Chapter 4

Indian Banking System & Technologies and Case Study
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AND CASE STUDY

4.1 INTRODUCTION

The Indian banking system is significantly different from those prevalent in other countries due to its unique geographic, social and economic characteristics. India has a large population, different cultures in different parts of the country and also disparities in income. Also in India the population spread among rural and urban areas is also skewed in the favour of urban areas. All these features reflect in the size and structure of the Indian banking system. Further in order to fulfil the needs to the government policy it has been subjected to various nationalization schemes at different times. RBI credit policies form the guidelines for banks in India. Since they had to satisfy the domestic obligations, the banks have so far been confined within the Indian borders. The banking system that constitutes the core of the financial sector plays a critical role in transmitting monetary policy impulses to the entire economic system. Money and finance are an important and necessary factor for economic development. Though finance is by no means a substitute for real resources, it has a crucial role in the economic development of the country. Its importance lies in the fact that it pieces at the command of those who have the technical skill and entrepreneurial talent but lack in other means to acquire the capacity missing factors necessary for development.

The segment of capital and money market dealing with lending and borrowing of funds, essentially to short-term purposes, is represented by commercial banking Institutions; Commercial banks act as financial intermediaries, i.e. intermediaries of saving and investment. Savings intermediations are a process by which flow of savings of the community is allocated to finance investment in the economy (Ahuja K 1997).

All has recognized the importance of commercial banks in the process of economic development. The commercial banks play an important role in all
economies. The role becomes more important in planned or developing economies like India. Banking Industry is the blood vascular system of our economy. It has a positive role to play in the economic development of the country as repositories of people's savings and purveyors of credit, especially as the success of economic development depends on the mobilization of the; sources and their investment in an appropriate manner. In a country like India, constitutionally committed to socialistic pattern of society banks, till the early 1990s, banking industry in India was a near-monopoly of the Government. In January 1993, the Reserve Bank of India issued guidelines for licensing of new banks in the private-sector. Since then, competition in the banking sector has increased with the entry of private banks, premise on to foreign banks to open new branches and relaxation of various restrictions on public sector banks.

In view of enhanced competition the banking sector has already taken strides towards computerization and automation of their operations. However, the pace of computerization and automation is not uniform among different categories of banks. The new private sector banks had distinct advantage over the nationalized banks, as they were able to start their operations with fully computerized services from day one. Foreign Banks were already offering such services (Ahuwalia, M.S. (2001)).

The process of economic liberalization in India, initiated in 1991, has impacted on the banking industry of the country significantly; Economic reforms over the last one and a half decades have radically transformed the operational environment of the banking sector. The information Technology (IT) revolution has not only changed the way banking business is done but also widened the range of products offered by the banks.

The nationalized banks, with their social obligations, were having a large number of branches operating manually and a huge customer base. However, with the coming of new private foreign banks with their attractive products and service packages, "the customers now have several options. The new services products offered by these banks are fast luring the customers away from the nationalized banks, which are slow to adjust to new environment. The growing competition among the banks is forcing the nationalized banks to provide prompt and reliable customer service and offer a variety of hi-tech banking product services.
4.2 ROLE OF BANKS IN INDIAN ECONOMY

Money lending in one form or the other has evolved along with the history of the mankind. Even in the ancient times there are references to the moneylenders. Shakespeare also referred to ‘Shylocks’ who made unreasonable demands in case the loans were not repaid in time along with interest. Indian history is also replete with the instances referring to indigenous money lenders. Sahukars and Zamindars involved in the business of money lending by mortgaging the landed property of the borrowers.

Towards the beginning of the twentieth century, with the onset of modern industry in the country, the need for government regulated banking system was felt. The British government began to pay attention towards the need for an organized banking sector in the country and Reserve Bank of India was set up to regulate the formal banking sector in the country. But the growth of modern banking remained slow mainly due to lack of surplus capital in the Indian economic system at that point of time. Modern banking institutions came up only in big cities and industrial centers. The rural areas, representing vast majority of Indian society, remained dependent on the indigenous money lenders for their credit needs.

Independence of the country heralded a new era in the growth of modern banking. Many new commercial banks came up in various parts of the country. As the modern banking network grew, the government began to realize that the banking sector was catering only to the needs of the well-to-do and the capitalists. The interests of the poorer sections as well as those of the common man were being ignored.

Banking system and the Financial Institutions play very significant role in the economy. First and foremost is in the form of catering to the need of credit for all the sections of society. The modern economies in the world have developed primarily by making best use of the credit availability in their systems. An efficient banking system must cater to the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units. Rural sector in a country like India
can grow only if cheaper credit is available to the farmers for their short and medium term needs.

Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and adequate credit for infrastructure projects. Fortunately, during the past about one decade there has been increased participation of the private sector in infrastructure projects (Ballabh J 2001).

The banks and the financial institutions also cater to another important need of the society i.e. mopping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds.

In addition to the above traditional role, the banks and the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the service provided by the banks is commendable.

While the commercial banks cater to the banking needs of the people in the cities and towns, there is another category of banks that looks after the credit and banking needs of the people living in the rural areas, particularly the farmers. Regional Rural Banks (RRBs) have been sponsored by many commercial banks in several States. These banks, along with the cooperative banks, take care of the farmer-specific needs of credit and other banking facilities.
Till a few years ago, the government largely patronized the small savings schemes in which not only the interest rates were higher, but the income tax rebates and incentives were also in plenty. The bank deposits, on the other hand, did not entail such benefits. As a result, the small savings were the first choice of the investors. But for the last few years the trend has been reversed. The small savings, the bank deposits and the mutual funds have been brought at par for the purpose of incentives under the income tax. Moreover, the interest rates in the small savings schemes are no longer higher than those offered by the banks.

Banks today are free to determine their interest rates within the given limits prescribed by the RBI. It is now easier for the banks to open new branches. But the banking sector reforms are still not complete. A lot more is required to be done to revamp the public sector banks. Mergers and amalgamation is the next measure on the agenda of the government. The government is also preparing to disinvest some of its equity from the PSU banks. The option of allowing foreign direct investment beyond 50 per cent in the Indian banking sector has also been under consideration.

Banks and financial intuitions have played major role in the economic development of the country and most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The role of the banks has been important, but it is going to be even more important in the future.

4.3 INDIAN ECONOMY AT A GLANCE

In 2010-11 the Indian economy emerged from the slowdown caused by the global financial meltdown of 2007-09 with remarkable rapidity. As per the Advance Estimates of the Central Statistics Office, released on February 7, 2011, the turnaround was strong, with a rebound in agriculture and continued momentum in manufacturing. The deceleration in community, social, and personal services, as also industry, remained a cause for concern (Indian Banking 2010: by Mackinsey & Company).

The medium to long-run prospect of the economy, including the industrial sector, however, continues to remain positive. On the demand side, a rise in savings and investment, and pick-up in private consumption resulted in strong growth of GDP
at constant market prices at 9.7 per cent in 2010-11. Food items largely drove inflation, which remained at elevated levels for greater part of the year, though the goods that were inflating at the beginning of the year were different from the goods for which prices had risen in the end part of the year.

The rise in the purchasing power owing to the rapid growth of the economy and inclusive programmes like the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) partly might have contributed to the upward trend in inflation. Despite tightening of the money markets and moderate growth in deposits, the financial situation remained orderly with a pick-up in credit growth, vibrant equity market and stable foreign exchange market.

In last three years the Indian economy had been severely buffeted by two shocks in rapid succession: the onset of global financial crisis in 2007-09 and erratic monsoon resulting in drought in 2009-10. This period of economic stress severely tested the policymakers. Yet the Indian economy came through with resilience and strength, by following counter-cyclical macro-economic policies, structural measures to promote growth, and social spending to provide a stronger foundation to protect the poor.

In 2007-09, a surge in capital flows far in excess of the absorptive capacity and with implications for competitiveness had complicated monetary management on account of trade-offs involving the impossible objectives of open capital account, exchange rate stability and monetary policy independence. However, with the recovery in 2009-10 and 2010-11, the external sector broadly remained supportive as rising capital flows easily financed the elevated levels of current account deficits. The concerns of sustainability, however, remain.

On the monetary front, the Reserve Bank of India (RBI) raised the policy rates six times during 2010-11, wherein the repo rate under its liquidity adjustment facility was increased cumulatively by 175 basis points, raising it to 6.5 per cent, and the reverse repo rate was increased by 225 bps, raising it to 5.5 per cent. The cash reserve ratio (CRR) was at 6 per cent of net demand and time liabilities (NDTL) of banks. The steps by RBI resulted in tightening of liquidity conditions (ICRA Research 2011).
With the clear evidence of economic recovery in 2009-10, the 2010 Budget resumed the path of fiscal consolidation with a partial exit from the stimulus measures. The fiscal outcome in the first nine months of 2010-11 remained broadly on the consolidation track chalked out by the Budget. With a much higher than budgeted realization in non-tax revenues, arising from telecom 3G/BWA auctions, there was headroom for higher expenditure at the given fiscal deficit targets.

4.4 STRUCTURE OF INDIAN BANKING SYSTEM

Without a sound and effective banking system in India, it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors. The banking system occupies an important place in a nation’s economy. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the case of the money market in an advance country. In India though the money market is still characterized by the existence of both the organized and the unorganized segments, institutions in the organized money market have grown significantly and are playing an increasingly important role.

