CHAPTER 2
GROWTH OF INDIAN BANKING AND SBM

2.1 Genesis

Banking, in some form or other is as old as human civilization. The word Money-derived from the latin word Juno-Moneta, the patron of the earliest Roman Mint, is a new concept, but the primitive men used all sorts of things, readily available like salt, sugar, cow, feather, dog's teeth, shells, beads etc. as "exchange". With the discovery of metal and process of melting, coins started replacing the barter system and with this, in the first millennium BC, a new class of people was arrived who dealt in money in addition to trade and commerce.

Both private as well as state sponsored banking were prevalent in ancient Babylon, Egypt, Memphis and Thebes. The code of Hammurabi contains instructions regarding deposit accounts and contracts relating to such business.

In India, banking started around seventh Century BC. 'Jatakas' and 'Puranas' speak about existence of numerous guilds of 'Stresthis' through out the country, who used to accept deposits and grant loans against mortgage of properties. Kautilya in his Arthasastra prescribed 15 percent rate of interest on secures loan, 60 percent on unsecured loan and 120 to 240 percent against loans fraught with very high risks. Tipu Sultan established 'Mullicutyal Cuties' for financing trade and exchange money. It was a state sponsored Bank and its operations were financed and backed by central establishment at Srirangapattanam.¹

2.2 Modern Banking

Though indigenous banking continued to develop in different parts of the globe, modern banking with the present system of double entry book keeping started in Italy. In the 11th Century at the town – Genoa, which was flourishing in trade,
people used to conduct monetary transactions at the market place. Bankers accepted deposits, grant loans and issued bill of exchange sitting on 'bench' where from the word 'Bank' was derived.

When a banker lost his credit and could not pay back to the depositors, his bench was broken. 'Banco Rotto' meaning the broken gave rise to the word 'bankrupt'. Gradually Italians, particularly the 'Lombards' a wealthy merchant banker community established virtual monopoly in banking and spread over to others cities in Europe like Venice, Barcelona, Florence, and Amsterdam. They gave a fillip to growth of modern banking in France, Belgium, Germany, England and Scotland.²

In 1587, Banco-de-Rialto was established at Venice under an act of Senate as a public bank with a monopoly of banking operations. It was, in effect, the first State Bank, 'Contadi-di-banco' was used as predecessor to today's cheque. Meanwhile, in 1609, the Bank of Amsterdam was established under the guarantee of the city of Amsterdam. Bank of England came up in 1694. These two banks served as models for growth of modern banking in India and as such in setting up of the 'Presidency Banks' after two centuries.

2.2.1 Initial Years of Modern Banking in India

The servants of East India Company, agents and profiteers of all kind and color had their personal interest in trade and finance. For the purpose they set up several agency houses some of which were subsequently converted into banks.

In these directions the Government Bank of Bombay was established on 22nd December 1720 after consultation with the local merchants. In 1770, when the outstanding in loan accounts reached a level of Rs.28 lacs, the Company decided to close it. The same year, Alexander & Co. an agency house had started 'Bank of Hindustan' at Calcutta. Warren Hastings, the Governor, established the 'General
Bank’, which however had to be wound up in 1775 due to stiff opposition from members of the council. At the time of closure the bank was having two offices at Calcutta and Mushidabad and 14 branches at other places. Subsequently, in 1786 ‘General Bank of India’ was established which continued to receive the Company’s patronage for a few years. All these years, the agents and the servants of the company, many of whom quit their jobs to start own business, were busy in making as much money as possible and remit that in abroad. Coupled with this, huge expenditure of war drained out the Company’s resources. A severe resource crunch induced them to request Sir James Stuart to suggest corrective measures.

2.3 Predecessors of State Bank of Mysore

2.3.1 Bank of Bengal

Sir. Stuart published a scheme titled – ‘Principle of money applied to the present state of the coin of Bengal’. George Burlow, who inherited a shattered economy from Wellesy was keen on revamping the financial system. He gave a green signal for establishing a State backed Bank. Nevertheless, the proposal required ratification by the Court of Directors in England. Therefore, as a provisional arrangement, Bank of Calcutta was set up on 27th February 1806. The approval of the Court of Directors came after a lapse of two and half year and the Bank of Bengal was formally set up as a State backed Presidency Bank under a proclamation dated 2nd January 1809. From this date, the Bank of Calcutta ceased to exist. The bank was authorized to issue notes, accept deposits and invest in securities. It was followed by establishment of the Bank of Bombay and Bank of Madas.3

2.3.2 Bank of Bombay
Around 1830, Bombay witnessed rapid growth in trade and commerce mainly due to increase in demand of cotton in England and opium in China. During this time, firms and agency houses like Forbes, Remington, shotton etc. used to control finance and external trade at Bombay. However, the private merchants were also eager to take advantage of the boom and since money played the crucial role, there was a growing demand to set up a bank on the lines of Bank of Bengal.

On 26th December 1836, a public meeting was convened at Bombay, in which a 'prospectus for a bank of the Presidency of Bombay' was adopted and provisional committee was formed to obtain charter submitted by the committee. After a lapse of two years, the approval of the Court of Directors was received and on 15th April 1840, the Bank of Bombay was opened the business.

2.3.3 Bank of Madras

Bentinck founded a “Government Bank” in Madras in 1806. The Bank used to be managed by Government servants who did not have much knowledge of modern banking practices. They were also liable to frequent transfers. In this backdrop, the bank could not fulfill aspiration of growing merchant community. The European residents of Madras, encouraged with the success of the Bank of Bengal and the Bank of Bombay, formed a committee in 1840 for setting up a semi Government joint stock bank, and it proposed extension of the “Government Bank” upon the principle of the two Presidency banks on receipt of the approval of the Court of Directors on 23rd March the Bank of Madras could finally start functioning from 1st July 1843 and the ‘Government Bank’ ceased to function.

Each of three presidency banks was established as quasi Government bank, incorporated under charter of local Government, which contributed a portion of the share capital. Governments nominated directors were on the board. They banks were
entrusted to maintain public debt and government cash balances. Subsequently, uniformity in functioning of the three 'presidency banks was brought under the 'Presidency Bank act of 1876. The Government disposed of their holding of shares of these banks and they became private institutions in 1876. The Presidency Banks during these periods were not mere Government patronized banks. Their evolution reflected development of banking under the influence of classical political economy. It was also necessitated by the changes in organizations and methods of domestic as well as international trade.

2.3.4 Swadeshi Banks

Nevertheless, the Europeans controlled all the three Presidency Banks. They were the shareholders and members of the Boards. The officers were mostly recruited in England and sometimes from amongst the Europeans available in India. There was a growing notion that the banks under European control can never serve the economic interest of the country. Lala Lajpat Rai held the opinion that 'Indians should have National Bank of their own'. He believed that Indian capital was being used to run the English Banks and Companies. The profit went entirely to the British while the Indians had to contend themselves with a small interest on their capital. In this backdrop, by the end of the eighteenth century, a swadeshi upsurge was witnessed in the field of banking too. As a consequence large number of such banks came up all over the country. People’s Bank of India was set up at Lahore in 1901 and the Indian Species Bank at Bombay in 1906. Credit Bank of India, Bombay, Popular Bank, Rawalpindi, Oriental Bank Of India, Lahore, Agra Bank, Nath Bank in Calcutta, Carnatak Bank in South followed them. A few of the today’s leading banks like Bank of India (Bombay 1906), Canara Bank (Mangalore, 1906), Indian Bank (Madras, 1907), Punjab & Sind Bank (Amritsar, 1908), Bank of Baroda (
Baroda, 1908), Central Bank of India (Bombay, 1911), Bank of Mysore (Bangalore, 1913) etc. were established during this period. The growth was phenomenal, while at the end of the 19th Century there were hardly two dozens joint stock banks besides the three Presidency Banks, by 1913, as many as 451 Banking companies were registered under the Indian Company’s Act. However, most of these Banks did not have sufficient capital reserve. They did not follow any uniform banking practices and most of the banks did not publish profit and loss account and balance sheet. They were plagued with bad loans, extended even to own directors as a natural consequences of these banks, which were guided more by profit motive than by Swadeshi ideology, failed within few years of their inception. The crisis in Indian Banking set in at Lahore, with the failure of the ‘People’s Bank’ on 17th November 1913. The Bank with 70 branches and deposit of Rs.1.50 crore was liquidated. Thackersey, the President of its board warned that every banking institution had to work with extreme caution in selecting its investments and insist on larger cash balance in hand.

