Central Bank. However, the Hilton Young Commission, in 1926, recommended the establishment of a separate Central Bank in the country, known as Reserve Bank of India. Consequently, in 1927, a Bill was introduced in the Legislative Assembly, which was later withdrawn. Another Bill was introduced in 1933 which resulted in establishment of Reserve Bank of India in April, 1935 as the Central Bank of the country (Varshney et.al: 2005). After the establishment of the Reserve Bank, the Imperial Bank was authorized to function as a sole agent of the Reserve Bank at all places in India where the latter had no branches.
Development of Banks in India after Independence

The after independence period has witnessed a massive growth of the Indian Banking System. First step taken in this direction was nationalization of Reserve Bank of India in September, 1948. The nationalization caused a change in the outlook of the Reserve Bank of India as Central Bank of the country. It is the top monetary authority of the country, controlling all banking institutions.

In order to have sound and balanced growth of banking business in the country, the Banking Regulation Act, 1949 was passed by the Parliament. The Act has extensively enlarged the control of the Reserve Bank of India over the Banking industry. In 1955, Imperial Bank of India was nationalized and was renamed as State Bank of India. The scheme of social control was initiated by the government in December 1967 for more equitable and purposeful distribution of bank credit. On 19th July, 1969, 14 major Banks were nationalized followed by nationalization of 6 more banks on 15th April, 1980. The basic objective of nationalization was to see that no viable productive endeavour falters because of lack of credit support. Besides these developments, financial institutions for meeting specialized financial needs were also established. They include Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) for meeting long-term financial needs of large scale business industries. Similarly, for meeting the requirements of small scale industries, State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs) and Small Industries Development Bank of India (SIDBI) were established. In order to take care of the financial needs of sick industrial units, Industrial Reconstruction Bank of India (IRBI) (now renamed Industrial Investment Bank of India) was established. National Bank for Agriculture and Rural
Development (NABARD), Land Development Banks (LDBs), Regional Rural Banks (RRBs) etc. were established for taking care of credit needs of agriculture activities.

The Export Import Bank of India (EXIM) and Export Credit Guarantee Corporation of India (ECGC) were set up to take care of export and import needs. Recently, two important financial institutions namely National Housing Bank (NHB) and Discount and Finance House of India Ltd. (DFHIL) have been established to take care of housing finance and money market instruments respectively. Besides these institutions, which are mainly engaged in meeting the credit needs of various segments of the economy, there are a few other institutions viz. Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) etc., which are essentially engaged in investing money in the corporate, semi-government and government securities. The setting up of all these institutions has brought the Indian Banking System to a stage where it can be compared with the finest banking set up anywhere in the world. Each of the above developments is discussed in brief in the following pages.

Nationalization of Commercial Banks in India

First Phase of Bank Nationalization

The scheme of social control initiated by the Government in December 1967 was found to be unsatisfactory and inadequate by the Government. Hence, with a view to ensuring that banks were adequately motivated towards speedy achievements of the social objectives of meeting the legitimate requirements of the weaker sections of the Society, 14 major Indian Scheduled Commercial Banks, each with a deposit of Rs.50 Crores or more, were nationalized on the 19th July, 1969. Since the
nationalization of these banks, the geographical and functional coverage of commercial banks have increased at the rate which is unprecedented in the world (Bhaduria: 2003).

*Our Late Prime Minister Mrs. Indira Gandhi* to explain explicitly the Philosophy of bank nationalization had said that while the nation is committed to establish a socialistic pattern of society, the Government felt that the public ownership and control of the commanding heights of the national economy and of its strategic sectors were essential and important aspect of the new social order which we are trying to build. As the financial institutions are amongst most important levers of the achievement of its social objectives, the nationalization of banks was felt a significant step in the process of public ownership over the principal institutions for the mobilization of peoples’ savings and channelizing them towards productive purposes. The Government felt that the public ownership of the major banks will help in the most effective mobilization and development of national resources so that our objective can be realized with a great degree of assurance (Anjani: 1968).

The ‘corresponding new banks’ and the ‘existing banks’ whose business was taken over are as follows in the Table:

**Table – 3.1**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Existing Banks</th>
<th>Corresponding New Banks</th>
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</thead>
<tbody>
<tr>
<td>01.</td>
<td>The Central bank of India Ltd.</td>
<td>Central Bank of India</td>
</tr>
<tr>
<td>02.</td>
<td>The Bank of India Ltd.</td>
<td>Bank of India</td>
</tr>
<tr>
<td>03.</td>
<td>The Punjab National Bank Ltd.</td>
<td>Punjab National Bank</td>
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</tbody>
</table>
The Bank of Baroda Ltd. | Bank of Baroda
---|---
The United Commercial Bank Ltd. | United Commercial Bank (UCO Bank)
Canara Bank Ltd. | Canara Bank
United Bank of India Ltd. | United Bank of India
Dena Bank Limited | Dena Bank
Syndicate Bank Ltd. | Syndicate Bank
The Union Bank of India Ltd. | Union Bank of India
Allahabad Bank Ltd. | Allahabad Bank
The Indian Bank Ltd. | Indian Bank
The Bank of Maharashtra Ltd. | Bank of Maharashtra
The Indian Overseas Banks Ltd. | Indian Overseas Bank