4.4.1 Banking System – Structure - India has integrated banking and finance system catering to all financial intermediation requirements of present day customers. The banking system is the most dominant segment of financial sector, accounting for over 80% of the funds flowing through the financial sector. With India becoming a member of WTO, the banking sector had to be opened for international players. In order to prepare the Indian banking industry for vibrant global competition, a number of policy reforms were initiated by the government. Further the commitment made by India in the WTO financial services agreement in December 1997 has a significant impact on the banking industry. Increasing globalization of trade under WTO has provided India with new opportunities as well as necessity to strengthen her efforts at reforming her domestic financial sector. Now there is need for greater speed, professionalism and competitiveness in day to day operations in Indian commercial banks (Jalan B 2002). In this context we attempt to examine the developments in Indian banking and where the
Indian banking system stands in comparison with global benchmarks and what are the competitive strengths and weakness of Indian banking sector.

The formal banking system in India comprises of the Reserve bank of India which is the Central bank of the country, Commercial banks Regional rural banks and Cooperative banks. In the recent past the private non banking finance companies also have been active in the financial system, and are being regulated by the RBI.

**Figure 4.1 Structure of Banking in India**

The banking system, largely, comprises of scheduled banks (banks that are listed under the Second Schedule of the RBI Act, 1934). Unscheduled banks form a very small component (function in the form of Local Area Bank). Scheduled banks are further classified into commercial and cooperative banks, with the basic difference in their holding pattern. Cooperative banks are cooperative credit institutions that are registered under the Cooperative Societies Act and work according to the cooperative principles of mutual assistance.
Public Sector Banks (SBI and associates + Nationalized banks) control more than 74-75% of the total credit and deposits businesses in India whereas Private Sector Banks around 17-18%.

Amongst the institutions in the organized sector of the money market, commercial banks and commercial co-operative banks have been in existence of the past several decades. The Regional Rural Banks came in to existence since the middle
of seventies. Thus, with the phenomenal geographical expansion of the commercial banks and the setting up of the RRBs during the recent past, the organized sector of money market has penetrated into the rural areas as well. Besides the aforesaid institutions, which mainly served sources of short term credit to industry, trade, commerce and agriculture, a variety of specialized financial institutions have been set up in the country to cater to the specific needs of industry, agriculture and foreign trade.

Around 90% of the banking system is under the government control and the rest are with the private and the foreign banks. The public sector banks can be categorized into:-

a) **State Bank Group:** It comprises of State Bank of India and its 5 associate banks. Previously there were 7 associate but after the merger of 2 of them with the parent bank only 5 of them remain. The government of India is the majority stakeholder in the largest bank of the country.

b) **Nationalized Banks:** There are 19 nationalized banks in the country. The process of nationalization in 1969 resulted in creation of 14 governments owned banks which were followed by the nationalization of 6 more banks. However upon a merger the total number of banks in the country stands at 19 as of today. All the banks are majority owned by the government of India.

c) **Regional Rural Banks:** The regional rural banks were setup to provide low cost financing and credit facilities to rural people. The nationalized banks were required to setup RRBs in partnership with the individual states.

d) **The foreign and private banks** form a miniscule part of the Indian banking system which is dominated by the government owned banks. However the superior offering of the private sector banks aided by the growth in the IT has resulted in the population of the country being attracted towards these banks. This has made the public sector banks recognize the threat from these banks and improve on their services. They have given the PSBs stiff competition and this augurs well for the future of the Indian banking system.

e) **Co-operative Banks** Co-operative banks cater to the financing needs of agriculture, retail trade, small industry and self-employed businessmen in
urban, semi-urban and rural areas of India. A distinctive feature of the co-operative credit structure in India is its heterogeneity. The structure differs across urban and rural areas, across states and loan maturities. Urban areas are served by urban cooperative banks (UCBs), whose operations are either limited to one state or stretch across states. The rural co-operative banks comprise State co-operative banks, district central cooperative banks, SCARDBs and PCARDBs. The co-operative banking sector is the oldest segment of the Indian banking system. The network of UCBs in India consisted of 1721 banks as at end-March 2009, while the number of rural co-operative banks was 1119 as at end-March 2008. Owing to their widespread geographical penetration; cooperative banks have the potential to become an important instrument for large-scale financial inclusion, provided they are financially strengthened. The RBI and the National Agriculture and Rural Development Bank (NABARD) have taken a number of measures in recent years to improve financial soundness of co-operative banks.

4.5 INDIAN BANKING IN HISTORICAL PERSPECTIVE

From operational point of view, globally, the story of banking has much in common, as it evolved with the moneylenders accepting deposits and issuing receipts in their place. According to the Central Banking Enquiry Committee (1931), money lending activity in India could be traced back to the Vedic period, i.e., 2000 to 1400 BC. The existence of professional banking in India could be traced to the 500 BC. Kautilya’s *Arthashastra*, dating back to 400 BC contained references to creditors, lenders and lending rates. Banking regulation also had a rich tradition and evolved along with banking in India. In fact, the classic ‘*Arthashastra*’ also had norms for banks going into liquidation. If anyone became bankrupt, debts owed to the State had priority over other creditors similarly, there is also a reference to “Interest on commodities loaned” (*PRAYOG PRATYADANAM*) to be accounted as revenue of the state. (Tandon, Prakesh, 1989). Thus, it appears that lending activities were not entirely unknown in the medieval India and the concepts such as ‘priority of claims of creditors’ and ‘commodity lending’ were established business practices. However typical Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790; both are now defunct. Indian banking system, over
the years has gone through various phases. For ease of study and understanding banking can be categorized in two broad categories i) pre independence and ii) post independence. Further post independence period can be broken into four phases as shown below.

4.5.1 Pre Independence Phase - The Indian banking sector has been evolving continuously. The pre-independence period was largely characterized by the existence of private banks organized as joint stock companies. The initial phase (up to 1947) was a difficult period for the banking sector. A large number of banks sprang up, as there were no entry norms for banks. The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank.

The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders bank, mostly Europeans shareholders (Wahab A 2001).

In this phase, which was marked by the two World Wars and the Great Depression, many banks failed i.e (1913 and 1948). There were approximately 1100 banks, mostly small, growth was very slow and the growth was basically quantitative, unplanned and uncontrolled, like the wild growth of plants in the forest. Most of the small banks were local in character and had low capital base. As a result, they were not
resilient enough. Apart from the global factors, one of the major reasons for failures of small banks was fraudulent manipulation by directors and managers and interconnected lending. Also, several banks that failed had combined trading functions with banking functions. Partly, in order to address the problem of bank failure, the Reserve Bank was set up in 1935. In fact, central banks in several other countries, including the US, were also set up to address the problem of bank failure. However, the Reserve Bank had a limited control over banks and lack of an appropriate regulatory framework posed a problem of effective regulation of small banks. The position was controlled effectively with the enactment of the Banking Companies (Regulation) Act, 1949. Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority. During those days public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Abreast of it the savings bank facility provided by the Postal department was comparatively safer. By the end of this phase, the country’s financial requirements were still catered to, in a large measure, by the unorganized sector. The focus of the banking sector was on urban areas and the requirements of agriculture and the rural sector were neglected. Although the co-operative credit movement had a very encouraging beginning, it did not spread as expected despite Government patronage.

4.5.2 Post Independence Period - The Indian Banking has evolved through four phases –

(i) Foundation Phase (1947 to 1969),
(ii) Expansion Phase (1970 to 1985),
(iii) Consolidation Phase to (1985-1990)
(iv) Reform Phase (1991-till date)

The two watershed events in the post independence phase are nationalization of banks (1969) and the initiation of economic reforms (1991).

4.5.2.1 Foundation Phase (1947-1969) - The foundation phase is the period up to first ‘nationalization of banks’ in 1969. In this period focus was on laying of a foundation for sound banking system. This called for setting up of required legal framework for consolidating the banking system. As part of this exercise the Imperial
Bank of India was converted into the State Bank of India in 1955. Thereafter, the princely State banks were converted into associate bank of the State Bank of India.

The role of the banking sector in the Indian economy was redefined. Earlier needs of catering to the government, individuals and select traders were extended to meet the needs of entire economy including the small industrialists and agriculturalists. The following are the steps taken by the Government of India during this phase

- 1949 : Enactment of Banking Regulation Act.
- 1955 : Nationalization of State Bank of India.
- 1959 : Nationalization of SBI subsidiaries.
- 1961 : Insurance cover extended to depositors

During this phase, the growth was very slow and banks also experienced periodic failures. There were approximately 1,100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949, which was later changed to the Banking Regulation Act, 1949 as per amending Act of 1965 (Act No. 23 of 1965). The Reserve Bank of India (RBI) was vested with extensive powers for the supervision of banking in India as the Central banking authority. During those days, the general public had lesser confidence in banks. As an aftermath, deposit mobilization was slow. Moreover, the savings bank facility provided by the Postal department was comparatively safer, and funds were largely given to traders.

4.5.2.2 Expansion Phase - Truly speaking, this phase started in mid 1960’s. However, it gained momentum only after the nationalization of 14 banks in July 1969. The nationalization of banks was an attempt to use the scarce resources of the banking system for the purpose of planned development. This is a phase of ‘mass banking’. A determined effort made banking services available to all masses.

The network of branches was expanded at a rapid speed. As a result of rapid branch expansion witnessed from 1969, the average population per bank office, which was 65,000 at the time of nationalization, declined to 14,000 by end-December 1990. Large branch expansion also resulted in increase in deposits and credit of the banking
system, especially in rural areas. The share of credit to agriculture in total bank credit increased from 2.2 per cent in 1967 to 15.8 per cent in June 1989. Celebration of deposits mobilization fortnights, attracting the depositors by way of distributing gifts, organizing loan melas and credit camps were the modes and channels to reach the masses. During this period, branches of the banks expanded at an average rate of about 12% annually. The profits of the banks also grew at an average rate of about 14.7% p.a (Pacific Business Review, 2(3): 102-110, 2010).