During these years of crisis, there was deep division between the Swadeshi banks and the Presidency banks. While the former accused that the Presidency banks had done little to bail out the Swadeshi banks, the Government and the Presidency banks contradicted the same. Nevertheless, it became apparent that the Government had little control over the functioning of joint stock banks in the country and they did not create any institution which might be the lender of last resort. In august 1913, the Government of India wrote to the local Governments, administrators and merchants for their suggestion regarding management of the banks in the country.

2.3.5 Imperial Bank of India
A need of State control was felt long back and discussion was going on in different banks form for establishing a ‘State Bank’ in India by the Government or for amalgamation of the three Presidency banks. The famous classical economist, Mr. John Maynard Keynes, in his article, ‘Indian Currency and Finance’ had noted the idea of a ‘State Bank’ in India. However, the banking crisis of 1913-14, induced the Government to appoint Chamberlin Committee to examine the entire issue.

At this juncture, outbreak of First World War shifted the Government’s priority. Once the war was over, a move to amalgamate the three Presidency banks got momentum. In January 1919, in a meeting at Calcutta, the Secretaries of all the three Presidency banks unanimously agreed to merger.

Opposition to the merger came from leading Indians. On 23rd September 1919, B.N. Sharma moved a resolution in Indian Legislative Council for establishment of a “State Bank”, which could contribute to the real growth of the Indian Banking System. He opined that an amalgamated Presidency bank as a regulatory authority. On the contrary, the finance secretary to the Government of India, H.F. Howard, refuted the argument that the amalgamation of the Bank would be detrimental to Indian interest. He opined that large section of the society; the shroffs, maharajas, chetties and others were receiving financial help from the Presidency banks.

Hailey, the finance member, introducing the bill on 1st March 1920, said that the scheme would not be mere amalgamation of the banks; it would increase the resources of the bank which would be used to further banking development in the country. The new bank would grow up to national institution and give to the young men of this country an opportunity to be trained in modern methods of banking. He concluded: “there will spring from their ashes Phoenix like, a bank which no
unmindful of the financial traditions of the past will take a wider outlook and a large and a more beneficial sphere as a National Bank of India.”

The bill, ultimately was passed as the ‘Imperial Bank of India’ Act 1920, came into effect from 21.1.1921. The Imperial Bank started business on the day after taking over the business of the three Presidency Banks that were having altogether 59 branches, a total paid up capital of Rs.3.75 crores and total reserves of Rs.3.45 crores. Though, it was the sole banker of the Government of India and acted as a banker to other banks, it could remain, primarily a commercial bank.

Due the constant pressure from the Indian Community, the Imperial Bank had to increase Indian participation in the Board and the shareholders got the right to inspect the share register. However, the bank renamed predominantly British one, like the Presidency Banks, the Directors in Imperial Bank had extensive power regarding conduct of business, sharing of profit, appointments, removal of employees and determining remuneration. And majority of the shares continued to be hold by Europeans and the position of officers were also manned by them, who used to get appointment directly as ‘Probationary Officers / Assistant Managers’ Native Indians could find place as shroffs, poddars and clerks etc.

Under these circumstances, Indianisation of the banks has got momentum. However, the Bank made sincere effort to open 100 more branches as agreed at the time of amalgamation of the Presidency banks and 55 branches were opened within in a span of two years. The Bank had three Local Head Offices at Calcutta, Bombay and Madras, each headed by one Secretary and treasurer. The Central Office of the Bank did not have a fixed place. It used to shuttle among the three cities. Imperial Bank functioned as Government Bank and till such time the Reserve Bank was not established, currency issue and management reminded its important functions.
Great economic recession of the late twenties and thereafter outbreak of Second World War slowed down the pace of expansion of the Imperial Bank. Nevertheless, it continued to play an important role in the development of banking in the country.

2.3.6 Reserve Bank of India

Since inception, Indian banking was marked by failure of banks. It did not stop with liquidation of 57 banks by 1913. In between 1922 to 1936 as many as 373 banks went wound up. The phenomenon continued throughout the decade and induced the Government to appoint ‘Central Banking Enquiry Committee’ in 1931.

The committee identified incompetence, unrestricted loans to Director’s or to the concerns in which they were interested, dishonest management and bad, speculative and injudicious investments, too innocent banking practice and prudence to check manipulation and insufficient paid-up capital and reserves as the main causes of failure of the banks. 65 percent of the banks that failed were less than eight years old and had weak financial base with paid-up capital of less than Rs.1 lakh each. The bigger banks were more stable.

In this backdrop, presence of central regulatory authority was more felt and the idea of a central bank got impetus. In 1925, ‘The Hilton Young Commission’ was appointed to examine whether any modification was desirable in the interests of the country in the Indian exchange and currency system and practice.

The Committee recommended, while suggesting a monetary system which would best suit the changing scenario, establishment of a central bank called Reserve Bank of India to provide a unity of policy in the control of credit as an entirely new institution, quit apart from the Imperial Bank and like other Central Banks of the World, it would have the usual four functions i) issue of notes, ii) holding reserves of
the commercial banks, iii) buying and selling of securities and, iv) discounting of bills.

In 1931, the Central Banking Enquiry Committee was appointed under Sir Bhupender Nath to examine the development in banking with a view of the expansion of indigenous co-operative and joint stock banking with a special reference to requirements of the agriculture, commerce and industry, regulation of banking to protect interest of the public, development of Banking education to equip Indians to meet the increasing need for a sound and well management national system of banking.

The committee in its remarkable report recommended it to be a matter of supreme importance that from the point of view of the development of banking facilities in India and of economic advancement generally, a central Reserve Bank shall be created at the earliest, endorsing the recommendation of the Royal Commission on Indian Currency and Finance in 1926. The committee further recommended to bring indigenous bank under control of Reserve Bank of India, established of large number of land mortgage banks under the co-operative system, set up all India banking Association and stock Exchange, spread banking education and opening of branches in un-banked areas specially in small centres, with the help of Reserve Bank of India placing a deposit for first five years.

In 1933, The Reserve Bank of India bill was introduced in the Legislative Assembly and ultimately; RBI was established on 1st April 1935. Though RBI was set up a private sector bank on the lines of some of the leading banks of the World, the Government retained control over its functioning. RBI was entrusted:

-To regulate the issue of currency

-To act as Banker to Central and State Governments
To Act as the Banker's bank.

Immediately after the Second World War, Bank of England and Bank of France were nationalized. Following suit, RBI was nationalized on 1st January 1949 under the RBI (Transfer to Public Ownership Act) 1948.

2.3.7 State Bank of India

Just after independence, the Government in its eagerness for rapid development in this country, decided to have a re-look in the banking and financial system and in that direction in 1950, appointed 'The Rural Banking Enquiry Committee' under the chairmanship of Sir. Purushottam das Thakur das.

The committee submitted that the growth of banking was unplanned and concentrated mainly in cities and large towns only. It suggested that Imperial Bank and other commercial banks should set up branches in taluks, mandals and other places of commercial and industrial importance. Moreover, the branch expansion should be an essential part of the rural development programme. The Imperial Bank should also assist in opening branches in potential areas and take over treasury payments and cash work within next five years. Bank was given a target of opening of 114 branches in between 1951 to 1955. However, only 63 branches could be opened and hardly any credit reaches rural areas.6

During this period most of the banks were controlled by group of individuals or industrial houses. Tatas owned Central bank of India, Birlas the UCO, Chettiars the Indian Bank, Pai’s the Syndicate Bank, Karamchnad Thapar the Oriental Bank of Commerce, Walchand Hirachand the Bank of Baroda. These banks hardly had any presence in rural, semi urban areas and contribution to growth of economy and spread of banking was marginal.
In 1954 for the all India Rural Credit Survey Committee the director Mr. A.D Gorwala was appointed by RBI with an objective of to plan, organize and supervise survey of the credit in the rural areas. The committee found that only 2.7 percent of total credit of the scheduled commercial banks was going to agriculture. It also recommended creation of a suitable condition for co-operative and other institutions, with state partnership in finance, technology and personnel. It specially recommended establishment of State Bank of India, to help develop rural and co-operative banking. The committee also added that the State Bank of India should undertake large and expedition's branch expansion programme especially in the subdivisional head quarters. Since the Imperial Bank, to all attention and purpose, was functioning as a State sponsored bank and as suggested by 'Rural Banking Enquiry Committee' that the multiplication of institutions performing similar functions and competing with one another with State aid would not be desirable, because of this the Government decided to convert Imperial Bank of India into State Bank of India. To this effect, State Bank of India Act was enacted in 1955.