Source: www.faqs.rbi.org.in

**Second Phase of Bank Nationalization**

After 11 years of the first phase of banks' nationalization, on 15th April, 1980 the President of India promulgated an ordinance to provide for the acquisition and transfer of undertakings of certain banking companies in order to further control the heights of the economy, to meet progressively, to serve better the needs of the economy and to promote welfare of the people in conformity with the policy of the state. The ordinance resulted in transferring the ownership of risk of six more Indian private sector banks each having deposits of Rs.200 Crores or more on the 31st March, 1980. The ordinance, later on, became an Act providing for the transfer of undertakings of these banks. The 'corresponding new banks' and the 'existing banks' whose business was taken over were as follows as in the Table (3.2).
Table-3.2

Statement of Existing Banks and Corresponding New Banks

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Existing Bank</th>
<th>Corresponding New Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>The Andhra Bank Ltd.</td>
<td>Andhra Bank</td>
</tr>
<tr>
<td>02.</td>
<td>Corporation Bank Ltd.</td>
<td>Corporation Bank</td>
</tr>
<tr>
<td>04.</td>
<td>The Oriental Bank of Commerce Ltd.</td>
<td>Oriental Bank of Commerce</td>
</tr>
<tr>
<td>05.</td>
<td>The Punjab &amp; Sindh Bank Ltd.</td>
<td>Punjab &amp; Sindh Bank</td>
</tr>
<tr>
<td>06.</td>
<td>Vijaya Bank Ltd.</td>
<td>Vijaya Bank</td>
</tr>
</tbody>
</table>

Source: www.faqs.rbi.org.in

The objectives of nationalization of banks are as follows:

- The operations of the banking system should be influenced by a social purpose and should be subject to close public regulation;

- Nationalized banks will actively foster the growth of the new and progressive entrepreneurs and create fresh opportunities for hitherto neglected and backward areas in different parts of the country;

- Mobilization of savings of the people to the largest possible extent and to utilize them for productive purposes in accordance with our plans and priorities;

- Use of bank credit for speculative and other unproductive purposes will be curbed;

- Bank staff will be provided training as well as reasonable terms of service;
> legitimate credit needs of private sector industry and trade, big or small, should be met;

> there will be development of adequate professional management in the banking field and modern managerial techniques and practices will develop;

> the emphasis on priority areas, new entrepreneurs and backward areas will not be at the cost of economic viability.

As a result of above nationalization, the total banks have increased to 27. These include State Bank of India, its seven subsidiaries and the nineteen nationalized banks exclusive of Regional Rural Banks. The above public sector banks accounted for about 91 per cent of the total deposits and credits of all commercial banks in April, 1980 (Annual Report, RBI: 1979-80). With such a large dominant and effective role in the development of the country's economy era of banking has already begun.

**Functions of Commercial Banks in India**

The functions of the public and private sector banks are now wide and diverse. They have assumed great significance as agents for economic renaissance and social transformation because of their vital role in mobilizing resources as well as their deployment for meeting the said objectives. They are no longer considered as institutions only for affluent sections of the population. They have acquired broad base and have emerged as effective catalytic agents of socio-economic change. In order to understand the functions of banks, it will be better to study them under the two categories, namely, primary and secondary functions ((Bhadauria: 2003).
Primary Functions of Banks

Accepting of Deposits

Deposits are an important source of a bank's funds. They can broadly be classified into three categories:

(a) **Saving Deposits**: These deposits are of small amounts and are accepted by banks to encourage persons of small means to make savings. Frequent withdrawals are not allowed.

(b) **Fixed Deposits**: These deposits are made with the banks for fixed periods specified in advance. Minimum period of fixed deposits is three months and maximum period is unlimited. They are also known as term deposits.

(c) **Current Deposits**: These deposits are repayable on demand. The banks undertake the obligation of paying all cheques drawn against these deposits by the customers till they have adequate funds of the customers. The banks usually do not pay any interest in respect of such deposit. These deposits accounts are usually kept by large business.

Lending of Money

A major portion of the deposits received by a bank is lent by it. This is also the major source of bank’s income. However, lending money is not without risk and, therefore, a banker must take proper precaution in this process. The lending of money by banks may be in any of the following forms:

(a) **Loan**: It is a type of advance made with security but some banks provide loans without securities. It is given for a fixed period at an agreed rate of interest.
The amount of loan is usually credited to the credit of the customer’s account who may withdraw it as per his requirements. The loan may be for short-term or long-term period.

(b) **Cash Credit:** It is an arrangement by which a banker allows his customer to borrow money up to a certain limit against security of goods.

(c) **Overdraft:** It is an arrangement whereby a customer is allowed temporarily to overdraw his current account. It is without any security.

(d) **Discounting and Purchasing of Bills:** Time bills are discounted while demand bills are purchased by the banks. In both the cases, the banks credit the accounts of their customers by the amount of bills less any discount or commission charged for such discounting or purchasing of the bills.

Thus, public and private sector banks render a unique service by tapping savings from a wide spectrum of people and lending to those who really need and use them for various productive purposes. Thus, play an active role in the economic development of a country.

**Secondary Functions of Banks**

Secondary functions or services can be classified into the following two categories:

1. Agency Services,
2. General Utility Services.

The above secondary functions/services of banks are as follows:
Agency Services

In many cases the commercial banks act as agents of their customers. As agents, they provide the following services:

(a) Collection of drafts, bills, cheques, divided etc. on behalf of their customers.
(b) Preparation of income tax returns, claiming of tax refunds and checking of assessments on behalf of the customers.
(c) Functioning as an executor, a trustee or an administrator of estate of a customer.
(d) Conducting stock exchange transactions i.e. purchasing and selling of securities for the customers.
(e) Execution of customers' standing orders viz. payment of subscription, rent, bills, promissory note, insurance premium etc.
(f) Acting as a correspondent or representative of customers, other banks and financial corporations.