To meet the objectives of the nationalizations, targets like achievement of priority sector lending, credit-deposit ratio, lending to weaker sector, etc were fixed for the public sector banks, which exits as on date with subsequent revisions and modifications. The banks emerged as important instruments of socio-economic change during next 15 years or so, with the fast pace of expansion. However, the fast expansion created certain problems, which was not free from problems like stress on the supervision, strain on the profitability of the banks, the Lack of enough competition resulted in decline in productivity and efficiency of the system. At the end of this phase, banks were saddled with large non-performing assets. Banks’ capital position turned weak and they lacked the profit motive. During this period, the deposit and lending rate structure became very complex.

By the early 1980s, the banking sector had transformed from a largely private owned system to the one dominated by the public sector. The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

- 1971 : Creation of credit guarantee corporation.
- 1975 : Creation of regional rural banks.
- 1980 : Nationalization of seven banks with deposits over 200 crores.

After the nationalization of banks, the branches of the public sector bank in India rose to approximately 800% in deposits and advances took a huge jump by 11,000%. Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.
4.5.2.3 Consolidation Phase (1985 TO 1990) - The massive expansion of the banking system had resulted in certain stresses and strains. With wider geographical coverage, lines of supervision and control weakened. The weaknesses that emerged during the expansion phase pushed the banking into the next phase, i.e., consolidation phase. The consolidation phase started in 1985. The Reserve Bank of India started some initiatives like relaxation in control which slowed down the branch expansion as banks were asked to tone up internal management, housekeeping, customer service, credit management, productivity, and profitability became the focus of attention. Some rationalization of interest rates—both on deposits and loans was started. The aim was to overcome the weaknesses which emerged from fast expansion and too much control of RBI.

During this period, serious efforts were made to address the weaknesses and defects noticed as a result of speedy expansion. Profitability and productivity were the areas of focus during this stage.

Annual action plans were adopted and implemented by banks to improve their overall performance. The period was utilized by the banks in consolidating and systemizing the works they had done earlier during the expansion phase. During the first phase, i.e., 1950 to 1969, the growth rate of deposits and credits were 6.9% and 8.2%, which had risen to 17.7% and 14.6% respectively. The profit on an average of PSBs also had risen to 51.7% (RBI Report on Trend and Progress of Banking in India).

4.5.2.4 Reform Phase (1991- till date) - The most significant phase in the evolution of banking was the phase of financial sector reforms that began in 1991-92, which had two sub-phases (1991-92 to 1997-98, and 1998-99 and beyond). The major aim in the early phase of reforms known as first generation of reforms, was to create an efficient productive and profitable financial service industry operating within the environment of operating flexibility and functional autonomy while these reforms were being implemented, the world economy also witnessed significant changes’ coinciding with the movement towards global integration of financial services’ (Government of India (GOI), paper on Globalisation-1998).
To sum up, the main issues faced at the beginning of this sub-phase (1991-92 to 1997-98) were the poor financial performance, low asset quality, weak capital position of banks and the absence of adequate competition. By international standards also, Indian banks were, despite a rapid growth of deposits extremely unprofitable. In the second half of the 1980s, the average return on assets was about 0.15%. The capital and reserves of Indian banks stood at about 1.5% of assets, which was significantly below other Asian countries that reached about 4-6%. Several measures, therefore, were initiated by the Government, the Reserve Bank and the banks themselves to improve their profitability, financial health and capital position (RBI Report on Trend and Progress of Banking in India). Major measures initiated included the introduction of objective prudential norms, reduction in statutory pre-entions and operational flexibility and functional autonomy to public sector banks. In view of various risks faced by the banking sector in a liberalized environment, a special emphasis was also placed on strengthening the supervisory processes. Various measures initiated had a profound impact. The broad objectives behind these reforms were:-

- Remove financial repression that existed earlier.
- Create an efficient, productive and profitable financial sector industry.
- Enable price discovery, particularly by the market determination of interest rates that then helps in efficient allocation of resources. Provide operational and functional autonomy to institutions.
- Prepare the financial system for increasing international competition.
- Open the external sector in a calibrated fashion.
- Promote the maintenance of financial stability in a calibrated fashion
- Strengthening of the Institutional Framework
- Strengthening of Supervisory Mechanism.

Thus, the financial sector reforms of 1991 brought about deregulation of interest rates, technological advancements, increased competition, autonomy packages, prudent guidelines for income recognition and asset classification and enhancement of micro-credit category. The various steps taken to implement these reforms include:-
• Introducing transparency in reporting procedures.
• Restructuring of weak public sector banks, and recapitalizing banks and consolidation of banking system and convergence to universal banking.
• Increasing the competitive element of the market through the entry of new banks.
• Deregulation of the financial sector with greater autonomy in operations, adoption of scientific tools for management of risks etc.
• Interest rate deregulation has given necessary latitude to banks to price their products based on their commercial judgment, which includes factors like liquidity, yield, risk exposures, capital requirement, interest rate outlook, etc.
• Capital to risk weighted asset system was introduced for banks in India from the year 1992-93 more or less in conformity with international standards.
• An objective criterion of income recognition, asset, classification and provisioning norms based on uniform period of delinquency and aging profile was introduced since 1992 in phases.
• Decentralizing measures such as permission to nationalized banks to reduce the Government’s equity from 100% to not less than 51%.
• Greater operational freedom to banks to open specialized branches such as industrial, international business, SSI, etc. off-site ATMs and administrative offices announcement of a package of authority to public sector banks fulfilling certain criteria.

A significant improvement was observed in the financial performance, asset quality and capital position by the end of this sub-phase. The improvement in the financial performance was indeed remarkable as the banks were subjected to the objective accounting norms. This, among others, was on account of improvement in asset quality and widening of net interest margins. One of the objectives of reforms was to create competitive conditions. Although several measures were initiated to create competitive environment, competition remained muted.

A major contribution of various reform measures in this phase was that it led to a change in the behaviour of banks in that they began to focus increasingly on
improving their financial health and profitability. Despite significant improvement, however, there were still some concerns at the end of this sub-phase. First, the NPA level of public sector banks was still very high by international standards. Second, some banks were not able to achieve the stipulated capital adequacy ratio even after two years of the stipulated time period. Third, although the banking sector, on the whole, turned around during 1994-95 and made profits, some banks (including two public sector banks) continued to incur losses at the end of this phase. Fourth, competition did not penetrate enough and banks continued to enjoy high net interest margins. Notwithstanding the improved credit flow to agriculture before the onset of reforms, rural financial institutions such as RRBs suffered from serious weaknesses. Efforts, therefore, were made to restructure them, which had a desired impact on their financial health. In this phase, however, credit to the agricultural sector decelerated.

The focus in the second sub-phase (1998-99 and beyond) was on further strengthening of the prudential norms in line with the international best practices, improving credit delivery, strengthening corporate governance practices, promoting financial inclusion, strengthening the urban co-operative banking sector and improving the customer service. While strengthening the prudential norms, it was necessary to ensure that risk aversion, which had surfaced in the previous sub-phase, did not aggravate. Focused attention, therefore, was paid to put in place appropriate institutional measures to enable banks to recover their NPLs. The impact of these measures was encouraging as banks were able to bring down their non-performing assets sharply. This was the most important achievement of this phase. As the asset quality began to improve, banks also started expanding their credit portfolio. Capital position of banks also improved significantly. Competition intensified during this phase as was reflected in the narrowing down of margins. Despite this, however, banks slightly improved their profitability among others, due to increased volumes and improvement in asset quality. Two concerns arose with regard to corporate governance practices followed by banks. These related to concentrated ownership and quality of management that controlled the banks. The corporate governance practices were, therefore, strengthened. Another major achievement in this phase was the sharp increase in the flow of credit to the agriculture and SME sectors.
With a view to bringing a larger segment of excluded population within the banking fold, banks were advised to introduce a facility of ‘no frills’ account. About 13 million ‘no frills’ accounts were opened in a short span of two years. The confidence in the urban co-operative banking segment was eroded in the early 2000s following a run on a multi-state co-operative bank. In order to restore the confidence and overcome the problem of dual control over urban co-operative banks, a mechanism of the TAFCU Bs was put in place, which helped restore the confidence in the urban cooperative banking segment. This phase also witnessed some significant changes in the use of technology by banks. Increased use of technology combined with some other specific initiatives helped improve the customer service by banks.

A narration of the broad contours of reform in India would be helpful in appreciating both the commonalities and the differences in our paths of reforms. Contours of banking reforms in India are explained by brief recommendations of following committees:-

**Recommendations of Narasimha Committee 1 (1991)**

- De-regulation of Interest Rates.
- Reduction in SLR.
- Reduction in CRR.
- Setting-up of new private and foreign banks.
- Prudential Accounting Standards.
- Branch Licensing Liberalized.
- Bank’s Access to Capital Markets.
- Special debt recovery tribunals have been set up and computerization of the banks have started.
- Reduction of Non-Performing Assets.

**Recommendations of Narasimha Committee 2 (1998)**

- Need for a strong banking system in view of impending capital account convertibility (CAC)
- Merger of Strong Banks with Strong
• Banks Narrow Banking for Weak Banks to rehabilitate them
• Review legislations like Banking Companies Regulation Act, RBI Act etc.
• Lesser Regulations & Supervision
• New Watchdog for banks in place of board of Financial Supervision under RBI.

Khan Committee Recommendations on harmonization of operations of DFIs and banks (1998)
• It reviewed the need for a super regulator to coordinate multiple regulators.
• Move toward universal banking (that is most of the financial services are provided by the same institution).
• Redefined priority sector.
• Mergers between FIs and the banks that is banks and banks, banks and financial institutions.