On 1.7.1955, State Bank of India was born out of the Imperial Bank of India. RBI contributed 97 percent of the equity. The bank assumed a new role subservient to multiple needs of planned economic development. A new emblem – banyan tree was adopted. The bank was given target of opening 400 branches in rural and semi urban areas within a period of 5 years. Against this target, SBI opened 415 branches.

Eight large banks of erstwhile princely states of Jaipur, Bikaner, Patiala, Saurashtra, Hyderabad, Tavancore, Indore and Mysore were made subsidiaries of SBI under (Subsidiary Banks) act of 1959. Subsequently, State Bank of Jaipur and State Bank of Bikaner were merged into one. The period from 1955 to 1959 marked as new era of public sector banking in India.
2.4 Banking Reforms

In 1968, the Government of India introduced 'Social Control' over banks by which they were directed to provide larger volume of credit to hitherto neglected sectors such as Agriculture, Small Scale Industries, Village Artisans etc., and to make credit more effective instrument of economic development. However, progress made by the banking, in this regard was not found adequate. Therefore, with a view to ensuring that the banks were adequately motivated towards a speedy achievement of social objectives of meeting legitimate requirements of weaker sections of society, 14 major Indian schedule Commercial Banks were nationalized on the 19th July 1969 by the Banking Company (acquisition and transfer of Understanding) Act 1970. This was further followed nationalization of 6 more banks in April 1980 (Source: Estimate committee report on banking April 1984).

The objectives of nationalization as given in the 'Statement of objectives and Reasons appeared in the Banking Companies (acquisition & Transfer of Undertaking) Bill 19 were:-

"The banking system touches the lives of millions and to be inspired by large sections of people to serve the purpose and has to be sub-serve national priorities and objectives, such as rapid growth in agriculture, small industries and exports, raising of employment levels, encouragement of new entrepreneurs and development of backward areas. For the purpose, it was necessary for the government to take direct responsibility for extension a diversification of banking services and for working of a substantial part of the banking system."

Meanwhile, the Government of India had set up the Banking Commission in 1969 which submitted the report on 31st January 1972 containing the following
landmark recommendations which had tremendous impact on the Human Resources Management of the Indian Banks in the future to come:-

i) Banks, especially in large branches, should introduce mechanization adopting a phased programme.

ii) Banks should maintain proper inventories of their existing personnel branch, regional and circle level, formulates business plans and make estimates of their requirements of personnel of different categories.

iii) Search for suitable talent should not be restricted to first point of entry into the bank (i.e. the clerical level) but should also be extended to attract sufficient number of person’s who possess executive potential. By enlargement of banking and adoption of customer oriented approach, the need for specialists in banks has increased considerably. Apart from subordinate staff, recruitment in banks should, therefore, be at three levels viz. clerical, junior officers and specialists.

iv) Recruitment at these levels should be based on written test and interview.

v) Since major portion of banking industry is in public sector, there should be a common agency for recruitment of staff at these banks both at clerical and junior officer levels. The agency could be named as “National Banking Service Commission” on the lines of the Union Public Service Commission.

Several recommendations of the commission were accepted by banking sector. As a consequence Banking Service Recruitment Boards (BSRB) was created at various Zones instead of a “National Banking Service Commission”. State Bank of India for recruitment of clerical staff depended
on the BSRBs. However, it had its own Central Recruitment Board for selection of Probationary / Specialist officers.

2.4.1 Banking in the eighties

The expansion phase which followed ‘nationalization’ of banks, brought about unprecedented growth in banking in all directions – like manpower strength, branch network, deposits and advances. However, the success was neither unqualified nor without its cost. Lines of supervision and control were stretched beyond the optimum level. The competitive efficiency of the Indian Banking system was at low ebb. In this backdrop, the following observations and recommendations of the Estimates Committee in its report on Banking in April 1984 are relevant which includes -

i) They would like to draw attention to the wide gap which still exists between population coverage per bank Office in metropolitan / Port towns on the other hand Rural/ semi urban areas.

ii) The committee finds that there are wide regional disparities in the matter of population coverage by scheduled commercial banks.

iii) The Committee finds that in 18 out of 28 public sector banks, the officer – clerk ratio ranges between 1.2 and 1.3 indicating that there is a large complement of officers in these banks. The committee recommended that the Reserve Bank of India should undertake a review of the staffing pattern in the public sector banks and take steps to ensure the administrative set up of any public sector bank does not become to heavy.
iv) The committee finds that expansion of branch network since nationalization of major banks in 1969 has led to deterioration in the standards of customer service.

v) The committee recommended large-scale mechanization of branch / zonal office and Head Office of the banks to ensure better customer service and to have better information and control system.

The ‘consolidation’ phase of Indian Banking started in 1985. During this period,

There was marked slowdown in the branch expansion and attention was paid to improving house keeping, customer service, credit management, staff productivity and profitability of the banks. However, the banks continued with priority sector lending under Government sponsored schemes. Loan ‘melas’ were started to gain political mileage which was closely followed, by ARDR of Agricultural Debt Relief Scheme in terms of which loans up to Rs.10,000 were waived. Over the years the banks became plagued with large number of bad loans. Nevertheless, in view of availability of budgetary supports, the banks were not that bothered about the same and profit continued to be a bad word for the ailing public sector banks till the ‘Reform’ of the nineties.

2.4.2 Economic Reforms and Indian Banking

The economic crisis of the late eighties forced the Government to bring about drastic change in economic policy. According to Dr.Mannmohan Singh, the former Finance Minister and present Prime Minster of India was the main author of ‘liberalization’, the crisis was due to “The acute balance of payment crisis. Our forex reserves had literally disappeared, NRI deposits were flowing out, for only a small loan, it was recognized that the old economic instructions had become instruments of
harrassment, delay and corruption and had to be changed. Hence he recommended structural change to move on to a higher growth path. Thus began the liberalization process of Indian economy in 1991. Financial sector reform became one of the most important vehicles in the entire reform process. In these direction recommendations of the committee on “Financial System”, popularly known as Narasimham Committee, was submitted in November 1991. Narasimham suggested new accounting and prudential norms for income recognition, provisioning and capital adequacy. The concept of NPA was introduced which continues to haunt the banking industry even today. In the reform process interest rates were deregulated and norms for entry in banking were relaxed. The following are the important changes in the process:-

i) Banks are to maintain 8 percent of their risk-weighted assets as capital.

ii) Recovery of Debts due to Banks and Financial Institutions Act 1993 was passed.

iii) By an act Special Recovery Tribunals were created and Deposits and lending rates structures were rationalized with autonomy to banks to determine the own rates. In 1993, New Banks in private sector were permitted.

iv) Branch licensing policy was modified. RBI extended more autonomy to banks in opening, closure and merger of branches / banks.

v) Both CRR and SLR were reduced gradually. Decks were cleared for further computerization of banks following agreement with trade unions in October 1993. A high-powered committee was set up under W.S.Saraf to study the technology issue. CVC directions came to computerize 70
percent of banking business. As a consequence, massive technology initiative was adopted in the entire banking sector.

Liberalization has brought about a paradigm shift from a highly regulated system in to a deregulated regime. Opening up of the banking sector has resulted in a significant increase in the number of private sector banks as well as foreign banks. They include.

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<tr>
<th>New Private Sector Banks</th>
<th>New Foreign Banks</th>
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<tr>
<td>Indusind Bank</td>
<td>Barclays Bank</td>
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<tr>
<td>Axis (UTI) Bank</td>
<td>Bank of Ceylon</td>
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<tr>
<td>HDFC Bank</td>
<td>Bank of Indonesia International</td>
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<td>Centurion Bank</td>
<td>State Commercial Bank of Mauritius</td>
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<td>Times Bank</td>
<td>Chase Manhattan Bank</td>
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<tr>
<td>Bank of Punjab</td>
<td>Overseas Chinese Bank Corporation</td>
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<td>IDBI Bank</td>
<td>Toronto Dominion Bank</td>
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<td>ICICI Bank</td>
<td>Fuji Bank</td>
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These new banks have set the tone, particularly, harnessing the new state of technology, which, the public sector banks are to match for their own survival. Another important aspect of liberalization is large-scale financial intermediation. Distinction between commercial banks and financial institutions has been getting blurred at a rapid pace. While LIC is tying up with Corporation Bank in banking, commercial banks are entering into insurance sector. Primary producers like car manufacturers; electronic goods manufacturers etc. are also posing a challenge by reaching directly the customers to extend finance.