General Utility Services:

Public and private sector banks provide a variety of general utility services viz. issue of letters of credit, travelers’ cheques, accepting valuables for safe custody, acting as a referee as to the respectability and financial standing of the customers, providing specialized advisory services to customers, issue of credit cards, providing of information through regular bulletins about general trade and economic conditions both inside and outside the country etc.
With the opening up of the insurance sector, banks are now taken up insurance business. In the discussion paper issued by Reserve Bank of India in 1999, it was stated that insurance comes within the scope of universal banking. The term universal banking refers to the combination of commercial banking and investment banking.

In other words, universal banks refer to those banks that offer a wide range of financial services, beyond commercial banking and investment banking such as insurance. However, as per guidelines issued by the Reserve Bank of India, banks are not allowed to conduct insurance business departmentally. They cannot also set up separately subsidiary companies for this purpose. However, they can set up joint venture companies for insurance as per Government/Insurance Regulatory and Development Authority (set up under IRDA Act, 1999) guidelines and with prior permission of the Reserve Bank of India.

The discussion of the previous studies indicates that public and private sector banks provide useful services in all walks of life. They function as catalytic agents for bringing about economic, industrial and agricultural growth and prosperity of the country. The banking sector should, therefore, be conceived as a sector of economy on the one hand and as a lubricant for the whole economy on the other (Khusro: 1986).

**Role of Commercial Banks in the Economic Development of India**

The significance of banks in the development of a country’s economy can hardly be under estimated. They are backbone of development in India. They mobilize small house hold savings and lend them for productive purposes. Not only they gather and mobilize savings and employ them in different sectors as per priority but they also
create money. The significance of money multiplier effect cannot be overlooked. They encourage the cult of savings. Banks traditionally have been the providers of short term credit to the industry. Of course now they can go for long term financing of projects also. They vault various financial services like the mutual funds, housing finance, consumer finance, equipment finance, leasing, merchant banking and other services. In some cases they also provide custodial services. They reduce the risk of moving with cash. Considering the low perpetration of banks in rural areas, a deep understanding of the system is a must. It is necessary to understand all aspects of the system before firmly graduating to it. The utility of the public and private sector banks is as follows:

1. A banking company must perform both the essential functions, viz., (a) accepting of deposits, and (b) lending of money. If the purpose of acceptance of deposits is not to lend or invest, the business will not be called banking business.

2. The explanation makes it clear that any company which is engaged in the manufacture of goods or carries on any trade and accepts deposits of money from the public merely for the purpose of financing its business activities as such manufacturing or trading shall not be deemed to transact the business of banking.

Acceptance of deposits should be known business of a banker. The money-lenders and indigenous bankers depend on their own resources and do not accept deposits from the public. If they ask for money from their friends or relatives in case of need, such money is not deemed as deposit accepted from the public.
3. The utility also specifies the time and mode of withdrawal of the deposits. The deposited money should be repayable to the depositor on demand made by the latter or according to the agreement reached between the two parties. The essential feature of banking business is that the banker does not refund the money on his own accord, even if the period for which it was deposited expires. The depositor must make a demand for the same. The Act also specifies that the withdrawal should be effected through an order, cheque, and draft or otherwise.

It is thus clear that the underlying principle of the business of banking is that the resources mobilized through the acceptance of deposits must constitute main stream of funds which are to be utilized for lending or investment purposes. The banker is, thus, an intermediary and deals with the money belonging to the public.

Other utilities of public and private sector banks are:

(i) the borrowing, raising or taking of money;

(ii) the drawing, making, accepting discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of landing, railway receipts, warrants, debenture certificates, scrips and other instruments and securities whether transferable as negotiable or not;

(iii) the pending and issuing of letters of credit, travelers' cheques and circular notes;

(iv) the buying and selling of foreign exchange including foreign bank notes;
(v) the acquiring, holding, issuing of commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bank, obligations, securities and investment of all kinds;

(vi) the purchasing and selling of bonds, scrips and other forms of securities on behalf of constituents or others;

(vii) the negotiating of loans and advances;

(viii) the receiving of all kinds of bonds, scrips or valuables on deposits or for safe custody or otherwise;

(ix) it may act as an agent of the government, local authority or firm and can carry on agency but it cannot act as secretary and treasurer of a company;

(x) it may contract for public and private loans and negotiate and issue the same;

(xi) it may effect, insure, guarantee, underwrite, participate in managing and carrying out of any issue of state, municipal or other loans or of shares, stock debentures or debenture stock of companies and may lend money for the purpose of any such issue.

(xii) it may carry on and transact every kind of guarantee and indemnity business;

(xiii) it may manage, sell and realize any property which may come into its possession in satisfaction of its claims;
(xiv) it may acquire and hold and deal with any property or any right, title or interest in any such property which may form the security for any loan or advance.

(xv) it may establish, support and aid associations, institutions, funds, trusts etc., for the benefit of its present or past employees and may grant money for charitable purposes.

(xvi) it may sell, improve, manage, develop, exchange, lease, mortgage, dispose of or turn into account or otherwise deal with all or any part of the property and rights of the company.

(xvii) any other business specified by the Central Government as the lawful business of a banking company.

