CHAPTER III

BANKING SYSTEM IN INDIA
CHAPTER – III

BANKING SYSTEM IN INDIA

3.1. Introduction

Chapter three focuses on banking system in India. Here the meaning and evolution of banking, origin of banking in India, Indian banking system, Growth of banking system in India and different classification of Banks and profile of the public and private sector banks used in the study are analyzed one by one.

Banking system remains the focal point in the financial set up of any developing country. Banks are regarded as special in view of their specialized functions in the financial intermediation and payment system. Banking plays an increasingly important role in the economy of a nation. Occupying a pivotal position in the organized money market, it has acquired a special place with its large network of branches, huge deposits and advances. The long process of expansion, regulation and reorganization of banking can be elaborately dealt with. With the gradual change in the very concept of banking and the entry of state in its administration, Banking has assumed enormous importance as a subject of analysis and research.

3.2. Meaning of Banking

Long back, the well known nineteenth-century economist David Ricardo stated that a bank was a dealer or transactor in money. But so also is the money-lender. However, notwithstanding this similarity between a bank and a money lender, the functioning of the two differs materially in as much as the former deals in the money which it receives principally from its deposits while the later transacts with his own money resources. In short, while a commercial bank is financial intermediary, a money lender is never one. Although the functions of a commercial bank have multiplied through
time and a modern commercial bank dabbles in providing many ancillary services to its customers providing locker services, advising its clients on that matter, acting as a trustee of minor's estate, etc., which its ancestral counterpart never even dared to think of performing. Its main function still consists of accepting the deposits from the public and lending these pooled deposits to the needy members of society mostly against the security of collaterals.

Banking Regulation Act, 1949 was the first State Act enacted to control and regulates the activities of the banking companies. It defines the term banking as:

"Accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise" [sec5 (b)]

The essential function of a bank is therefore twofold:

1. Acceptance of deposits
2. Investment of funds

Section 8 of the same Act prohibits a Banking company from engaging in trading activities.

3.2.1. Functions of a Bank

Functioning of a Bank is among the more complicated of corporate operations. Since Banking involves dealing directly with money, governments in most countries regulate this sector rather stringently. In India, the regulation traditionally has been very strict and in the opinion of certain quarters, responsible for the present condition of banks, where NPAs are of a very high order. The process of financial reforms, which started in 1991, has cleared the cobwebs somewhat but a lot remains to be done. The multiplicity of policy and regulations that a Bank has to work with makes its operations
even more complicated, sometimes bordering on the illogical. This section, which is also intended for banking professional, attempts to give an overview of the functions in as simple manner as possible.

Every bank has to perform certain functions. Unless otherwise stated, the term ‘bank’ represents a commercial bank. The functions of a bank may be broadly classified into two categories i.e., (1) primary functions, and (2) secondary functions.

Primary Functions

Those functions on which a bank’s viability and existence depend are called primary or main functions. The primary functions of a bank-accepting deposits and lending, investing funds so accepted – are defined in section 5 (1)(b) of the Banking Regulation Act, 1949. Section 6 (1)(a) of this Act specifies other forms of business which are essential for a banking company. Accordingly, no banking company can obtain a license from the Reserve Bank under section 22 of the same Act, unless it undertakes to carry on the ‘banking business’ in India as defined in the Act.

The following are the primary functions of a commercial bank:

1. **Accepting deposits is one of the two major activities of the Banks:** Banks are also called custodians of public money. Basically, the money is accepted as deposit for safekeeping. But since the Banks use this money to earn interest from people who need money, they share a part of this interest with the depositors. However, accepting deposits and keeping track of the money involves a lot of bookkeeping and other operations. Let us see what the Banks must maintain to provide this service.

   - An effective branch network to reach the targeted customer base.
• A system of Intra branch accounting with separate accounts(s) for each customer

• A system of reconciliation at the end of the day.

• Availability of adequate funds at each branch.

• Trained staff for effective customer service.

• Infrastructural inputs like space, stationary, comfortable environment etc.

2. **Lending money to the public**: Lending money is one of the two major activities of any Bank. In a way, the Bank acts as an intermediary between the people who have the money to lend and those who have need for money to carry out business transactions.

This activity places its own requirements on the resources of the Bank. For effective functioning of this, a bank must possess:

• Sufficient deposits.

• Skills to appraise the potential borrowers and the activity.

• Legal skills for documentation.

• Legal skills for the recovery of its dues through the courts.

• Skills to follow up and monitor the end-use of money lent by it.

• An effective credit delivery system.

• Review of credit portfolio.

3. **Transfer of money**: Apart from accepting deposits and lending money, Banks also carry out on behalf of their customers, the act of transfer of money – both domestic and foreign- from one place to
another. This activity is known as "remittance business". Banks issue Demand Drafts, Banker's Cheques, Money Orders etc. for transferring the money. They also have the facility of quick transfer of money also known as Telegraphic Transfer or Tele Cash Orders.