Indian banks have moved from a typical seller’s market to buyers market. All the developments have brought the banks, closer to Universal Banking. Today’s
Banks are eager to operate as financial supermarket with a wide range of services such as consumer finance, credit cards, leasing, custodial service, investment banking, gilt banking, insurance etc.

As a measure of further, reform, in 1999, RBI, in consultation with the Government constituted a committee headed by Sri.M.S.Verma, former chairman of SBI to find out a solution for weak banks. The recommendations of the committee apply equally to all banks. To that extent, it is a document not so much on weak banks but for healthy banking system. Apart from three weak banks viz. Indian Bank, UCO Bank and United Bank of India, the working group has placed the rest of the 24 public sector Banks in four categories on the following seven parameters for assessing strength of a bank:-

1. Capital adequacy ratio.
2. Coverage ratio.
3. Return on assets.
5. Ratio of profit to average working fund.
6. Ratio of cost to income.
7. Ratio of staff cost to income.

The committee has identified six other banks, viz. Allahabad Bank, Central Bank of India, Indian Overseas Bank, Punjab & Sind Bank, Union Bank and Vijaya Bank showing signs of distress, with the risk of turning into weak banks.

The committee suggested the following:-

1. There should be conditional re-capitalization and restructuring instead of merger or closer of weak banks, which could be the option.
2. Staff strength should be reduced by 22 percent to reduce cost.
3. VRS and/or wage reduction/freeze for 5 years are to be introduced.

4. Technology to be upgraded.

5. ARF or Assets Reconstructions Fund is to be constituted.

6. Rationalization of branches to be introduced.

7. An independent agency FRA – Financial Restructuring Authority to be set up for restructuring of three weak banks. Which includes UCO, IB, and UBO.

One of the main reasons for the low profitability is ascribed to mounting wage bill

Varma Committee suggests the existence of slab in all PSU banks. Therefore, VRS in public sector banks has become a reality. PNB, UBI, UCO, Andhra Bank etc. have launched the scheme at the end of year 2000. The process gathered full momentum with introduction of VRS in January 2001 in the country’s largest Bank i.e. State Bank of India and its subsidiaries. All the banks have followed the general guidelines of IBA with regard to VRS.

2.5 Growth of Indian Banking in Nineties:

The reforms of the financial sector in India have been guided by the report of the Narasimham Committee which was issued in November 1991. These reforms aimed at improving the efficiency of the banking system, introducing transparency in operations, and ensuring that the sector is operating on a sound financial footing. The Narasimham Committee drew attention to the poor loan recovery, weak capital position, high cost and low profitability of public sector banks and attributed this not to public ownership but pointed instead to the managerial and policy environment within which banks had operated (Bery, 1994). On this basis controls on interest rates were removed, the bank assets were reduced, and regulatory and supervisory
standards were strengthened. The new norms of asset classification, income recognition, and capital reporting losses – as a group these banks reported a net loss of Rs.3,293/- crore in 1992-93 and Rs.4,349/- crore in 1993-94 – and the non-performing loans of these banks were found to be about 21% of their loan portfolio in 1992-93.

The public sector banks, however, constitute two sets of banks. The State Bank of India (SBI) and its seven associate banks were the only public sector banks from 1955 to 1969 when the Nationalization Act nationalized the 14 largest private sector banks and another 6 banks were nationalized in 1980. The 27 public sector banks dominate the commercial banking sector with a share of 87.2% of assets in 1992-93 and 79.7% in 1999-2000. About 91.3% of the bank branches in the country in 1992-93 and 89.8% of the branches in 1999-2000 belonged to the public sector banks. About 65.8% of these branches of the public sector bank branches were in rural and semi-urban areas. The expansion of private sector and foreign banks in strictly regulated and only since 1993 have new private and foreign banks been allowed to enter the market. Currently there are 32 private sector and 42 foreign banks operating in India. The table 2.1 tries to explain the performance of domestic private, public sector and foreign banks,
Table 2.1

Net Profit and Establishment Expenses of Indian Banks in Nineties

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI &amp; associates</th>
<th>Nationalized banks</th>
<th>Privates sector Banks</th>
<th>Foreign Banks</th>
<th>SBI &amp; Associates</th>
<th>Nationalized Banks</th>
<th>Private Sector</th>
<th>Foreign Banks</th>
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<tbody>
<tr>
<td></td>
<td>Net Profit as % of Working Funds</td>
<td>Establishment Expenses as % of Total Expenditure</td>
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<td></td>
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</tr>
<tr>
<td>1990-91</td>
<td>0.17</td>
<td>0.16</td>
<td>0.37</td>
<td>1.54</td>
<td>21.29</td>
<td>18.75</td>
<td>26.01</td>
<td>7.48</td>
</tr>
<tr>
<td>1991-92</td>
<td>0.21</td>
<td>0.33</td>
<td>0.57</td>
<td>1.58</td>
<td>15.26</td>
<td>16.84</td>
<td>20.88</td>
<td>5.51</td>
</tr>
<tr>
<td>1992-93</td>
<td>0.22</td>
<td>-1.71</td>
<td>0.35</td>
<td>-2.91</td>
<td>17.27</td>
<td>15.05</td>
<td>18.62</td>
<td>4.42</td>
</tr>
<tr>
<td>1993-94</td>
<td>0.25</td>
<td>-1.98</td>
<td>0.57</td>
<td>1.52</td>
<td>18.58</td>
<td>15.21</td>
<td>16.94</td>
<td>7.87</td>
</tr>
<tr>
<td>1994-95</td>
<td>0.54</td>
<td>0.10</td>
<td>1.16</td>
<td>1.70</td>
<td>21.45</td>
<td>20.28</td>
<td>16.88</td>
<td>8.37</td>
</tr>
<tr>
<td>1995-96</td>
<td>0.43</td>
<td>-0.36</td>
<td>1.19</td>
<td>1.46</td>
<td>21.84</td>
<td>19.95</td>
<td>13.78</td>
<td>8.62</td>
</tr>
<tr>
<td>1996-97</td>
<td>0.82</td>
<td>0.41</td>
<td>1.13</td>
<td>1.20</td>
<td>20.15</td>
<td>19.92</td>
<td>10.92</td>
<td>8.53</td>
</tr>
<tr>
<td>1997-98</td>
<td>1.04</td>
<td>0.62</td>
<td>1.04</td>
<td>0.96</td>
<td>20.82</td>
<td>19.75</td>
<td>9.86</td>
<td>7.65</td>
</tr>
<tr>
<td>1998-99</td>
<td>0.51</td>
<td>0.37</td>
<td>0.68</td>
<td>0.77</td>
<td>19.70</td>
<td>19.59</td>
<td>9.71</td>
<td>8.58</td>
</tr>
<tr>
<td>1999-00</td>
<td>0.80</td>
<td>0.44</td>
<td>0.90</td>
<td>1.17</td>
<td>18.91</td>
<td>19.17</td>
<td>9.61</td>
<td>9.28</td>
</tr>
<tr>
<td>Average</td>
<td>0.58</td>
<td>0.00</td>
<td>0.89</td>
<td>0.94</td>
<td>19.62</td>
<td>18.74</td>
<td>11.84</td>
<td>7.92</td>
</tr>
<tr>
<td>Average</td>
<td>0.72</td>
<td>0.33</td>
<td>0.94</td>
<td>1.08</td>
<td>20.13</td>
<td>19.63</td>
<td>10.34</td>
<td>8.55</td>
</tr>
</tbody>
</table>

[Source: IBA bulletin 1999, 2000]

The performance of the commercial Banks is given in table 2.1 explains the profitability of the public sector Banks during the nineties was much lower than that of private sector banks and foreign banks. Net profits as percentage of working funds was 0.21% for the decade of the nineties for the public sector banks as a whole. The State Bank Group did better, returning a figure of 0.58% for the decade whilst the figure for the nationalized banks was 0%. These figures for the public sector banks are much lower than the 0.89% for private sector banks and 0.94% for foreign banks. The net profits of the nationalized banks were negative in 1992-93 and 1993-94 as they had to adopt the new norms of asset classification and income recognition. In the latter half of the decade the performance of the public sector banks improved – the net profits as a percentage of working funds for the public sector banks went up by 0.24% to 0.48% - the SBI Group returned 0.72% and the nationalized banks
0.33% in the latter half of the nineties. The performance of the private sector banks and foreign banks did not improve as rapidly in the latter half of the nineties.