Performance of Commercial Banks in India

The Reserve Bank of India (RBI) was established under the RBI Act, 1934 on April 1, 1935 as a private shareholders' bank but since its nationalization in 1949, it is fully owned by the Government of India. The Preamble of the Reserve Bank describes the basic functions as ‘to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally, to operate the currency and credit system of the country to its advantages’. Thus, unlike the current trend in many countries, there is no explicit mandate for price-stability or formal inflation targeting, but the mandate appears to be similar to that of the Federal Reserve of the USA. The twin objectives of monetary policy in India have evolved over the years as those of maintaining price stability and ensuring adequate flow of credit to facilitate the growth process. The relative emphasis between the twin
objectives is modulated as per the prevailing circumstances and is articulated in the policy statements by the Reserve Bank from time to time. Consideration of macroeconomic and financial stability is also subsumed in the mandate.

The Reserve Bank of India is also entrusted with the management of foreign exchange reserves (which include gold holding also), which are reflected in its balance sheet. While the Reserve Bank is essentially a monetary authority, its founding statute mandates it to be the manager of market borrowing of the Government of India and banker to the Government.

The function of regulation and supervising of banks has been assigned to the Reserve Bank by a separate legislation enacted in 1949, while the regulation of Non-Banking Finance Companies (NBFCs) has been entrusted to it through an amendment to the RBI Act recently. The powers for regulation of money markets, government securities market, forex market and gold are derived from the RBI Act and the regulation explicitly entrusted through government notifications under the Securities Contacts (Regulation) Act.

The regulation of current and capital account transactions of the external sector was assigned to the Reserve Bank of India under another statute in 1999, replacing an earlier one of 1973. In addition to the issuance of currency, the Reserve Bank of India is also entrusted with the responsibilities relating to distribution of coins. The Reserve Bank of India has been assigned some responsibility in several statutory bodies such as public sector banks, development finance institutions governing Agriculture, Housing and Deposit Insurance, etc.
The Reserve Bank of India affairs are governed by a Central Board of Directors, consisting of fourteen non-executive, independent directors nominated by the Government, in addition to the Governor and up to four Deputy Governors. Besides, one government official is also nominated on the Board who participates in the Board meeting but cannot vote.

The Reserve Bank of India has 19 regional offices and 4 sub-offices, mostly in state capitals. It is the debt-manager and banker to State Governments (i.e., the provinces constituting the Indian federation). It also renders advice to the Central and the State Governments, particularly in regard to financial sector reforms.

In brief, the Reserve Bank of India has been assigned several functions, in addition to monetary management. In performing each of the functions, the statute as well as the functional content, requires that the Reserve Bank exercise varying degrees of autonomy and coordination vis-à-vis the government. The three overarching features governing the relations with the government are autonomy in operations; harmony in policies; and coordination in structural transformations.

The Indian financial system of the pre-reforms period, 1991, essentially catered to the needs of planned development in a mixed-economy framework, where the Government sector had a predominant role in economic activity. Interest rates on Government securities were artificially pegged at low levels, which were unrelated to the market conditions. The system of administered interest rates was characterized by detailed prescriptions on the lending and the deposit side, leading to multiplicity and complexity of interest rates. As would be expected, the environment in the financial sector in those years was characterized by segmented and underdeveloped financial
markets coupled with paucity of financial instruments. Thus, the transactions between
the de facto joint balance sheet of the Government, the Reserve Bank and the
commercial banks were governed by fiscal priorities rather than sound principles of
financial management and commercial viability. It was then recognized that this
approach, which, conceptually, sought to enhance efficiency through a coordinated
approach, actually led to loss of transparency, accountability and incentive to seek
efficiency.

The banking system in India has undergone significant changes during last 16
years. There have been new banks, new instruments, new windows, new opportunities
and, along with all this, new challenges. While deregulation has opened up new vistas
for banks to augment incomes, it has also entailed greater competition and
consequently greater risks. India adopted prudential measures aimed at imparting
strength to the banking system and ensuring its safety and soundness, through greater
transparency, accountability and public credibility. The capital adequacy ratio has
increased to 12.4 per cent for scheduled commercial banks as at end March 2006,
which is much above the international norm. Commercial banks’ net profits remained
at 0.9 per cent of total assets during 2004-05 and 2005-06, up from 0.16 per cent in
1995-96. The ratio of NPLs to total loans of scheduled commercial banks, which was
as high as 15.7 per cent at end March 1997, declined steadily to 3.3 per cent by end
March 2006. The net non-performing assets declined to 1.2 per cent of net advances
during 2005-06 from 2.0 per cent in 2004-05. According to the preliminary financial
results available for most of the banks for the year 2006-07, the financial soundness
has improved further.
Our banking sector reforms have been unique in the world in that they combine a comprehensive reorientation of competition, regulation and ownership in a non-disruptive and cost-effective manner. Indeed our banking reform is a good illustration of the dynamism of the public sector in managing the overhang problems and the pragmatism of public policy in enabling the domestic and foreign private sectors to compete and expand. There have been no banking crises in India.

The Government took steps to reduce its ownership in nationalized banks and inducted private ownership but without altering their public sector character. The underlying rationale of the approach is to assure that the solitary features of public sector banking were not lost in the transformation process. On account of healthy market value of the banks' shares, the capital infusion into the banks by the government has turned out to be profitable for the Government.

An independent Banking Codes and Standards Board of India was set up on the model of the UK in order to ensure that comprehensive code of conduct for fair treatment of customers is evolved and adhered to. With a view to achieving greater financial inclusion, since November 2005, all banks need to make available a basic banking 'no frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. Banks were urged to review their existing practices to align them with the objective of 'financial inclusion'.