Verma Penal Report (Restructuring Weak Public Banks - 1999)
• Operational Restructuring of Weak Banks.
• NPA Management
• Cost Reduction
• Financial re-structuring

Scenario 2009: The Indian banking industry will enter in new phase in year 2009 when challenges both within the banking sector and from the economy have to be catered. RBI on ‘Presence of Foreign Banks in India’ has already opened up the Indian banking industry through unveiling of the roadmap in February 2005. It has two phases for implementation.
• Phase I – March 2005 to March 2009 and
• Phase II – April 2009 and onwards.

Phase I involves permission to foreign banks to establish their presence by way of setting up of wholly-owned banking subsidiaries or by conversion of existing branches into holding subsidiaries. These wholly owned subsidiaries would have the
flexibility to open more branches than the commitment of minimum 12 branches to the World Trade Organization.

Phase II will involve national treatment being extended to these wholly owned subsidiaries, discretion of stake and mergers acquisitions in the banking sector. It is the Phase II, which has far reaching policy implications for the Indian banking sector i.e. national treatment to presence of foreign banks in India.

Scenario 2012: The banking industry in India seems to be unaffected from the global financial crises which started from U.S in the last quarter of 2008. Despite the fallout and nationalization of banks across developed economies, banks in India seems to be on the strong fundamental base and seems to be well insulated from the financial turbulence emerging from the western economies. The Indian banking industry is well placed as compare to their banking industries western counterparts which are depending upon government bailout and stimulus packages.

The strong economic growth in the past, low defaulter ratio, absence of complex financial products, regular intervention by central bank, proactive adjustment of monetary policy and so called close banking culture has favored the banking industry in India in recent global financial turmoil. Although there will no impact on the Indian banking system similar to that in west but the banks in India will adopt for more of defensive approach in credit disbursal in coming period. In order to safe guard their interest; banks will follow stringent norms for credit disbursal. There will be more focus on analyzing borrower financial health rather than capability.

Indian banks, the dominant financial intermediaries in India, have made good progress over the last five years, as is evident from several parameters, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While the annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth) was maintained at around 15% during the same period, and gross NPAs fell from 3.3% as on March 31, 2006 to 2.3% as on March 31, 2011. Good internal capital generation, reasonably active capital markets, and governmental support ensured good capitalisation for most banks during the period under study, with overall capital adequacy touching 14% as on March 31,
2011. At the same time, high levels of public deposit ensured most banks had a comfortable liquidity profile (RBI, Annual Report 2010-11).

While banks have benefited from an overall good economic growth over the last decade, implementation of SARFAESI, setting up of credit information bureaus, internal improvements such as upgrade of technology infrastructure, tightening of the appraisal and monitoring processes, and strengthening of the risk management platform have also contributed to the improvement. Significantly, the improvement in performance has been achieved despite several hurdles appearing on the way, such as temporary slowdown in economic activity (in the second half of 2008-09), a tightening liquidity situation, increases in wages following revision, and changes in regulations by the Reserve Bank of India (RBI), some of which prescribed higher credit provisions or higher capital allocations. Currently, Indian banks face several challenges, such as increase in interest rates on saving deposits, possible deregulation of interest rates on saving deposits, a tighter monetary policy, a large government deficit, increased stress in some sectors (such as, State utilities, airlines, and microfinance), restructured loan accounts, unamortised pension/gratuity liabilities, increasing infrastructure loans, and implementation of Basel III. (Vibha Batra, Karthik Srinivasan, Puneet Maheshwari - Indian Banking Sector: Challenges unlikely to derail the progress made June 2011).

Developing countries like India, still has a huge number of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and competition. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations.

4.6 CASE STUDY - STATE BANK OF INDIA

The State Bank of India, the country’s oldest Bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits is today going through a momentous phase of Change and Transformation – the two hundred year old Public sector behemoth is today stirring out of its Public Sector legacy and
moving with an agility to give the Private and Foreign Banks a run for their money. The bank is entering into many new businesses with strategic tie ups – Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc – each one of these initiatives having a huge potential for growth. The Bank is forging ahead with cutting edge technology and innovative new banking models, to expand its Rural Banking base, looking at the vast untapped potential in the hinterland and proposes to cover 100,000 villages in the next two years. It is also focusing at the top end of the market, on wholesale banking capabilities to provide India’s growing medium/large Corporate with a complete array of products and services.

It is consolidating its global treasury operations and entering into structured products and derivative instruments. Today, the Bank is the largest provider of infrastructure debt and the largest arranger of external commercial borrowings in the country. It is the only Indian bank to feature in the Fortune 500 list.

The Bank is changing outdated front and back end processes to modern customer friendly processes to help improve the total customer experience. With its own 14097 branches and another 5100 branches of its Associate Banks already networked, today it offers the largest banking network to the Indian customer. The Bank is also in the process of providing complete payment solution to its clientele with its over 22141 ATMs, and other electronic channels such as Internet banking, debit cards, mobile banking, etc. With four national level Apex Training Colleges and 54 learning Centers spread all over the country the Bank is continuously engaged in skill enhancement of its employees. Bankers attend some of the training program from banks in other countries.

The Bank is also looking at opportunities to grow in size in India as well as internationally. It presently has 173 foreign Offices across the globe. It has also 7 Subsidiaries in India – SBI Capital Markets, SBICAP Securities, SBI DFHL, SBI Factors, SBI Life and SBI Cards - forming a formidable group in the Indian Banking scenario. It is in the process of raising capital for its growth and also consolidating its various holdings.
Throughout all this change, the Bank is also attempting to change old mindsets, attitudes and take all employees together on this exciting road to Transformation. In a recently concluded mass internal communication programme termed ‘Parivartan’ the Bank rolled out over 3300 two day workshops across the country and covered over 130,000 employees in a period of 100 days using about 400 Trainers, to drive home the message of Change and inclusiveness. The workshops fired the imagination of the employees with some other banks in India as well as other Public Sector Organizations seeking to emulate the program.

The CNN IBN, Network 18, recognized this momentous transformation journey, the State Bank of India is undertaking, and has awarded the prestigious Indian of the Year – Business, to its Chairman, Mr. O. P. Bhatt in January 2008.

4.6.1 The origin of the State Bank of India - Goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2 June 1806. Three years later the bank received its charter and was re-designed as the Bank of Bengal (2 January 1809). A unique institution, it was the first joint-stock bank of British India sponsored by the Government of Bengal. The Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India on 27 January 1921.

Primarily Anglo-Indian creations, the three presidency banks came into existence either as a result of the compulsions of imperial finance or by the felt needs of local European commerce and were not imposed from outside in an arbitrary manner to modernize India's economy. Their evolution was, however, shaped by ideas culled from similar developments in Europe and England, and was influenced by changes occurring in the structure of both the local trading environment and those in the relations of the Indian economy to the economy of Europe and the global economic framework.

4.6.1.1 Bank of Bengal - The establishment of the Bank of Bengal marked the advent of limited liability, joint stock banking in India. So was the associated innovation in banking, viz. the decision to allow the Bank of Bengal to issue notes,
which would be accepted for payment of public revenues within a restricted geographical area. This right of note issue was very valuable not only for the Bank of Bengal but also its two siblings, the Banks of Bombay and Madras. The concept of deposit banking was also an innovation because the practice of accepting money for safekeeping (and in some cases, even investment on behalf of the clients) by the indigenous bankers had not spread as a general habit in most parts of India. But, for a long time, and especially up to the time that the three presidency banks had a right of note issue, bank notes and government balances made up the bulk of the inevitable resources of the banks.

The three banks were governed by royal charters, which were revised from time to time. Each charter provided for a share capital, four-fifth of which were privately subscribed and the rest owned by the provincial government. The members of the board of directors, which managed the affairs of each bank, were mostly proprietary directors representing the large European managing agency houses in India. The rest were government nominees, invariably civil servants, one of whom was elected as the president of the board.

The business of the banks was initially confined to discounting of bills of exchange or other negotiable private securities, keeping cash accounts and receiving deposits and issuing and circulating cash notes, loans were restricted to Rs. one lakh and the period of accommodation confined to three months only.

The security for such loans was public securities, commonly called Company's Paper, bullion, treasure, plate, jewels, or goods 'not of a perishable nature' and no interest could be charged beyond a rate of twelve per cent. All commodities, including tea, sugar and jute, which began to be financed later, were either pledged or hypothecated to the bank. The borrower in favor of the guarantor, which was in turn endorsed to the bank, signed demand promissory notes. Lending against shares of the banks or on the mortgage of houses, land or other real property was, however, forbidden. Indians were the principal borrowers against deposit of Company's paper, while the business of discounts on private as well as salary bills was almost the exclusive monopoly of individuals Europeans and their partnership firms. But the main function of the three banks, as far as the government was concerned, was to help
The former raise loans from time to time and also provide a degree of stability to the prices of government securities.

A major change in the conditions of operation of the Banks of Bengal, Bombay and Madras occurred after 1860. With the passing of the Paper Currency Act of 1861, the right of note issue of the presidency banks was abolished and the Government of India assumed from 1 March 1862 the sole power of issuing paper currency within British India. The task of management and circulation of the new currency notes was conferred on the presidency banks and the Government undertook to transfer the Treasury balances to the banks at places where the banks would open branches. None of the three banks had till then any branches (except the sole attempt and that too a short-lived one by the Bank of Bengal at Mirzapore in 1839) although the charters had given them such authority. But as soon as the three presidency banks were assured of the free use of government Treasury balances at places where they would open branches, they embarked on branch expansion at a rapid pace. By 1876, the branches, agencies and sub agencies of the three presidency banks covered most of the major parts and many of the inland trade centres in India. While the Bank of Bengal had eighteen branches including its head office, seasonal branches and sub agencies, the Banks of Bombay and Madras had fifteen each.

The presidency Banks Act, which came into operation on 1 May 1876, brought the three presidency banks under a common statute with similar restrictions on business.