State Bank of Mysore has been enjoying for long the economics of large size in the state of Karnataka. However, size alone cannot be sufficient in the present highly competitive environment. During this period under study, even a few of the nationalized banks overtook SBM in performance as is evident from the data presented in table 2.2.

Table 2.2

<table>
<thead>
<tr>
<th>Growth of Advances in SBM and other Banks (Rs: in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>SBM</td>
</tr>
<tr>
<td>SBI</td>
</tr>
<tr>
<td>Nationalized Banks</td>
</tr>
<tr>
<td>PSU Banks</td>
</tr>
<tr>
<td>Old Pvt. Banks</td>
</tr>
<tr>
<td>New Pvt. banks</td>
</tr>
<tr>
<td>Foreign Banks</td>
</tr>
<tr>
<td>Scheduled Comm. Banks</td>
</tr>
</tbody>
</table>

[Source: IBA bulletin March 2000, 2009]

The table 2.3 tries to explain the percentage of growth of advances in SBM and other Banks in India.

Table 2.3

<table>
<thead>
<tr>
<th>Percentage and average growth of Advances in SBM and other Banks</th>
</tr>
</thead>
</table>
|                   |      |      |      |      |      |      |      |      |      |      |      | Age
| SBM               | 8    | 15   | 13   | 13   | 12   | 19   | 16   | 22   | 18   | 21   | 17   | Growth |
| SBI               | -13  | 17   | 23   | 4    | 19   | 11   | 19   | 26   | 22   | 28   | 26   | 17   |
| Nationalized Banks | -2   | 22   | 14   | 6    | 18   | 16   | 19   | 14   | 18   | 21   | 22   | 15   |
| PSU Banks         | -5   | 21   | 17   | 6    | 18   | 14   | 19   | 16   | 17   | 21   | 22   | 15   |
| Old Pvt. Banks    | 23   | 42   | 25   | 19   | 17   | 13   | 21   | 24   | 15   | 12   | 15   | 21   |
| New Pvt. banks    | *    | *    | *    | 61   | 41   | 34   | 61   | 72   | 38   | 34   | 41   | 48   |
| Foreign Banks     | 10   | 34   | 46   | 19   | 9    | 2    | 21   | 14   | 8    | 6    | 23   | 17   |
| Scheduled Comm. Banks | -2   | 23   | 22   | 9    | 18   | 14   | 21   | 19   | 17   | 21   | 23   | 17   |

[Source: IBA bulletin March 2000, 2009]
It is observed that from the table 2.3 the average growth of advances of SBM is 17 percent which is same as that of SBI. But the average growth of the advances in SBM is more than that of other nationalized banks and PSU banks. But the above study reveals that it is also behind the old private banks and new private Banks.

The table 2.4 tries to explain the growth of deposits in State Bank of Mysore and other Banks.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SBM</td>
<td>4162</td>
<td>4953</td>
<td>5943</td>
<td>7310</td>
<td>8699</td>
<td>10004</td>
<td>11704</td>
<td>13343</td>
<td>16179</td>
<td>21395</td>
<td>26781</td>
</tr>
<tr>
<td>SBI</td>
<td>76406</td>
<td>85122</td>
<td>96395</td>
<td>110701</td>
<td>131091</td>
<td>169042</td>
<td>196821</td>
<td>253899</td>
<td>294523</td>
<td>367524</td>
<td>454883</td>
</tr>
<tr>
<td>Nationalized Banks</td>
<td>157889</td>
<td>178069</td>
<td>203688</td>
<td>236208</td>
<td>262631</td>
<td>301447</td>
<td>358126</td>
<td>417525</td>
<td>481025</td>
<td>492045</td>
<td>585533</td>
</tr>
<tr>
<td>PSU Banks</td>
<td>233753</td>
<td>263254</td>
<td>303392</td>
<td>348938</td>
<td>390820</td>
<td>449340</td>
<td>531729</td>
<td>636810</td>
<td>737313</td>
<td>852015</td>
<td>954257</td>
</tr>
<tr>
<td>Old Pvt. Banks</td>
<td>12211</td>
<td>15359</td>
<td>20079</td>
<td>26406</td>
<td>30214</td>
<td>37620</td>
<td>47459</td>
<td>55716</td>
<td>66988</td>
<td>78277</td>
<td>86105</td>
</tr>
<tr>
<td>New Pvt. banks</td>
<td>*</td>
<td>*</td>
<td>5937</td>
<td>11776</td>
<td>19523</td>
<td>27802</td>
<td>46682</td>
<td>68240</td>
<td>77256</td>
<td>91242</td>
<td>132301</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>16899</td>
<td>20875</td>
<td>25898</td>
<td>28079</td>
<td>30466</td>
<td>36289</td>
<td>41808</td>
<td>46486</td>
<td>49324</td>
<td>54786</td>
<td>60812</td>
</tr>
<tr>
<td>Scheduled Comm. Banks</td>
<td>262865</td>
<td>299489</td>
<td>349370</td>
<td>403425</td>
<td>457439</td>
<td>535025</td>
<td>640514</td>
<td>766815</td>
<td>900307</td>
<td>1184560</td>
<td>1409626</td>
</tr>
</tbody>
</table>

[Source: IBA bulletin March 2000, 2008]

The table 2.5 tries to explain the percentage of growth of deposits in SBM and the other Banks.

<table>
<thead>
<tr>
<th>Banks</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Average Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBM</td>
<td>1</td>
<td>20</td>
<td>23</td>
<td>19</td>
<td>15</td>
<td>17</td>
<td>14</td>
<td>18</td>
<td>18</td>
<td>21</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>SBI</td>
<td>21</td>
<td>10</td>
<td>15</td>
<td>11</td>
<td>13</td>
<td>15</td>
<td>18</td>
<td>29</td>
<td>16</td>
<td>22</td>
<td>24</td>
<td>18</td>
</tr>
<tr>
<td>Nationalized Banks</td>
<td>10</td>
<td>13</td>
<td>14</td>
<td>16</td>
<td>11</td>
<td>15</td>
<td>19</td>
<td>17</td>
<td>15</td>
<td>18</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>PSU Banks</td>
<td>12</td>
<td>13</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>18</td>
<td>20</td>
<td>16</td>
<td>19</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Old Pvt. Banks</td>
<td>30</td>
<td>26</td>
<td>31</td>
<td>32</td>
<td>14</td>
<td>26</td>
<td>17</td>
<td>20</td>
<td>20</td>
<td>21</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>New Pvt. banks</td>
<td>*</td>
<td>*</td>
<td>120</td>
<td>66</td>
<td>42</td>
<td>68</td>
<td>71</td>
<td>48</td>
<td>54</td>
<td>45</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>49</td>
<td>24</td>
<td>24</td>
<td>8</td>
<td>5</td>
<td>23</td>
<td>-1</td>
<td>11</td>
<td>6</td>
<td>10</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>Scheduled Comm. Banks</td>
<td>15</td>
<td>14</td>
<td>17</td>
<td>15</td>
<td>13</td>
<td>18</td>
<td>19</td>
<td>20</td>
<td>17</td>
<td>21</td>
<td>19</td>
<td>17</td>
</tr>
</tbody>
</table>

[Source: IBA bulletin March 2000, 2009]
The table 2.5 reveals that though the average growth of deposits in SBM is 19 percent and it is more than SBI and nationalized banks, it is much lower than the new private, old private banks. The highest average growth was found in new private banks in India.