There is a scheme of Ombudsman, located in fifteen cities to provide redressal to grievances of the bank customers. Customer service is accorded high priority in the
supervisory evaluation and according regulatory comfort to the Reserve Bank of India.

With a view to strengthening the supervisory framework within the Reserve Bank, a Board for Financial Supervision (BFS) was constituted in 1994, comprising select members of the Reserve Bank's Central Board with a variety of professional expertise to exercise 'undivided attention to supervision' and ensure an integrated approach to supervision of commercial banks and financial institutions. The Reserve Bank has also instituted Off-site Monitoring and Surveillance System (OSMOS) for banks in 1995, which provides for Early Warning System as also a trigger for on-site inspections of vulnerable institutions.

In India, we have 84 commercial banks, which account for about 81 per cent (total assets) of the financial sector at end-March 2006; over 3000 cooperative banks, which account for 11 per cent; 133 Regional Rural Banks which account for 3 per cent. Taking into account the size, complexity of operations, and relevance to the financial sector, need to ensure greater financial inclusion and the need for having an efficient delivery mechanism, the capital adequacy norms applicable to these entities have been maintained at varying levels of stringency. One might say that we are adopting a three-track approach with regard to capital adequacy rules. Given the different risk appetite across banks and their business philosophies, it is likely that banks would 'self select' their own approach, which in turn, is likely to engender a stabilizing influence on the system as a whole.

On the first track, the commercial banks are required to maintain capital for both credit and market risks as per Basel I framework; the cooperative banks, on the
second track, are required to maintain capital for credit risk as per Basle I framework and through surrogates for market risk; the Regional Rural Banks, on the third track, have a minimum capital requirement which is, however, not on part with the Basel I framework. Consequently, we have a major segment of systematic importance on a full Basel I framework, a portion of the minor segment partly on Basel I framework, and a smaller segment on a non-Basel framework.

The guidelines of Basel II implementation have been issued. According to the schedule, foreign banks operating in India and Indian Banks have presence outside India are to migrate to the standardized approach for credit risk and the basic indicator approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are encouraged to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009.

**Current Challenges**

In assessing short-term prospects, say for 2007-08, it is essential to recognize that the impressive growth in GDP at 9.4 per cent during the preceding year, reflects the contribution of both-the structural and the cyclical factors though their relative contribution is somewhat non-quantifiable. The critical task before the public policy, in general, and Reserve Bank of India, in particular, is to strengthen the structural factors in the economy but determinedly moderate the cyclical and excessively volatile elements of the economy.

There are reasonable grounds for optimism in regard to the prospects for Indian economy, and this has been globally recognized. However, it is necessary to remain guarded in matters relating to economic growth and stability of an emerging
market economy in the current global environment of high output-growth, notable inflation pressures, persisting global imbalances, incipient signs of re-pricing of risks, and perceived volatility of capital flows.

ICICI bank does recognize that relative to most large emerging market economies, it has several significant economic strengths but it also has twin deficits—current and fiscal; has a higher component of more volatile portfolio flows on capital account, and severe policy challenges in managing capital flows.

In view of the proven success of overall approach of the bank to reforms over the last fifteen years, there is considerable merit in pursuing the gradualist, participative and harmonious approach towards further reforms in financial and external sectors. Since it is generally accepted that financial and external sectors in India are reasonably strong and resilient, high priority is being accorded for further reforms in fiscal sector, agriculture, physical infrastructure, especially in power and urban areas, and delivery of public services such as water, health and education. Progress in these sectors will help, over the medium term, enhance competitiveness and accelerated reforms in financial and external sectors, in a harmonious and non-disruptive manner, thus, reinforcing self-accelerating growth with assured stability.

**Banking Sector Reforms:**

Financial Sector reforms were initiated as part of overall economic reforms in the country and wide ranging reforms covering industry, trade, taxation, external sector, banking and financial markets have been carried out since mid 1991. A decade of economic and financial sector reforms has strengthened the fundamentals of the Indian economy and transformed the operating environment for banks and financial
institutions in the country. The sustained and gradual pace of reforms has helped avoid any crisis and has actually fuelled growth. As pointed out in the RBI Annual Report 2001-02, GDP growth in the 10 years after reforms i.e., 1992-93 to 2001-02 averaged 6.0 per cent against 5.8 per cent recorded during 1980-81 to 1989-90 in the pre-reforms period.

The most significant achievement of the financial sector reforms has been the marked improvement in the financial health of commercial banks in terms of capital adequacy, profitability and asset quality as also greater attention to risk management. Further deregulation has opened up new opportunities for banks to increase revenues by diversifying into investment banking, insurance, credit cards, depository services, mortgage financing, securitization, etc. At the same time liberalization has brought greater competition among banks both domestic and foreign as well as competition from mutual funds, NBFCs, post office etc. Post-WTO, competition has intensified, as large global players have emerged on the scene. Increasing competition is squeezing profitability and forcing banks to work efficiently on shrinking spreads. Positive fallout of competition is the greater choice available to consumers and the increased level of sophistication and technology in banks. As banks benchmark themselves against global standards there has been a marked increase in disclosures and transparency in bank balance sheets as also greater focus on corporate governance.

Major Reform Initiatives

Some of the major reform initiatives in the last decade that have changed the face of the Indian banking and financial sector are:
➢ Interest rate deregulation. Interest rates on deposits and lending have been
deregulated with banks enjoying greater freedom to determine their rates.

➢ Adoption of prudential norms in terms of capital adequacy, asset
classification, income recognition, provisioning, exposure limits, investment
fluctuation reserve, etc.