The decision of the Government to keep the surplus balances in Reserve Treasuries outside the normal control of the presidency banks and the connected decision not to guarantee minimum government balances at new places where branches were to be opened effectively checked the growth of new branches after 1876. The pace of expansion witnessed in the previous decade fell sharply although, in the case of the Bank of Madras, it continued on a modest scale as the profits of that bank were mainly derived from trade dispersed among a number of port towns and inland centres of the presidency.

The three presidency banks were both beneficiaries and promoters of this commercialization process as they became involved in the financing of practically
every trading, manufacturing and mining activity in the sub-continent. While the Banks of Bengal and Bombay were engaged in the financing of large modern manufacturing industries, the Bank of Madras went into the financing of large modern manufacturing industries in a way which had no parallel elsewhere. But the three banks were rigorously excluded from any business involving foreign exchange. Not only was such business considered risky for these banks, which held government deposits, it was also feared that these banks enjoying government patronage would offer unfair competition to the exchange banks which had by then arrived in India. This exclusion continued till the creation of the Reserve Bank of India in 1935.

4.6.1.2 Presidency Banks of Bengal - The presidency Banks of Bengal, Bombay and Madras with their 70 branches were merged in 1921 to form the Imperial Bank of India. The triad had been transformed into a monolith and a giant among Indian commercial banks had emerged. The new bank took on the triple role of a commercial bank, a banker's bank and a banker to the government. But this creation was preceded by years of deliberations on the need for a 'State Bank of India'. What eventually emerged was a 'half-way house' combining the functions of a commercial bank and a quasi-central bank.

The establishment of the Reserve Bank of India as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank. The latter ceased to be bankers to the Government of India and instead became agent of the Reserve Bank for the transaction of government business at centres at which the central bank was not established.

But it continued to maintain currency chests and small coin depots and operate the remittance facilities scheme for other banks and the public on terms stipulated by the Reserve Bank. It also acted as a bankers' bank by holding their surplus cash and granting them advances against authorised securities. The management of the bank clearing houses also continued with it at many places where the Reserve Bank did not have offices. The bank was also the biggest tenderer at the Treasury bill auctions conducted by the Reserve Bank on behalf of the Government. The establishment of the Reserve Bank simultaneously saw important amendments being made to the
constitution of the Imperial Bank converting it into a purely commercial bank. The earlier restrictions on its business were removed and the bank was permitted to undertake foreign exchange business and executor and trustee business for the first time.

4.6.1.3 Imperial Bank - The Imperial Bank during the three and a half decades of its existence recorded an impressive growth in terms of offices, reserves, deposits, investments and advances, the increases in some cases amounting to more than six-fold. The financial status and security inherited from its forerunners no doubt provided a firm and durable platform.

But the lofty traditions of banking which the Imperial Bank consistently maintained and the high standard of integrity it observed in its operations inspired confidence in its depositors that no other bank in India could perhaps then equal. All these enabled the Imperial Bank to acquire a pre-eminent position in the Indian banking industry and also secure a vital place in the country’s economic life. When India attained freedom, the Imperial Bank had a capital base (including reserves) of Rs.11.85 crores, deposits and advances of Rs.275.14 crores and Rs.72.94 crores respectively and a network of 172 branches and more than 200 sub offices extending all over the country.

In 1951, when the First Five Year Plan was launched, the development of rural India was given the highest priority. The commercial banks of the country including the Imperial Bank of India had till then confined their operations to the urban sector and were not equipped to respond to the emergent needs of economic regeneration of the rural areas. In order, therefore, to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. An act was accordingly passed in Parliament in May 1955 and the State Bank of India was constituted on 1 July 1955. More than a quarter of the resources of the Indian banking system thus passed under the direct control of the State. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the State Bank of India
to take over eight former State-associated banks as its subsidiaries (later named Associates).

The State Bank of India was thus born with a new sense of social purpose aided by the 480 offices comprising branches, sub offices and three Local Head Offices inherited from the Imperial Bank. The concept of banking as mere repositories of the community’s savings and lenders to creditworthy parties was soon to give way to the concept of purposeful banking subserving the growing and diversified financial needs of planned economic development. The State Bank of India was destined to act as the pacesetter in this respect and lead the Indian banking system into the exciting field of national development.

4.6.2 Difference between State Bank and Nationalized Banks - Though all the 27 PSE, are corporate bodies, but the statutes under which they were established are different. The SBI was established under the SBI Act, 1955, the subsidiary banks under the SBE Act, 1959 and the nationalized banks under the Banks Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980. Initially, cent percent ownership of the 20 nationalized banks vested in the Govt. of India where as the SBI was owned, to a large extent; by the RBI there was small private ownership in the share capital of the State Bank. The subsidiary banks are owned by the SBI during recent years SBI and some of the nationalized banks OBC, Dena Bank, Bank of India has enlarged their capital by issuing shares to the public. The SBI acts as an agent of the RBI. According to section 45 of the RBI Act 1934, “the RBI shall appoint the State Bank as its sole agent at all places in India where it does not have an office or branch of its Banking Department and there is a branch of the state bank or branch of a subsidiary bank.” But the nationalized banks have not been conferred with this privilege of acting as agent of the RBI.

Since the enforcement of the banking laws (amendment) Act, 1983, the RBI has been empowered to appoint any nationalized bank to act as its agent at all places in India where it has branch for the following purposes; Paying, receiving, collecting, remitting money, bullion and securities on behalf of any govt. in India Undertaking and transacting and other business entrusted by the RBI from time to time.
4.6.3 Present Status of State Bank of India - State Bank of India is the premier commercial bank of the country and, among its strengths, the following would merit attention (Information from internal Portal of SBI).

- The largest commercial bank in the country with branches spread all over India, besides having presence in all the time zones of the world covering several countries.

- As the largest financial institution in India, SBI is well positioned to capture growth in India’s dynamic banking market and is seen as a macro economic proxy for the Indian economy.

- The bank along with its non-banking subsidiaries has emerged as a financial services supermarket offering the entire gamut of financial services including investment banking, housing finance, factoring, project finance, asset management primary dealership, securities trading, credit card, gold banking, insurance, etc. The subsidiaries have been built into highly focused, efficient and tech-say organization that works closely with the customer relationship groups in order to cross-sell products building on Group synergy.

- SBI is an excellent brand name that is synonymous with trust and security. SBI is the only bank in India to be ranked among the top 100 banks in the world and also among the top 20 banks in Asia in the annual survey by “The Banker”.

- With a 16.49 % market share for advances and a 17.55 % market share for deposits (June 2009), SBI has a very strong presence.

- The aggregate deposits of the Bank stood at Rs.1043647.00 crores and advances stood at Rs. 867579.00 crores as at 31.03.2012. The Bank posted a Net Profit of Rs. 11707 crores on 31.03.2012 compared to Rs. 8265 crores on 31.03.2011, registering a growth of 41.66%.

- Operating Profit (Profit before Provisions & Contingencies) for the period ended 31\textsuperscript{st} March 2012 stood at Rs. 31574.00 crores.

- The Capital Adequacy ratio of the Bank stood at 13.86 % as at 31.03.2012. The Earnings Per Share stood at Rs.184.31
The bank has long standing relationship with 80% of Indian Blue chip corporate. Substantial part of the corporate business of the bank is handled in five Strategic Business Units (SBUs) Corporate Accounts Group, Leasing SBU, Project Finance SBU, Mid Corporate Group (MCG) and Stressed Assets Management Group (SAMG). The Corporate Accounts Group (CAG) is a dedicated service group catering to about 489 top corporate and constitutes about 15% total credit portfolio of the bank and 31.24% of the Bank’s Commercial and institutional non-food credit with funded exposure of Rs.68866.00 crores as on the 31st March 2009, and offers our top clients high quality relationship banking a broad product portfolio, competitive pricing and skilled credit expertise.

The bank has developed an excellent in-house staff-training infrastructure including a College, an Academy, an Institute for Rural Development and an Institute for Information Management and Communication Technology. Efforts are continuously made to improve the motivation and morale of the bank’s employees through on-going training and on-site initiatives.

Separate business units viz. Agri-Business Unit, Government Business Unit, P-segment business unit and SME Business unit created for focused attention to respective segments.

The Bank has taken the initiative in globalisation and has plans for both organic and inorganic growth globally. It has foreign 173 foreign offices in 34 countries. The Bank also opened its second offshore banking unit at Kochi. Commercial Bank of India Lie., Moscow a joint venture with Canara Bank also commenced commercial operations. All foreign branches of the Bank except two newly opened ones at Sydney and Muscat ended the half-year with a net profit. The Bank has also plans to acquire controlling interest in foreign banks in strategic locations. SBI picked up a 51 per cent stake in Mauritius-based Indian Ocean International Bank Ltd (IOIB), in February 2005. In October, 2005, SBI acquired 76 per cent stake in Commercial Bank of Kenya, as part of its strategy to increase presence in African continent and gradually emerge as a global banking major. SBI has also acquired in November, 2005, a small Indonesian bank PT Bank Indamines – for about $6 million, to foray into Indonesia and expand presence in the Asian region.
SBI has been allowed to start operations in Saudi Arabia and is the first bank to get license from Saudi Arabia’s Monetary Agency.

State Bank of India has the following five Associate Banks (Abs) with controlling interest ranging from 75% to 100%.

1. State Bank of Bikaner and Jaipur (SBBJ)
2. State Bank of Hyderabad (SBH)
3. State Bank of Mysore (SBM)
4. State Bank of Patiala (SBP)
5. State Bank of Travancore (SBT)

The five Abs have a combined network of 5854 branches in India and 3123 ATMs networked with SBI ATMs (Approximate 12000), providing value added services to clientele (Information from SBI Portal).