The table 2.6 tries to explain the profit per employee in SBM and other Banks

Table 2.6

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SBM</td>
<td>0.09</td>
<td>0.09</td>
<td>0.10</td>
<td>0.16</td>
<td>-0.05</td>
<td>0.39</td>
<td>0.67</td>
<td>0.96</td>
<td>1.21</td>
<td>0.36</td>
</tr>
<tr>
<td>SBI</td>
<td>0.08</td>
<td>0.09</td>
<td>0.12</td>
<td>0.31</td>
<td>0.36</td>
<td>0.57</td>
<td>0.78</td>
<td>0.43</td>
<td>0.87</td>
<td>0.36</td>
</tr>
<tr>
<td>Nationalized Banks</td>
<td>0.11</td>
<td>-0.63</td>
<td>-0.81</td>
<td>0.05</td>
<td>-0.20</td>
<td>0.25</td>
<td>0.45</td>
<td>0.53</td>
<td>0.59</td>
<td>0.03</td>
</tr>
<tr>
<td>PSU Banks</td>
<td>0.10</td>
<td>-0.038</td>
<td>-0.49</td>
<td>0.12</td>
<td>-0.04</td>
<td>0.35</td>
<td>0.56</td>
<td>0.61</td>
<td>0.70</td>
<td>0.18</td>
</tr>
<tr>
<td>Old Pvt Banks</td>
<td>0.15</td>
<td>0.11</td>
<td>0.24</td>
<td>0.65</td>
<td>0.66</td>
<td>0.69</td>
<td>0.75</td>
<td>0.81</td>
<td>1.36</td>
<td>0.54</td>
</tr>
<tr>
<td>New Pvt Banks</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>10.02</td>
<td>11.36</td>
<td>7.35</td>
<td>9.49</td>
<td>9.56</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>2.95</td>
<td>-</td>
<td>3.86</td>
<td>4.76</td>
<td>4.93</td>
<td>4.78</td>
<td>4.23</td>
<td>5.61</td>
<td>1.77</td>
<td>2.91</td>
</tr>
<tr>
<td>Scheduled Comm. Banks</td>
<td>0.14</td>
<td>-0.44</td>
<td>-0.39</td>
<td>0.22</td>
<td>0.09</td>
<td>0.46</td>
<td>0.67</td>
<td>3.27</td>
<td>2.01</td>
<td>0.60</td>
</tr>
</tbody>
</table>

[Source: IBA bulletin March 1996, 2005]

The table 2.6 reveals that the profit per employee in SBM is 0.36 lakhs which is same as SBI. However, it is lagging behind other banks. The other banks like PSU banks 0.18 lakhs, Old private sector banks 0.54 lakhs, new private sector banks 9.56 lakhs and foreign banks 2.91 lakhs are ahead of SBM. From the above analysis the SBM has to realize that a concerted strategic and organizational effort is necessary to maintain leadership and financial performance in the new environment.

In this direction, the Bank has adopted new strategies after becoming the associate bank with SBI. The SBI was appointed internationally acclaimed
consultant McKinsey in 1995 for re-structuring of the SBI and its subsidiaries. He suggested the following strategic priorities:

The Bank should Create

i) “Corporate Accounts Group” that offers core finance products to the bank’s 150 largest corporate customers through single point contact with Relationship Managers at specialized branches.

ii) Strong Project Finance and leasing capability to exploit the growing demand for structured finance.

iii) Develop and international alliance for SBI Caps to strengthen distribution capabilities and the skill building effort required succeeding in the fierce competitive markets for Euro-debt/equity issuance, securities, trading corporate, advisory, M & A and treasury products.

Unify long-term strategy around five key business areas

The consultants recommended the following five strategic areas:-

i) National Banking Group to include mid-corporate, SSI, Small business Agriculture, Government and the personal mass market. The Nation; Banking Group consists of two networks namely Development and Person; Banking network and Commercial Network.

ii) Consumer banking to serve large and high income of high net-worth individuals.

iii) Corporate Banking to serve large and growth corporate as a distinct business unit.
iv) International Banking area for overseas MNC's, Institutional investors, NRI's and selectively domestic corporate with international focus.

v) Associates & Subsidiaries to cover the seven associates Banks, SBI Fund Management, SBI Home Finance and SBI Factors.

In order to establish a lean value-adding Corporate Centre at SBI, the consultant recommended the following:-

i) Create a highly knit top management with clean responsibilities and accountability. This team would include the Chairman / Managing Director Group Executives of the business Groups and three new staff members – a Chief Credit Officer, Chief Financial Officer and Corporate Development Officer. This group would comprise the Management Committee of the Bank.

ii) Change the new staff officers with managing functional areas that cut across business lines – the CCO with credit processes and asset quality, the Chief Financial Officer with balance sheet and risk management and the corporate development officer with human resources and technology development.

iii) Establish focused senior management forum for setting bank wise policy in key areas of credit, financial management and human resources management. This forum should serve to make collective decisions based upon prior staff work.

The consultant suggested that the corporate Development Officer is to reshape SBI’s approach to human resources management and technology. In
the short term, he should focus on supporting specific business initiatives with transfer and promotion policies that facilitate greater specialization and allow selective lateral hiring. Over the medium term, HR policy will need more comprehensive review to encourage merit-based promotion, performance and transparency and revamp compensation. Personnel policies that are largely uniform across the bank will need to be made more responsive to the increasingly specialized needs of different banking businesses. The CDO should lead the decentralization of persona decision-making and refocus the Corporate Centre on the formation of progressive policies.

2.6 Organizational Structure at the Corporate Level

The organizational structure as suggested by McKinsey & Co. and implemented by the Bank is given below:

[Source: McKinsey (1995)]
Fig: 2.2
Corporate Banking Group: Structure

[Source: McKinsey (1995)]
Fig 2.3
Corporate Development Officer – Structure
DMD & CDD

Fig.2.4
Organizational Structure: National Banking Group

[Source: McKinsey (1995)]
2.6.1 McKinsey team concluded that:-

“Our consistent experience with banks around the world has been that there are four prerequisites for successful implementation of change programme of this magnitude. First secure long-term commitment from key shareholders namely the Board Directors, Government Regulators and the Senior Management Group. Second, place the right resources to lead the multiple efforts involved in the programme. Third, communicate intensively and demonstrate visibly changed senior management behavior. Finally address regularly and union concerns in a straightforward way. We would encourage management and the board to incorporate these views in dedicating time and resources to SBI’s and its associates major change effort’.

2.6.2 Re-enlistment of McKinsey

In July 2001, it has been decided by the bank to enlist the services of McKinsey & Co. for extending advisory support for crystallizing the strategic priorities for the bank. The board framework for the exercise would be to refine (not re-identify or re-design) the priorities plus strategy through discussions with the senior management and debate the issues in a workshop where the participants would be the CENMAC (Central Management Committee) and the Circle CGMs. SBI and the consultants would jointly address the challenges once the strategic priorities are crystallized through the above exercise. The outcome thereof would be an access to critical insights into what needs to be done during the next 2-3 years time horizon. In this direction the Consultants have started “Performance Ethic survey” by eliciting response from the senior Executives of the Bank through structured questionnaire. (Head Office Letter 20.07.2001)
2.7 Growth of Banking in Karnataka

Growth of banking in Karnataka remained sluggish at the time of independence as is evident from the following. The state of Karnataka, particularly the region comprising of the coastal districts of Dakshina Kannada and Udupi is called as “cradle of Banking” in India. This is because seven of the country’s leading banks, Canara Bank, Syndicate Bank, Corporation Bank, Vijaya Bank, Karnataka Bank, Vysya Bank and the State Bank of Mysore originated from the state. The first five in the above list of banks were established in the districts of Udupi and Dakshina Kannada. These districts have one among the best distribution of banks in India - a branch for every 500 persons between 1880 and 1935, 22 banks were established in coastal Karnataka, nine of them in the city of Mangalore.

The origin of banking in Karnataka's coastal region can be traced to the year 1868 when the Presidency Bank of Madras opened a branch to cater to the needs of British companies involved in exporting plantation produce in the year 1912, the Indian Co-operative Societies Act in 1912 further energized the financial sector in this region leading to the establishment of lot of co-operative societies. The freedom movement of India also played a crucial role as seen in the establishment of Karnataka Bank which was created as an offshoot of the swadeshi movement during 1905. These banks were earlier created to address the main sector in the economy i.e. agriculture but later they diversified to address other economical sectors as well.

The Indian Government's notification of nationalization of banks in the year 1969 and 1980 resulted in lot of these banks being nationalized with the Indian Government now owning some amount of control over these banks. As of today, State Bank of Mysore, Canara Bank, Vijaya Bank and Vysya Bank have their headquarters in Bangalore, Corporation Bank and Karnataka Bank had headquarters
in Mangalore while Syndicate Bank had its headquarters in Manipal. The entry of the private sector into the banking sector with aggressive marketing has led these banks to rethink some of their strategies. Earlier, banking was the main activity that was undertaken by these banks but due to the competition, they have been forced to diversify into other areas like insurance, equity, mutual funds. They have also been forced to upgrade their technology and introduce services like ATMs and online-banking transactions. As of March 2002, Karnataka had 4767 branches of different banks servicing the people of the state. The number of people served by each branch was 11,000 which is lesser than the national average of 16,000, thereby indicating better penetration of banking in the state.