➢ Reduction in pre-emption-lowering of reserve requirements (SLR and CRR),
thus releasing more lendable resources which banks can deploy profitably.

➢ Government equity in banks has been reduced and strong banks have been
allowed to access the capital market for raising additional capital.

➢ Banks now enjoy greater operational freedom in terms of opening and
swapping of branches, and banks with a good track record of profitability
have greater flexibility in recruitment.

➢ New private sector banks have been set up and foreign banks permitted to
expand their operations in India including through subsidiaries. Banks have
also been allowed to set up Offshore Banking Units in Special Economic
Zones.

➢ New areas have been opened up for bank financing: insurance, credit cards,
infrastructure, leasing, gold banking, besides investment banking, asset
management, factoring, etc.

➢ New instruments have been introduced for greater flexibility and better risk
management: e.g. interest rate swaps, forward rate agreement, cross currency
forward contracts, forward cover to hedge inflows under foreign direct
investment, liquidity adjustment facility for meeting day-to-day liquidity mismatch.

- Several new institutions have been set up including the National Securities Depositories Ltd., Central Depositories Services Ltd., Clearing Corporation of India Ltd., Credit Information Bureau India Ltd.

- Limits for investment in overseas markets by banks mutual funds and corporate have been liberalized. The overseas investment limit for corporate has been raised to 100% of net worth and the ceiling of $100 million on prepayment of external commercial borrowings has been removed. MFs and corporate can now undertake FRAs with banks. Indians allowed maintaining resident foreign currency (domestic) accounts. Full convertibility for deposit schemes of NRIs introduced.

- Universal Banking has been introduced. With banks permitted to diversify into and DFIs into working capital, guidelines have been put in place for the evolution of universal banks in an orderly fashion.

- Technology infrastructure for the payments and settlement system in the country has been strengthened with electronic funds transfer, Centralized Funds Management System, Structured Financial Messaging Solution, Negotiated Dealing System and move towards Real Time Gross Settlement.

- Adoption of global standards. Prudential norms for capital adequacy, asset classification, income recognition and provisioning are now close to global standards. RBI has introduced Risk Based Supervision of banks (against the traditional transaction based approach). Best international practices in
accounting systems, corporate governance, payment and settlement systems, etc. are being adopted.

➢ Credit delivery mechanism has been reinforced to increase the flow of credit to priority sectors through focus on micro credit and Self Help Groups. The definition of priority sector has been widened to include food processing and cold storage, software up to Rs 1 crore, housing above Rs 10 lakh, selected lending through NBFCs, etc.

➢ RBI guidelines have been issued for putting in place risk management systems in banks. Risk Management Committees in banks address credit risk, market risk and operational risk. Banks have specialized committees to measure and monitor various risks and have been upgrading their risk management skills and systems.

➢ The limit for foreign direct investment in private banks has been increased from 49 per cent to 74 per cent and the 10 per cent cap on voting rights has been removed. In addition, the limit for foreign institutional investment in private banks is 49 per cent.

➢ Wide ranging reforms have been carried out in the area of capital markets. Fresh investment in CPs, CDs are allowed only in dematerialized form. SEBI has reduced the settlement cycle from T+3 to T+2 from April 1, 2003 i.e. settlement of stock deals will be completed in two trading days after the trade is executed, taking the Indian stock trading system ahead of some of the developed equity markets. Stock exchanges will set up trade guarantee funds.
Retail trading in Government securities has been introduced on NSE and BSE from January 16, 2003.

**Information Technology (IT) in Commercial Banks in India**

The banking sector in India is going through a major technological transformation phase in the recent years. Most of the banks are evolving clearly designed technology-related strategy and vision. They are also setting aside big budgets for technology. The potential benefits and opportunities of putting in place the new technological platforms are many, like improved customer experience, enhanced produce delivery, product innovations, better cross-selling of products, streamlining operations, reducing the transaction costs, better Risk Management Control, etc.

Technology will, no doubt, cut transaction costs, but technological solutions don’t come cheap. These not only require substantial one-time investments but also recurring expenses to maintain that cutting edge offering. With greater use of technology solutions, the IT spending of Indian Banking System is expected to go significantly. According to the RBI annual report, 2003-04, the application of technology would help the bank reduce their operating costs in the long run but the initial investment would be sizeable. IT spent by banking and financial services industry in USA is approximately 7 per cent of the revenue as against around 1 percent by Indian Banks. The Indian banking sector was known as “class banking” in pre-nationalization period thereafter changed to “Mass Banking” in post nationalization period. It can be said that post reforms period and post globalization phenomena has given boost to “Productive Banking”.
Banking institutions have been using Information-Technology from the mid of the 20th century. They are dependent on gathering, processing, analyzing and providing information according to the needs of their customers. The technology revolution in banking actually began in 1950's where the fuse Automated Book Keeping machine was installed in few banks in United States.

Second revolution began with the advent of Electronic Payment Technology in 1970. As a result banks as well as other financial institutions in India have entered the domain of Information Technology and computer networking. A Satellite based Wide Area Network (WAW) as provided by a reliable communication framework for the banking and financial sector. The Indian Financial Network (INFINET) was inaugurated in June 1999. It is based on satellite communication using VSAT technology which enables faster connectivity within the financial sector.