4.6.4 Vision of SBI - Premier Indian Financial Services Group with global perspective, world-class standards of efficiency and professionalism and core institutional values.

- Retain its position in the country as a pioneer in development banking.
- Maximize shareholder value through high-sustained earnings per share.
- An institution with a culture of mutual care and commitment, a satisfying and exciting work environment and continuous learning opportunities.

4.6.5 Objective of SBI - Apart from the official objective followings have been recommended by bank officials.

- We will be prompt, polite and proactive with our customers.
- We will speak the language of young India.
- We will create products and services that help our customers achieve their goals.
- We will go beyond the call of duty to make our customers feel valued.
- We will be of service even in the remotest part of our country.
- We will offer excellence in services to those abroad as much as we do to those in India.
- We will imbibe state of the art technology to drive excellence.
Apart from the official objective following objectives were suggested by Bank officials during discussions.

- Developing knowledge of people focusing on quality of work to serve customers;
- Being the leading bank both regionally and globally in customer services and organizational management;
- Applying modem technology to support decision-making and management; and
- Applying technology to facilitate customers’ requirements in order to maximize customer satisfaction.

4.7 INFORMATION TECHNOLOGY SETUP AND STATE
BANK OF INDIA

The IT invasion started during the leadership of Sh. A. K. Purwar. As per Mr. Purwar “The globalization of the Indian economy has created opportunities for Indian banks to go global and offer a complete range of services to its customers.”. Further he continues as “It is therefore natural on the part of SBI to accord increasing importance to expansion overseas.” “Indian banks are keeping pace with global technological improvements in the banking sector,” resumes Purwar “We expect that with the further opening up of the economy, they will be in a position to offer a comparable product range. In addition, their vast physical networks will offer linkages for global trade.”

Considering Bank’s IT invasion and products adopted by bank to cater its customer base, Bank has to raise the strength and structure of IT services department to the level of Dy. Managing Director (DMD). The present setup of Information Technology Section Is depicted in diagram. The product or technology to be adopted and diffused is mainly due to two reasons: innovative-oriented and user-requirement procedures. Further, choice of technology processes are supported by information from many sources such as technology information providers, articles and overseas journals, attending seminars Internet, vendors, technology suppliers and users.
4.7.1 **Approach to adopt technology** - In a competitive world every industry has to be innovative apart from being competitive with respective industry to survive. In banking industry, same theory is applied as many technologies are adopted to counter competitors and some technologies are adopted to generate business leads. Broadly speaking following two approaches can be classified for banking IT invasion.

4.7.1.1 **Innovative-oriented Procedure** - This approach refers to a policy or procedure called a proactive approach. Staff in the IT Section collects data from vendors, technology suppliers and other sources. The information is shared with high-level executive managers. If promising technologies are available and suitable for the bank requirements, the bank will set up a committee for a feasibility study, with support from the applied technology office, tested as pilot run and then select the most appropriate technology. The committee submits the proposed technologies to the appropriate authorities and, subsequently to the technology group for final approval.

4.7.1.2 **User-requirement procedure** - Some time new technologies are initiated as per users' requirements. The step begins with users proposing their requirements to
the technology group. The requirements will be sent to the applied technology office and a committee for further feasibility studies regarding business and technological aspects. Then, a project and a project team are set up for detailed studies in order to make a final decision whether or not to adopt new technology.

Key persons who are responsible of making decisions at Bank’s level regarding technology adoption and diffusion comprise the Deputy Managing directorate (DMD), Chief General Manager of the technology group supported by various department managing individual sections of IT, and an IT Core committee. The committee consists of distinguished personnel having technical background and prominent personalities from IT industry and delegations from departments that are going to use selected technology.

4.7.2 Support team at Local Head Offices - The large some time becomes a boon but some time seems a burden. Same holds good for SBI, going by its vast network of branches, bank can extend services across the country but at the same time has to provide support to these branches. In lieu of implementation of various technical projects at all branches, it becomes difficult to extending support from a central location. Accordingly State Bank has created technical department at each of its Local Head Office (14 across India) which is responsible for implementation, and support to various IT products and projects to be used by end users of the bank. Officials in this department are some time involved in exploring “User Requirement” kind of business technologies to cater to specific needs. They provide crucial feedback, analyze technological products, summarize results, and propose technological alternatives to the bank’s central Core IT team at Belapur, Mumbai. When a proposed technology is to be implemented, they co-ordinate with technology suppliers, implement the product, and extend support for smooth operation and trouble shooting. As such this department is responsible for the successful implementation and operation of various IT projects at branches under their area of operation. These are the people having direct contact with end users of the adopted technology in the banks.

4.8 TECHNOLOGICAL DEVELOPMENT

The SBI has introduced information and communication technology into the banking system since 1975 “with the main purpose of responding to customers’ needs effectively. At the first stage computers were used for deposit transactions at the main
office, subsequently expanded to the branches, and finally allowed withdrawals and deposits of money between different branches. Since 1983, the bank has been reputed as one of the innovative leaders among Indian Banks. The following lists the advanced technology introduced by the bank. SBI's Information Technology Programmers aims at achieving efficiency in operations, meeting customer and market expectations and facing competition.

In the year 1999, there was a growing school of thought in SBI that a holistic approach to IT initiatives is required for integrated development of IT in the bank. Further, there was a pressing need to draw an IT plan for the Bank for the period spanning next 5-10 years to match the ground realities and growing competition from tech-savvy Banks, as also to meet increasing customers' needs and expectations. Accordingly a technology plan was drawn for the entire SBI Group including its seven Associate Banks under which, following initiatives and projects have been undertaken:

4.8.1 BACK OFFICE COMPUTERISATION - State Bank of India has always tried to be in line with the needs of changing business environment. It has shown great flexibility and agility despite the constraints of its huge size and public sector character. It has been forward looking in the area of Information Technology and was the first Bank to introduce mainframe computers in India in 1960. In 1970s, Data Processing Centers were set up by the Bank in the Local head offices (There are 14 Local Head Offices of SBI- each controlling branches within the boundaries of one or more States). With the introduction of Desktop Computers in 1982, the Bank upgraded the Data Processing Centers at Local Head Offices to mini-computers. During this period, a need was felt to reduce the drudgery of routine posting of ledgers by the ledger keepers; accordingly ledger-posting machines (ALPMs) were introduced by the Bank. The year 1984 was important in the history of IT evolution in SBI. Enabling government policies and satisfactory Industrial relations policies aided the Bank to automate the Branch Back-Office day end work leading to automating the onerous and monotonous tasks of writing and balancing day end books of accounts. It was an event of great significance. It was initially implemented in over 650 branches and the convenience with which it empowered the branches was an eye opener for the Bank’s staff.

4.8.2 FULL BRANCH COMPUTERISATION - The beginning of decade 1990-2000 saw Indian economy being gradually liberalized and aligned to the global
markets. This period also saw the emergence of tech-savvy new generation Private Sector Banks. The cutting edge technology used by these Banks was one of the most important differentiators with the public sector banks. An answer had to be found to beat this challenge and therefore, a quest for total branch automation technology began in right earnest.

The Bank acquired ‘Bankmaster’ software (A Total Branch Automation software) in February 1992 and Backbay Reclamation branch at Mumbai was the first branch to be fully computerized with the Bankmaster Software Application. Up to March 1995, only 35 branches were computerized. In the next five years also, there was a slow and steady growth and in January 2000, a milestone was reached when Tondiarpet branch at Chennai became the 2000th SBI branch to be fully computerized.

The momentum for Computerization slowed down during the period 2000-02 which can be ascribed as a period of consolidation and stabilization. It was a period of intense churning of innovative ideas, preparation of detailed user manuals and imparting extensive training to staff members. These imperatives were indispensable for creating a whole set of evolutionary situation when SBI was preparing an unprecedented framework to unshackle itself from the era of manual Banking and for a quantum jump to full scale Universal Computerization of branches.

Bankmaster software was customized to cater to the specific requirement of semi-urban and rural branches. Supply of hardware from the vendors, preparation of sites, clearing of arrears in Housekeeping was managed with utmost finesse within the challenging timelines. As a consequence of dedicated efforts and profound commitment, all the branches of SBI and Associate banks were fully computerized by January 2004 much ahead of the target date of December 2005.

First time in Bank introduced VSAT technology for banking operations to cater its high value Corporate Customers. This prestigious project was named Cash management Project and it changed the banking concept from “how much” to “how fast”. Subsequently two more projects for online banking were launched by Bank during this period were STEPS and ELENOR. Additionally bank introduced onsite ATMs. The culmination of Universal Computerization Project in the year 2004 marked the turning point in the annals of SBI group and became a launching pad for other futuristic projects.

4.8.3 CORE BANKING PLATEFORM - The changing technology environment underscored the need for a robust technology platform and true integration of
channels, aimed at a single view of relationship to the customer as well as the Bank, besides reducing reconciliation efforts and transaction cost. These objectives were to be achieved by a centralized Core Banking Solution (CBS).

The Core Banking Project (CBP) was formally launched in the month of June ’02 in parallel with the Networking project. The initial Project Team was assembled in July ’02. Extensive customization to the baseline software was carried out, and the initial version was implemented at the first Pilot Branch (PBB, Hiranandhani) in August ’03. The process of customization and building in additional functionalities continues through upgraded versions of the CBS.