The scheduled banks in Karnataka had total deposit of Rs. 1346.99 billion constituting 6.4% of the total deposits in scheduled banks in India as on March 2006. The credit given by these banks stood at Rs. 1034.55 billion, 6.8% of total credit given by scheduled banks. The per capita deposit stood at Rs. 23,976 and per capita credit at Rs. 18,415. The State of Karnataka contains the following public sector banks.

2.8 State Bank of Mysore

2.9.1 History & Background of the SBM: Established in October 1913 under the aegis of the Government of Mysore on the recommendation of the Banking Committee headed by Sir M. Visvesvaraya, the great engineering statesman. It became the subsidiary of State Bank of India in March 1960 under the SBI (Subsidiary Banks) Act 1959. State Bank of Mysore (SBM) is an associate bank of State Bank of India, offering a range of financial products and services to its customers across the nation. State Bank of Mysore became an associate of SBI in
March 1960 with SBI holding 92.33% of shares. The State Bank of Mysore has its shares listed in various stock exchanges like Mumbai, Chennai and Bangalore.

The bank is playing a very proactive and dynamic role in the economic development of Karnataka State. It has pioneered in financing of coffee and silk industries and has taken early lead in financing agriculture and small scale industries in the state even before nationalization of banks. It enjoys excellent brand equity in the state and is well known the excellent quality of its customer service. SBM has been awarded with the first prize in the state level for best performance under SHG – bank linkage programme for the year 2002 – 2003

2.8.2 Organizational set-up: The Managing Director at the top is assisted by the Chief General Manager and 6 General Managers in the areas of operations, commercial and international banking, planning and development, finance and services, inspection and vigilance and information and technology. The bank has 4 Zonal Offices headed by Deputy General Managers. While two zonal office are situated in Bangalore, other two zonal offices are situated at Mysore and Hubli and Head Office at Bangalore (for organizational chart see Annexure-A).

2.8.3 SBM Network

The Bank has 18 Regional Offices controlling an extensive network of 682 branches and 20 extension counters including 5 specialized SSI Branches, 10 Agricultural Development Branches, 4 specialized Personal Banking Branches, 4 Industrial Finance Branches, 3 Corporate Accounts Branches, 8 Service Branches, 3 Treasury Branches and 1 Asset Recovery Branch.

The table 2.7 explains the distribution of bank network population wise situated in various regions like rural, semi-urban, urban and metropolitan areas.
Table: 2.7
Distribution of Bank Network population wise

<table>
<thead>
<tr>
<th>Population</th>
<th>No.of Branches</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>213</td>
<td>34.19%</td>
</tr>
<tr>
<td>Semi-urban</td>
<td>147</td>
<td>23.60%</td>
</tr>
<tr>
<td>Urban</td>
<td>117</td>
<td>18.78%</td>
</tr>
<tr>
<td>Metropolitan/ Port Town</td>
<td>146</td>
<td>23.43%</td>
</tr>
</tbody>
</table>

[Source: Status paper of BPMIS department as on 31.3.2006]

The table 2.7 reveals that the bank authorities are given more priority for the establishment of the branches in rural and semi-urban areas than the urban and metropolitan regions. This shows that the bank is aims more concentration on rural economic growth of the State of Karnataka as well as Country.

The table 2.8 tries to explain the geographical distribution of the SBM network in India.

Table: 2.8
Geographical Distribution of SBM Branches

<table>
<thead>
<tr>
<th>SL.No</th>
<th>Name of the Sate / Territory</th>
<th>No.of Branches</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Andhra Pradesh</td>
<td>19</td>
<td>3.05%</td>
</tr>
<tr>
<td>2</td>
<td>Delhi</td>
<td>11</td>
<td>1.77%</td>
</tr>
<tr>
<td>3</td>
<td>Goa</td>
<td>3</td>
<td>0.48%</td>
</tr>
<tr>
<td>4</td>
<td>Gujarat</td>
<td>3</td>
<td>0.48%</td>
</tr>
<tr>
<td>5</td>
<td>Karnataka</td>
<td>511</td>
<td>82.02%</td>
</tr>
<tr>
<td>6</td>
<td>Kerala</td>
<td>10</td>
<td>1.61%</td>
</tr>
<tr>
<td>7</td>
<td>Madya Pradesh</td>
<td>2</td>
<td>0.32%</td>
</tr>
<tr>
<td>8</td>
<td>Maharastra</td>
<td>18</td>
<td>2.89%</td>
</tr>
<tr>
<td>9</td>
<td>Orissa</td>
<td>01</td>
<td>0.16%</td>
</tr>
<tr>
<td>10</td>
<td>Rajasthan</td>
<td>1</td>
<td>0.16%</td>
</tr>
<tr>
<td>11</td>
<td>Tamilanadu</td>
<td>34</td>
<td>5.46%</td>
</tr>
<tr>
<td>12</td>
<td>Uttar Pradesh</td>
<td>2</td>
<td>0.32%</td>
</tr>
<tr>
<td>13</td>
<td>West Bengal</td>
<td>7</td>
<td>1.12%</td>
</tr>
<tr>
<td>14</td>
<td>Pondicherry</td>
<td>1</td>
<td>0.16%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>623</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

48
The table 2.8 reveals that 82 percent of their branch network situated in Sate of Karnataka and next followed by 5.46 percent in Tamilnadu, 3.05 percent Andhra pradeh, 2.89 percent in Maharastra, 1.61 percent in Kerala and remaining branches located other parts of the Country. The branch network covered 13 States and one National Territory of the Country. The business growth of the Bank depends to the large extent on the Karnataka economy since more than 82% of the branches (511 out of 623) are located in the Sate of Karnataka.

The table 2.9 tries to explain the performance of the SBM last three financial years.

### Table 2.9

<table>
<thead>
<tr>
<th>SL.NO</th>
<th>Key Indicators</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net Profit (Rs. In crores)</td>
<td>318.86</td>
<td>336.91</td>
<td>445.77</td>
</tr>
<tr>
<td>2</td>
<td>Return on Assets (%)</td>
<td>1.08</td>
<td>0.91</td>
<td>1.06</td>
</tr>
<tr>
<td>3</td>
<td>Return on Equity (%)</td>
<td>23.14</td>
<td>20.16</td>
<td>21.50</td>
</tr>
<tr>
<td>4</td>
<td>Expenses-Income Ration (%)</td>
<td>52.08</td>
<td>50.43</td>
<td>43.60</td>
</tr>
<tr>
<td>5</td>
<td>Earnings per Share (in Rs.) Face value of the share was Rs.100/- as on 31.03.2008 and Rs.10/- from 31.03.2009. suitable adjustments in EPS effected for the year 2007-08</td>
<td>88.57</td>
<td>93.59</td>
<td>123.83</td>
</tr>
<tr>
<td>6</td>
<td>Gross NPA to Gross Advances (%)</td>
<td>1.68</td>
<td>1.42</td>
<td>2.00</td>
</tr>
<tr>
<td>7</td>
<td>Net NPA to Net Advance (%)</td>
<td>0.42</td>
<td>0.50</td>
<td>1.02</td>
</tr>
</tbody>
</table>

Table 2.10

Market share & Business Growth of SBM last four years (Rs. In crores)

<table>
<thead>
<tr>
<th>SL.No</th>
<th>Key Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aggregate Deposits</td>
<td>13,343</td>
<td>16,179</td>
<td>21,395</td>
<td>26,781</td>
</tr>
<tr>
<td>2</td>
<td>Percentage of Growth</td>
<td>22.86</td>
<td>21.25</td>
<td>32.25</td>
<td>25.17</td>
</tr>
<tr>
<td>3</td>
<td>Market share %</td>
<td>0.76</td>
<td>0.77</td>
<td>0.82</td>
<td>0.84</td>
</tr>
<tr>
<td>4</td>
<td>Total advances</td>
<td>9125</td>
<td>12063</td>
<td>16772</td>
<td>21315</td>
</tr>
<tr>
<td>5</td>
<td>Percentage of growth</td>
<td>37.58</td>
<td>32.21</td>
<td>39.03</td>
<td>27.09</td>
</tr>
<tr>
<td>6</td>
<td>Market share %</td>
<td>0.80</td>
<td>0.81</td>
<td>0.87</td>
<td>0.90</td>
</tr>
</tbody>
</table>


The tables 2.9 & 2.10 reveals that the Bank is continuously progressing and the business levels of the Bank, both under deposits, advances and consequently the market share have been registering impressive growth.