The use of Information Technology in banking services resulted in development of new concept of banking such as:

**Automated Teller Machine (ATM)**

It is an electronic machine, which allows the users to withdraw, check balance, pay bills etc. The users are given ATM cards with a password to use the machine. ATM's are convenient that people have changed it into the acronym as “Any Time Money”. HSBC bank was the first bank to introduce the ATM concept in India way back in 1987. ICICI, UTI, HDFC and IDBI together account for more than 50 per cent of the total ATMs in India. The cost of setting up an ATM center is around Rs. 1 Million and maintenance costs works out to around Rs. 1.2 to 1.4 million per annum. To reach the break-even point within a year, there should be around 250-300
transactions per day per ATM. According to industry sources, the total number of ATMs in India that was around 12,000 as on March 2003, is estimated to be 17,000 as on March 2004 and is expected to cross 30,000 by December 2006. As per Moody’s report, India is the second fastest country in ATM. Banks have also been cutting costs and gaining synergies through ATM showing agreements amongst themselves, for instance.

- ICICI Bank, Andhra Bank and Federal Bank;
- Cash Tree (Bank of India, Union Bank of India, Indian Bank, Dena Bank and Syndicate Bank)

**Online Banking and e-banking**

This kind of banking service allows its customers to manage their money from any type of browser devise including mobile phones, internet-enabled television. A personal computer is required to access to your accounts, to transfer funds, to pay creditors etc. and is called online banking. The Bankers Automated Cleaning System (BACS) has been introduced in online banking to reduce paper cost and risk of security. By using a private password your account balance will be there at the close of business on the previous working day. On line banking provides services such as checking the account position, moving the spare cash into an interest bearing account and making high value payment without risk.

**Internet Banking**

It is a form of plank to build system within the banks and between banks and their partners. It helps to make good choices and decisions which avoid scans in banking. The advantage of the internet is that it allows financial institutions to
combine contents from multiple sources to one computer. In India, this channel is available for the past three to four years. The facility of Corporate Internet Banking Service is available to all business enterprises, accessible from anywhere in the globe providing various banking and financial services under single umbrella and giving complete freedom of banking anywhere anytime on 24 x 365 basis.

**Telephone Banking**

Telephone Banking means availing banking services of telephone just “Dial One Number” using any telephone to access to the account, transfer fund, request statements or check books simply by following a recorded message and touching the keys on your phone. Registering for telephone banking is free of cost though there is small transaction charge for making bill payments and a frequent usage charge.

**Smart Card**

The processor type smart cards with (in built) integrated circuits (ICs) or microchips offer a wide range of transactional opportunities with the growth of e-commerce, card based personal system is most common online payment method. Businesses and countries that do not use these technologies are unlikely to capture global market. Smart-cards can be used in many places such as reveal payment, vehicle registration, internet payment, driving license and health records etc. A committee under the chairmanship of secretary, Ministry of Information Technology, Government of India is set up to examine issues related to deployment of smart cards, identify application, infrastructure requirements banking and payment infrastructure.

“MONDEX” is recently born smart card that functions as an electronic wallet. There is no credit limit and can be spend and reloaded as pointed terminals.
Electronic Funds Transfer at Point of Sale (EFTPOS)

While travelers cheque means “pay-now-buy-later” and credit cards ‘buy-now-pay-later’ but EFTPOS are debit cards that signify ‘buy now-pay-now’ but without cash transactions. The users give their cards when they buy goods and the EFTPOS system immediately debits their bank account.

Electronic Data Interchange (EDI)

EDI typically denotes paperless financial transactions across the location. EDI is fast becoming the norms for inter-company transactions. Companies can now operate their bank account through corporate banking thumbnails in their own offices, which are linked to the bank coml-luters. Companies can, thus, carry out transactions like transferring funds, managing its cash flow, opening letter of credit etc. without any paper work. It has reduced documents processing time from one dry to 15-30 minutes and the estimated savings are of the order of $1 billion annually.

Recent Significant Developments

Customer Relationship Management (CRM) Solution

CRM is the industry term for the set of methodologies and tools that help an enterprise manage customer relationships in an organized way. It is a process used to learn more about customers’ needs and behaviour in order to develop stronger relationships with them. In simpler terms, CRM is designed as finding, getting and retaining customers.
Risk Management, MIS and Data Warehouse

Risk management is a fairly new concept to the Indian banking industry. Good risk management practices require robust, account level and enterprise wide database. RBI’s Committee on Technology upgradation in the Banking sector had advised the Indian Banks to put in place their strategy for setting up an enterprise wide data warehouse. A Data warehouse is a repository of integrated information, available for queries and analysis, extracted from heterogeneous sources. It is subject oriented, integrated, time variant, and non-volatile collection of data to support management decision making.

Off-Site Monitoring and Surveillance

RBI introduced a system of off-site Monitoring and surveillances, with the primary objective of assessing financial condition of banks in behaviour on-site examinations with a view to facilitate bank to submit error-free data in time and with a view to enable the supervisor to make effective use of the data so obtained. RBI has developed an OSMOS package in an RDBMS environment. REI has recently expanded the scope of surveillance to include Risk Based Supervision and Consolidated Prudential Reporting.

Credit Information Bureau

A Credit Information Bureau (CIB) is such a repository of information on the credit history and repayment records of borrowers, CIBIL -Credit Information Bureau (India) Limited is India’s first credit information Bureau. CIBIL will provide specific information on the credit history and past record of its members in the form of credit information reports.
A Credit Information Report (CIR) is a factual record of a borrower's credit payment history compiled from information received from different lenders. Its purpose is to help lenders to make better lending decisions—quickly and objectively. The establishment of CIBIL is a crucial effort made by the Government of India in their drive to improve the working of the financial system, especially to contain future NPS by taking on good quality assets in the books of the lenders.