CBS has decidedly brought about the capability to provide value added services to customers. Customers as well as the Bank now have a single view of all relationships across the Bank, and eventually, across the Group. Apart from the advantage of ‘Anywhere Banking’, the customer is empowered for ‘Anytime Banking’ and ‘Self Service Banking’ through integration with alternate channels like ATMs and Internet Banking. Most basic banking transactions can be executed by the customers from any remote location through Internet Banking. This saves time, money and effort customers had to incur in going to the branch for transacting his business. Remittances from one branch to another can be made instantaneously. Corporate can pay the salaries to their geographically dispersed employees with just a click of the mouse. There are many more functions being enabled progressively. The advantages of Online Real-time environment used innovatively in combination with alternate channels have thrown open unlimited possibilities for enhancing customer experience.

CBS has at present been implemented at all the 14000+ branches of Associate Banks and SBI covering 100 % of Bank’s business. In addition, 173 foreign branches covering 34 countries have also been brought under Core Banking System.

The bank is entering into many new businesses with strategic tie ups: Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc. each one of these initiatives having a huge potential for growth.

The Bank is forging ahead with cutting edge technology and innovative new banking models, to expand its Rural Banking base, looking at the vast untapped potential in the hinterland and proposes to cover 100,000 villages in the next two years.
4.9 CURRENT STATUS OF INFORMATION

TECHNOLOGIES: RESEARCH QUESTION 1

This section identifies the current status of IT Projects/Products employed in the bank including the main purposes for technology use, technological problems, technology plans, decision-making processes towards technology adoption and diffusion, obstacles in using, learning technologies, and recommendations for resolving the problems. The data was mainly derived from interviews and questionnaires of “Employed Technologies & Technical problems” and "Technology and Usages by Bank officials" (see questionnaire 1 and 4). Questionnaires were shared with senior executives and middle managers, responsible for technical decisions of the bank employed at various technical Deptt at CDC, Belapur and ITS Deptt at LHOs. The results varied from Deptt to Deptt for example Intranet Security Deptt stressed about reliability of Technology to be adopted whereas BPR Deptt was concerned about Cost of Technology. However, the data was subsequently summarized and analyzed using content analysis. The information provides the answer for the first research question, the current status regarding IT usages of the State Bank of India.

4.9.1 Main Purposes for Technology Use - Indian Public Sector Banking industry which has undergone major changes in recent past and subsequent to the economic reforms has to compete with Private Banks and foreign Banks. Two momentous decisions of the Reserve Bank in the 1990s changed the scenario for ever there are:

a) The prescription of compulsory usage of technology in full measure by the new private sector banks as a precondition of the license.

b) The establishment of an exclusive research institute for banking technology institute for development and Research in Banking Technology.

As the new private sector banks came on the scene as technology-savvy banks and offered several innovative products at the front office for the customers based on technology, the demonstration effect caught on the reset of the banks. This has been a perennial reason for IT adoption since many new Banks’ and foreign Banks’ started their operation with state of art technological platform. Whereas the public sector banks were left to compete these banks in terms of ambience, technology, products and services. As per general notion, Banks use technology more effectively with a focus on bringing down costs and improving customer services. The
vision document, prepared by the high-level committee headed by RBI deputy governor KC Chakrabarty, has directed banks to work towards implementation of technology in achieving cost efficiency in small value transactions, improved customer services and effective flow of information within the banks and the regulator. So we summarize that, Information Technologies are used for three main objectives: better customer services, to ease out operational proposes, and Management Information system for better decision-making support. Technology was first mainly employed to manage backend operations followed by to facilitate customers and business management. Many new products got added to traditional banking apart from value addition to existing products, leading to increased market share, sales and profits. It was also used to facilitate work processes and manage documents far beyond human capabilities. Eventually, information and knowledge derived from using technology were used to support better decision-making, to provide support for strategic planning, and to promote rational thinking. The following objectives were achieved by using various IT projects/Products:

- Customized Products
- Improved Customer Services
- Saving of man-hours resulting better efficiency in working processes;
- Easy flow of information for better MIS purposes
- Minimize duplication of work
- Taking advantage of size of Bank as competitive advantage
- New products n services
- To avoid re-work
- Operational efficiency
- Better staff management relationship
- Catering every corner of country with same products
- Universal banking
- Cross Selling

4.9.2 Problem while dealing with Technical products - Problems related to technology adoption and diffusion were gathered from various sources including own experience of about 15 yrs in this field supplemented by various literature reviews. Further, bank officials were asked to complete the “Employed Technologies & Technical problems” questionnaire-1, and give additional comments. The level of
seriousness of problem felt by them was rated against a scale of 1 (low) to 5 (high) displayed in the Table 4.1

### Table 4.1 Level of Seriousness of issues related to Technology

<table>
<thead>
<tr>
<th>Issues</th>
<th>Level of Seriousness On a scale of 1 to 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>3.11</td>
</tr>
<tr>
<td>Technology cost</td>
<td>3.31</td>
</tr>
<tr>
<td>Support by IT Team</td>
<td>3.45</td>
</tr>
<tr>
<td>Rapid Obsolescence</td>
<td>4.03</td>
</tr>
<tr>
<td>Technology Selection</td>
<td>3.49</td>
</tr>
<tr>
<td>Poor adoptability of new Technology</td>
<td>2.95</td>
</tr>
<tr>
<td>Customer Acceptance</td>
<td>2.84</td>
</tr>
<tr>
<td>Employee Acceptance</td>
<td>2.98</td>
</tr>
<tr>
<td>Lack of high-level executive support</td>
<td>2.74</td>
</tr>
<tr>
<td>Competency with existing Technological</td>
<td>2.67</td>
</tr>
</tbody>
</table>

Source: Data derived from SBI Officials from Questionnaire 1 (1 low to 5 high)

4.9.2.1 Economic life of Technology - The banking business being dynamic in nature has to be customized according to the need of customers and other economical conditions. As such adopted technologies before implementation need to be customized on dynamic basis as the existing processes nominally do not fit very well with available technologies in a market and may require time in doing so. Meanwhile by the time customization is done there is always a risk due to rapid technological evolution. The rapid changes in Information Technology force the bank to keep up with technologies, and as such makes it difficult to make decisions on technological issues.

4.9.2.2 Technology Selection - Some time the choice of technology to be adopted is governed by individual perception or influenced by vendor’s projections. The technical specification along with result projects should be genuine. The information related to technology selected should be correct and shared till end user. At many time the decision is taken on theoretical basis and without concerning the ground realities.
or by biased information given by vendors. Technology required at one branch of Bank may not be suitable at the other branch. In a competitive environment one has to be selective and should exercise opportunity cost. Primarily it is seen that Bank doesn’t have technical people at higher levels so it may be possible that vendors may try to convince the bank with exaggerated and optimistic claims about technologies. Every time it may not be possible to run a pilot test for practical information. Further, the banking system is complex with multiple functions and processes. Each function or process requires different types of technologies. Generally, certain technologies are suitable for certain types of work and may not be applied to all of the functions or processes undertaken by the bank.

4.9.2.3 Poor adoptability of new Technology - Considering the size of the bank it takes time to reach every branch and office for explaining user the benefit of the technology adopted. As such the end user has to have thorough knowledge of technology as the technology cannot provide advantages unless users do understand its features, and how to use it productively. Using technologies productively depends not only on the capacity of technologies but also depends on skilled personnel. It is not possible for Bank to recruit every time new officials and at the same time with the pace of technological development extending requisite training and support to end users is a big challenge for the Bank. At the same time bank has another concern of churning of expertise manpower to private sector banks which are offering a much higher packages. As seen many senior bank officers have joined private sector banks.

4.9.2.4 Lack of capable employees - One of the major factors adversely affecting the IT implementation of technology in bank has been average age of employee and their attitude towards learning computer skills. Bank has been facing challenges from private sector banking having a strong marketing team. Bank has to arrange for a strong need of an hour marketing team as well as tech savvy officials to manage branch business. Apart from highly skilled users, the bank also has to provide technological knowledge to end users in every branch around the country in order that they are able to use technologies productively, mitigate technological errors, and maximize utilities from technologies. The factor that cannot be ignored is transfer policy to be followed by Bank. Many times trained officials are transferred to other locations as per policy.
4.9.2.5 **Technology cost** - Over these years SBI has invested extensive money on information technology starting from backend computerization followed by Bankmaster roll out at all branches and finally bringing entire bank to CBS platform. Apart from the costs of technologies, costs for research, promotion, maintenance and upgrading technologies are essential and being taken care.

4.9.2.6 **Reliability** - The biggest problem from Bank’s prospective is reliability, for both Bankers and Customers. Being one of the oldest Banks, traditional banking methodology including ledger has been followed since long. Changes as usual are always taken as negative, same way acceptance of technical products has always been an issue. Technology should deliver stable, robust and reliable services to their valuable customers to retain them and to provide them value added services. At the same time technology has to ensure that these features are added at a lower cost and generate reliable and effective Information Database. As such the reliability of Information Technology products as well as reliability of Database both is critical for Bank and customers.

4.9.2.7 **Employee Acceptance** - As submitted earlier using technologies requires skills, knowledge, understanding, and acceptance from staff and customers. It is difficult to convince staff to use technologies especially if the average age of so high. Further, since end user has to act as sales man for the organization and as such has to sell or convince customers to use technological products. If the end user has not perceived distinctive advantages from the technologies, it is likely that technology will not deliver the expected performance. it will be difficult for them to popularize the technology or technology sometimes cannot fulfill users’ requirements. Even if the bank staffs feels it is inconvenient to use technologies, if technologies are part of their work or responsibility they have to learn how to use them.

4.9.2.8 **Customer Acceptance** - Since we know bank has implemented both type of technical products i.e. customer oriented and Back office support. Still thrust is on Customer’s convenience. Customer acceptance depends on familiarity and the degree of awareness and use of any given tool. The more people using them, the more valuable they become. The bank cannot ascertain in advance that all new technologies will bring about good returns on investment. Generally, it is hard to
convince customers to accept innovations before their obsolescence. Many products launched by bank has to face counter claims by other Banks and as such meet customer queries about reliability. The bank avoids this problem by testing all technologies relating directly to customers via a pilot project before implementation, employing a wait and see policy, or conducting marketing research.