2.8.4 Income of the SBM: The total income of the Bank increased by 6.89% from Rs.3728 crores at March’ 2009 to Rs.3985 crores in March’2010. Interest income increased from Rs.3247 crores to Rs.3559 crores (9.60%). The average yield on advances decreased from 10.68% in March’2009 to 10.24% in March’2010, while average yield on investment stood at 6.8% in the same period. Non interest income decreased by Rs.55 crores (11.37%) from Rs.480 crores to Rs.426 crores, mainly owing to reduction in profit from sale of securities (this is caused partly by hardening of yields on government securities and partly owing to our switching over to investment in dividend bearing liquid mutual funds as against growth oriented liquid mutual funds for development of short term surplus funds). The ratio of non-interest income to total income also therefore stood at a lower level of 10.69% in March 2010 (12.88% in March 2009). Efforts are being made to improve this ratio, in the coming years.
2.8.5 SBM Human Resources

State Bank of Mysore has the total staff strength as at the end of March’2009 stood at 9671 as against 9720 as at end of March’2008. The staff strength comprised of 3147 officers, 4463 clerical staff and 2061 subordinate staff. Out of these 1020 staff are Ex-defense personnel, 115 belonging to physically handicapped category and 531 belong to minority communities. Women representation as at the end of March’2009, there were 2360 in the bank compared to 2299 as at the end of March’2008. The Bank continued to provide equal opportunity to women in their career progression. The State Bank of India's Chairman is also the Chairman of State Bank of Mysore because SBM is a associate Bank. There is a Chief General Manager as well as 6 General Managers who assist the Managing Director of the bank.

2.8.6 SBM Financial Profile

As on March 31, 2009, State Bank of Mysore had a paid up capital of Rs. 360 million, while the net worth of the bank is Rs. 1619.44 crores. At the end of March 2009, State Bank of Mysore achieved a capital adequacy ratio of 12.99%. In the same financial year, it recorded a profit of Rs. 336.91 crores.

2.8.7 SBM Deposit Schemes

State Bank of Mysore offers a range of products and services to its customers. Different types of deposit schemes are offered.

1. Saral Savings Bank Account
2. SBM Tax Saver Scheme.
3. Multi Option Deposit Scheme.
5. Term Deposits.
6. Reinvestment Deposits.
7. Power Money.
8. Recurring Deposits.
9. Harsha Deposit.

2.8.8 SBM Advances

A range of loans and advances products are offered by the bank. Following are the list of advances provided by State Bank of Mysore:

A). Personal Banking Schemes
1. Personal Loan.
2. Mortgage Loan.
3. Housing Loan.
4. Happy Home.
5. Gnanamitra Education Loan.
6. Loan for purchase of residential site / plot
7. MYBANK ARAKSHAK – Personal Loan scheme to police personnel.
8. MYBANK UTSAV – Personal loan scheme to celebrate Festivals.
9. SBM Car Loan scheme – For purchase of new and used cars.
11. MYBANK SAMACHAR _ Personal loan scheme for Journalists.
12. GAGAN MITRA – New personal loan for Pilot & Air hostess training.
13. MYBANK UDYPGI GNANAMITRA – New personal segment advance for employed persons to undertake higher studies.

B). Commercial & Industrial Banking Schemes
1. Scheme for Trades - Liberalised Trade Finance
2. Handy Loans Scheme
3. Corporate Loan
4. Current Account Plus
5. Rent Plus
6. SBM Paryatan Plus
7. SBM School Plus
8. Fair Practices Code for lenders
9. Terms and Conditions letter for industrial advances

C). Agricultural Banking Schemes

1. Kisan Gold Card Scheme
2. Kisan Credit Card Scheme.
4. Scheme for combined harvesters.
5. Kisan Chakra scheme.
6. Agriclinics and Agri business centres. (ABC 10 dated 30.08.01).
7. Solar Photo Voltanic Pumpsets (SPV) for Irrigations.
8. Scheme for purchase of land for agricultural purposes.
10. Establishment of Bio-Fertiliser Units (Model Scheme).
11. Produce Marketing Loan.
12. Drip irrigation.
14. Farm Mechanisation – SBM agri Farm scheme.
15. Swarna Mitra Scheme.
16. MY Krishigen.
17. Scheme for cultivation of Gherkins.
18. Scheme for financing LPG connection in rural areas.
19. Scheme for financing to tenant farmers & Oral lessees.
21. Scheme for financing of Jatropha plantation.
22. Scheme for financing to cultivation of patchouli.
23. General Credit Card.

D). Micro and Small Enterprises Schemes (MSE)
1. Definition of Micro, Small & Medium Enterprises (MSME)
2. Credit Guarantee Fund Trust Scheme for Micro, Small & Medium Enterprises (MSEs)
3. Loans to Micro and Small Enterprises (MSEs)
4. Retail Trade- Advances to Retail Traders
5. MSEs- Service Sector (Small Business Enterprises)
6. Professionals & Self-Employed persons
7. Transport Operators
8. Laghu Udyami Credit Card Scheme
9. Stree Shakthi package for Women entrepreneurs
10. MyBank Sanchari Suvidha
11. Annapurna
12. Mybank Doctor
13. Flexi (SSI) Term Loan
14. SME Credit Plus
15. Green Auto
16. Swarojgar Credit Card scheme
17. Mybank Professional Plus
18. Artisans Credit card (ACC)
19. Stand-by-line of Credit (Term Loan) for SSI and C&I Borrowers
20. Reimbursement Facility under Term Loans: (SIB and C&I Segment borrowers)

2.8.9 SBM Forex Services
State Bank of Mysore offers the following forex services to NRIs:
1. NRI Deposits
2. Money Transfer to India through Western Union
3. Remittance facility through State Bank of India, New York Branch
4. Remittance to India - Global Link Service (GLS)

2.8.10 SBM Cross-Selling
State Bank of Mysore, following Banc assurance model, has entered into tie-ups with companies like SBI Life Insurance Company etc. It is also a Corporate Agent of National Insurance Company.

State Bank of Mysore cross-sells the following products:
1. SBI Life
2. SBI Mutual Funds
3. SBI Cards
4. Dhanvanthari Bima Policy
2.8.11 Organizational structure of the Bank at Bengaluru Circle

Fig 2.5

LHO Structure

Chief General Manager

- DGM & Circle Finance Officer
- DGM & Circle Credit Officer
- DGM & Circle Development Officer
- General Manager (Commercial Banking)

CM
Private Security

DGM
Vigilance

AGM Public Relation & Community Services Banking Department

General Manager (Development & Personal Banking)

[Source: McKinsey (1995)]

Fig 2.6 LHO Structure: General Manager (Commercial Banking)

General Manager (Commercial Banking)

- MM II
Private Security

- Direct Control Branches
- AGM Commercial Business Planning
- AGM Corporate and International Banking Products
- DGM (Commercial Banking)

Commercial Network Branches

[Source: McKinsey (1995)]
**Fig 2.7**

**LHO Structure: General Manager (Development & Personal Banking)**

[Diagram of LHO Structure: General Manager (Development & Personal Banking)]

[Source: McKinsey (1995)]

**Fig 2.8**

**LHO Structure: Circle/Zonal Development Officer**

[Diagram of LHO Structure: Circle/Zonal Development Officer]

[Source: McKinsey (1995)]
With this new structure, the Bank in Bengaluru Circle has entered in to new millennium with lot of expectations from the corporate centres as well as the easterners. A massive technology has been launched in the Circle. However, the success will depend on effective development and motivation of their employees.

### 2.9 Conclusions

The Bank has making endeavour to manage changes through organizational restructuring and massive technology initiatives. Today 520 out of 682 branches are fully computerized covering 85% of the total business. The bank has 381 own ATM’s are networked with State Bank Group’s over 11400 ATM’s allowing easy access to anywhere anytime banking. Despite of all these, the Bank’s market share is gradually declining. Nevertheless, it continues to earn higher profit, which comes mainly from investment rather than from lending and miscellaneous business. Moreover, the Bank is plagued with NPA of Rs.368 crores which declined from 1.68% in March 2008 to 1.42% in March 2009. Despite of presence in every town and
playing a vital role in development of banking in Karnataka, the Bank is falling behind other nationalized (banks in the state) business in the state.

2.10 References

2. Ibid,