**Constraints**

The following factors are hindering fast IT growth in banking services.

- Lack of strong national telecom, hardware and software infrastructure, reliable access to Internet at high speed at a lower cost.

- Lack of continuous training and skills and upgradation of human resources towards new technologies in banking operations.

- The elimination of manual records, the introduction of electronic fund transfer, ATMS etc. raise the important issues of confidentiality of information, presenting data, corruption and prevention of frauds.

- Poor patronage by customers, especially old people who prefer dealing with official rather than with computer screen.

- An investment by banks in ATMs is not effectively used and most of A TMs are unutilized.

- Poor number of transactions per ATM.

- No local experts are available for solving the problems related to ATM or e-banking.
Lack of awareness among customers to use the new banking technologies.

Becoming an ATM holder is a very lengthy process especially in PSBs.

**Strategies**

- Appropriate technologies for encryption of data for second transaction, regular and multiple backup, extensive use of password and other forms of authorization is need to adopt.

- Create awareness among customer for the advantages of IT in banking services through Road shows, Canopy and publicity by existing users to unawares customers of banks.

- Develop high-tech infrastructure of IT in banking services at a lower cost.

- There is a dual requirement to protect customers' privacy and protect them against fraud.

- The location of the ATM is important and a lot of survey needs to be done before installing the machine, though it will increase transactions per day per ATM.

- The number of transaction through ATM will go up when the bank accepts other bank's entire card too.

- Banks should increase the number of cards issued and the number of branches networked.

Technology has changed the global economy by facilitating break down of geographical as well as functional barriers. Technology is the single most effective success factor in global banking. Global connecting is a necessity for banks with
global operations. Only those banks will be able to thrive in global operative atmosphere which are able to lower operational and service delivery costs. Internet-based infrastructure is becoming a necessity both for domestic and global operations.

Indian banks are already implementing new technology to remain competitive fortunately; there is no legacy problem for Indian banks in this field. The crucial issue is not about implementation but the ability to leverage banking technology so as to exploit the synergies.

**Challenges Ahead**

**Improving Profitability**

The most direct result of the above changes is increasing competition and narrowing of spreads and its impact on the profitability of banks. The challenge for banks is how to manage with thinning margins while at the same time working to improve productivity which remains low in relation to global standards. This is particularly important because with dilution in banks' equity, analysts and shareholders now closely track their performance. Thus, with falling spreads, rising provision for NPAs and falling interest rates, greater attention will need to be paid to reducing transaction costs. This will require tremendous efforts in the area of technology and for banks to build capabilities to handle much bigger volumes.

**Reinforcing Technology**

Technology has thus become a strategic and integral part of banking; driving banks to acquire and implement world class systems that enable them provide products and services in large volumes at a competitive cost with better risk management practices. The pressure to undertake extensive computerization is very
real as banks that adopt the latest technology have an edge over others. Customers have become very demanding and banks have to deliver customized products through multiple channels, allowing customers access to the bank round the clock.

Risk management

The deregulated environment brings in its wake risks along with profitable opportunities, and technology plays a crucial role in managing these risks. In addition to being exposed to credit risk, market risk and operational risk, the business of banks would be susceptible to country risk, which will be heightened as controls on the movement of capital are eased. In this context, banks are upgrading their credit assessment and risk management skills and training staff, developing a cadre of specialists and Introducing technology driven management information systems.

Sharpening Skills

The far-reaching changes in banking and financial sector entail a fundamental shift in the set of skills required in banking. To meet increased competition and manage risks, the demand for specialized banking functions, using IT as a competitive tool is set to go up. Special skills in retail banking, treasury, risk management, foreign exchange, development banking, etc., will need to be carefully nurtured and built. Thus, the twin pillars of the banking sector i.e. human resources and IT will have to be strengthened.

Greater Customer Orientation

In today's competitive environment, banks will have to strive to attract and retain customers by introducing innovative products, enhancing the quality of
customer service and marketing a variety of products through diverse channels targeted at specific customer groups.

Corporate Governance

Besides using their strengths and strategic initiatives for creating shareholder value, banks have to be conscious of their responsibilities towards corporate governance. Following financial liberalization, as the ownership of banks gets broad based the importance of institutional and individual shareholders will increase. In such a scenario, banks will need to put in place a code for corporate governance for benefiting all stakeholders of a corporate entity.

International Standards

Introducing internationally followed Jest practices and observing universally acceptable standards and codes is necessary for strengthening the domestic financial architecture. This includes best practices in the area: of corporate governance along with full transparency in disclosures. In today’s globalized world, focusing on the observance of standards will help smooth integration with world financial markets.

Conclusion

To sum up, it may be safely deduced that the face of banking is changing rapidly. Competition is going to be tough and with financial liberalization under the WTO, banks in India will have to benchmark themselves against the best in the world. For a strong and resilient banking and financial system, therefore, banks need to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiency and technology, while achieving economies of scale through consolidation and exploring available cost effective solutions. These are some of the
issues that need to be addressed if banks are to succeed in the changing milieu. Needless to mention that in India New Economic Policy of 1991 has already paved the way for liberalization, privatization and globalization. Since then a lot of fundamental changes have brought in their wake new challenges before the country. Financial Sector reforms led to the setting up of a number of private banks. Of them, ICICI Bank is on the top in every respect. In the next chapter, therefore, an attempt will be made to study the selective HRM policies and practices of the ICICI bank along with a synoptic view of the profile of growth of ICICI bank.
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