4.9.2.9 Lack of higher Management support - With the up gradation of IT Head/executive to the level of Dy. Managing Director, there seems to be no lack of higher-level management support in State Bank. Rather post implementation performance and review of all IT products/projects are regularly monitored by senior functionaries. A circle wise comparison is also made available to generate competitive attitude.

4.10 OBSTACLES IN USING AND LEARNING TECHNOLOGY

State Bank Management realized the importance of technology long back and initiated necessary steps in right direction. Bank created a separate department as “Mechanization Deptt” which was later renamed as “Computer n Communication Deptt” and finally designated as “Information Technology Services Department” at Circle level across India. At Corporate Level Bank has established Core Data Centre at CDC, Belpur whereby all technical Deptt are housed under one roof to generate synergy concept. The bank not only spends substantial investment in information technology but also emphasizes the importance of the learning organization concept, and accordingly has been raising the level of technology heads, which at present has been raised to the level of Dy. Managing Director.

Further, assuming that change is always taken as negative, and to counter this attitude and to ease the adoption of technology Bank established four national level Apex Training Colleges and 54 learning Centers spread all over the country. The Bank is continuously engaged in skill enhancement of its employees. Some of the training programs are attended by bankers from banks in other countries. Bank has setup separate institute for Information and communication Management at Hyderabad i.e. SBIICM. The main purpose for setting this institute is to promote the learning of technology among staff. Training concept at this institute shifted from ordinary banking training to the acquisition of technical knowledge in accordance with their requirement. This has lead to increasing skilled personnel, developing
competitive advantage, and assuring customers' satisfaction and benefits. Despite the promotion of a learning organization, information from the "The Technology and Usages by Bank officials" questionnaire (4) distributed to the bank staff at the main office and branches in India still revealed issues in using and learning technology (see Table 4.2).

Table 4.2. Obstacles in Using and Learning Technology

<table>
<thead>
<tr>
<th>Issues related to technology usage</th>
<th>Administrative Offices (%)</th>
<th>Branches (%)</th>
<th>Average of both (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low level of Training</td>
<td>74.7</td>
<td>81.2</td>
<td>77.9</td>
</tr>
<tr>
<td>Poor Knowledge of Technology</td>
<td>62.6</td>
<td>67.3</td>
<td>64.9</td>
</tr>
<tr>
<td>Poor support from IT support team</td>
<td>34.9</td>
<td>57.4</td>
<td>46.2</td>
</tr>
<tr>
<td>Limitation of time to learn tech.</td>
<td>38.2</td>
<td>73.5</td>
<td>55.9</td>
</tr>
<tr>
<td>Tech changes too fast</td>
<td>31.3</td>
<td>32.5</td>
<td>31.9</td>
</tr>
<tr>
<td>Tech doesn’t suit/required</td>
<td>21.8</td>
<td>27.4</td>
<td>24.6</td>
</tr>
</tbody>
</table>

Source: Data derived from Questionnaire 4, 1389 responses out of 1600

Figure 4.6 Comparison of Obstacles in Learning and Using Technology between Staff at the Main office and those at the Branches.

Source: Data derived from Questionnaire 1 & 2
As per the feedback received from various users of technological products from Branches and Administrative offices it transpired that “Low level of Training” was the most important obstacle in using and learning technology (77.9% of respondents). To supplement this approximately 65% categorized the “Poor knowledge of technology” as second largest factor as obstacle in technology usage. These two factors can be justified and contributed to the average age of Bank officials and their exposure to computer literacy. Further, conflicting feedback was received from branches and offices regarding “limitation of time to learn technology”, showing that branch officials are hard pressed, vis-a-vis administrative office staff due to routine workloads, which prevents learning and use of technologies. A good number of respondents (above 50 %) from branches categorized “Poor support from IT support team” as another reason for hindrance in technology usage. Meanwhile, change in technology and technology doesn’t suit or required were rated at 32 % and 25 % as two more obstacles in using technology.

Apart from above mentioned issues few more issues were found to be prominent adversely affecting the technology usage in branches.

- Technology not being user friendly
- Benefits from using technology are not clear to the user
- No common platforms to share view/problems/solutions. Inter office communication is limited.
- Poor facilities to learn technology.
- Low confidence in technology sometimes increases the workload rather than decreasing the workload;
- Incentives or appreciations from superiors to promoting the technology usage
- Performance criteria don’t include any evolution on the basis of extra efforts in terms of technology. Work performance relates to fieldwork,

Further, from data collected at per Table 4.2 we understand that branches are having more problems in technology usage vis-à-vis office staff, mainly due to locations, workload etc.

4.11 FACTORS CONTRIBUTING TECHNOLOGY USAGE

The users at Administrative Offices and branches were asked to suggest and rank the issues that can further assist. Most of the respondents agreed that the most important supportive factor that aids their learning and use of technologies was On the Job training from the bank (84.54% of respondents). Users preferred that online
training should be given to make them comfortable about technology and its post implementation effects/problems. Another major issue was choice of technology, it has to be user friendly and has to be matching with existing practice (67%). Support from technical team for smooth operation and trouble shooting was rated to be third highest issue (58%). Further, support from high executive managers (54.64%). However, users at Offices and branches differed with large % on account of appreciation procedure and incentives to be granted for increasing technology usage.

Table 4.3. Factors contributing Technology usage

<table>
<thead>
<tr>
<th>Factors contributing Technology usage</th>
<th>Offices (%)</th>
<th>Branches (%)</th>
<th>Averages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Job Training</td>
<td>81.2</td>
<td>89.4</td>
<td>85.3</td>
</tr>
<tr>
<td>Support by IT Officials</td>
<td>55.7</td>
<td>59.3</td>
<td>57.5</td>
</tr>
<tr>
<td>Easy Technology</td>
<td>69.7</td>
<td>64.3</td>
<td>67</td>
</tr>
<tr>
<td>Support by Management</td>
<td>39.3</td>
<td>57.9</td>
<td>65.1</td>
</tr>
<tr>
<td>Incentive to use technology</td>
<td>17.2</td>
<td>47.5</td>
<td>32.4</td>
</tr>
</tbody>
</table>

Source: Data derived from Questionnaire 4

Figure 4.7 Factors contributing Technology usage

Source: Data derived from Questionnaire 4
Apart from above mentioned factors users at branches and offices shared some other factors which contribute to the uses of technology.

- Providing adequate literature/handouts/manuals about the features of Project/Product and procedure to use it. This factor can take care of insufficient training or poor understanding during training by user.
- Mock drill to exercise the operation of Product/Project may be at Intranet. This shall facilitate user to have hands-on about technology.
- Availability of complete information may be in the shape of BLOG at Intranet.
- Frequent using validating techniques about knowledge of officials, may be through in-house examinations.
- Taking feedback from users about products/projects post implementation.
- Summarizing the common problems and sharing at common platform by sharing information and taking corrective steps.

4.12 SUMMERY

We have given a broad idea about Indian banking industry its history including evolution, growth and major reforms. The case study “State Bank of India” was also elaborately explained starting from its origin and expansion. Very recently State Bank was referred as “Big becomes Bigger” and various expansion plans which could made it happen have been shared in this chapter.

Since the research has taken considerably long time the banking scene has also changed during this period and as such data has variations. Meanwhile Business Processes Reforms (BPR-Products) were also rolled out by Public sector Banks, on the recommendations of various consultancy forms including Mackency’s who was pioneer in making major changes in State Bank of India. However, at the same time private Sector Bank’s were seen consolidating Banking Business under one roof i.e. reversal of BPR concept.

The answers for the first research question, "What is the current status regarding IT usages of the bank?" concluded from the detail pertaining to State Bank of India.

It was observed and explained in this chapter that bank invests in information and communication technologies to remain leader of Indian Banking Industry and further consolidate its position apart from assisting its management in fulfilling its
vision. Technical products have used by Bank to compete other Banks and competitive differentiation, facilitating transaction processing, supporting decision-making, and improving quality and efficiency of work processes.

Various technologies employed by Bank (Active Directory Services, Cheque Truncation System, Core Banking, data warehouse, Plastic Money, Internet banking, Mobile Banking). At the same time bank being a non technical organization and having high average age has to confront critical problems relating to technologies such as rapid obsolescence, choice of technology, Support by IT Team because of size of the bank, costs of technologies, coupled with unexpected performance and acceptance from staff and customers in some cases.

After details analysis we can support the punch line of SBI “Big becomes Bigger” and no doubt Technology has played a vital role in doing so. The provisioning of all products irrespective of requirement has been made possible by SBI across India. The networked remote branches from eastern India to Deep village branches in Kashmir to lush green Kerala can deliver any and every product which are available in any metro city branches. We understand that technology development has been planned and integrated with business strategies. The technology has been customer oriented and customized for their requirements despite being India’s Largest Bank. Further, Bank has made huge investments in technology and in terms of support infrastructure. A dedicated communication network for voice and data services known as “State Bank Connect” is a hybrid combination of leased line and Satellite technology. Similarly, a Video Conferencing network covering all RBOs, proposed to be extended to the district headquarters across India, exclusively for Bank’s internal conferencing. Further, to support the technical products/Projects a team of specialist officers in the shape of “Information Technology Deptt” have been created at each Local Head Office (14 across India), down the line at Zonal Business Offices of the bank (65 across India). These departments are responsible for supporting technical products and research for new innovation in technical aspects. To support the branches Circle Resource Team Members have been nominated for group of branches. There is no doubt that in public selector banks State Bank Can be designated as the innovative leaders of the banking industry in India.
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