To deliver this service, a Bank must have:

- An effective branch network or correspondent relationships.
- A system of Inter branch reconciliation
- A system of reconciliation with the correspondents.
- Availability of funds at all the centers.

4. **Trustee Business:** Banks also act as trustees for various purposes. For example, whenever a company wishes to issue secured debentures, it has to appoint a financial intermediary as trustee who takes charge of the security for the debentures and looks after the interests of the debenture holders. Such entity should necessarily have expertise in financial matters and also be of sufficient standing in the market/society to generate confidence in the minds of potential subscribers to the debentures. While Banks are the natural choice for the customers, they must possess the following to be effective

- A track record of sufficient length.
- Facilities for safekeeping.
- Legal skills to take necessary steps for the trusteeship.

5. **Safe Keeping:** Bankers are in the business of providing security to the money and valuables of the general public. While security of money is taken care of through offering various types of deposit schemes, security of valuables is provided through making secured space available to general public for keeping these valuables. These spaces
are available in the shape of LOCKERS which are small compartments with dual locking facility built into strong cupboards. These are stored in the Bank's Strong Room and are fully secure. Lockers can neither be opened by the hirer or the bank individually. Both must come together and use their respective keys to open the locker. To make this facility available to its customers, the Bank must provide:

- Physical structures to house the lockers.
- Locker cabinets
- Security arrangements
- Record of access to lockers.

6. **Government Business**: Earlier Government business used to be exclusively carried out by Government Treasuries where all type of transactions took place. However, now Banks act on behalf of the government to accept its tax and non-tax receipts. Most of the Government disbursements like pension payments and tax refunds also take place through banks. While the Banks carry out this business for a fee to be paid by the Government, providing this service requires a lot of effort and organization. The Banks must provide:

- Interface with the public
- Liaison with local government departments and government treasury
- Arrangement for reconciliation with the government Accounts Department.
- Necessary infrastructure, stationery etc. to cater to the numbers.

7. **Rendering various services to customers**: As soon as the customers lodge their money deposits with the bank, they become account holders, Bankers undertake to pay cheques and bills of exchange drawn or accepted by their customers. Similarly, cheques, drafts, bills, hundis
and other documents are collected in favour of account holders. Banks also follow standing instructions from their customers to pay insurance premium, tax liability and membership fees etc., regularly.

8. **Credit creation:** This is a vital function of commercial banks. Out of total demand and time deposits, banks retain a certain proposition of its cash serves and the remaining is lent out. The funds so lent out, in due course, accrue again as deposits either with the same bank or with another bank. The repetition of this process throughout the banking system as a whole leads to the creation of more credit. This is called a phenomenon of 'multiple credit creation'. The actual extent of credit creation depends much on how the people have developed banking habit among themselves and how they use cheques in the settlement of transactions.

9. **Dealing in foreign exchange:** Within the provisions of the Foreign Exchange Regulation Act, commercial banks undertake buying and selling of foreign exchange 'at spot or forward rates,' as prescribed by the Reserve Bank of India from time to time. Only such banks, not all, as have been granted licenses by the reserve bank to deal in foreign exchange can undertake all types of foreign exchange transactions in permissible currencies.

**Secondary or Ancillary Functions**

Besides the main functions, banks have expanded their activities to cater to the varied needs of their customers. These functions add to the utility of banks and provide additional avenues for their revenue. Section 6 (1) (b to 0) of the Banking Regulation Act, 1949 sets out other forms of business in which banking companies may engage. The following are some important forms of ancillary business:
➢ Acting as agents for any government, local authority or any other customer.

➢ Contracting, negotiating and issuing public and private loan.

➢ Managing issue of shares or debentures etc.

➢ Carrying on guarantee and indemnity business.

➢ Managing, selling and realizing any property in its possession in satisfaction of any of its claims.

➢ Dealing with any property received as security against any loan or advance.

➢ Undertaking and executing trusts.

➢ Administration of estate as executor, trustee or otherwise.

➢ Acquisition, construction or maintenance of any building or works necessary for the bank.

➢ Dealing with rights and property of the bank

➢ Doing all business incidental or conducive to the promotion of the banking business.

The table below highlights the primary and secondary functions of bank
Table No. 3.1

Functions of Bank

<table>
<thead>
<tr>
<th>Primary Functions</th>
<th>Secondary Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptance of deposits</td>
<td>Agent</td>
</tr>
<tr>
<td>Lending Money</td>
<td>management of issues</td>
</tr>
<tr>
<td>Transfer of money</td>
<td>Trustee</td>
</tr>
<tr>
<td>Trustee business</td>
<td>Promotion of bank</td>
</tr>
<tr>
<td>Safe keeping</td>
<td>Administration etc.</td>
</tr>
<tr>
<td>Government business</td>
<td></td>
</tr>
<tr>
<td>Rendering various service to customers</td>
<td></td>
</tr>
<tr>
<td>Credit creation</td>
<td></td>
</tr>
<tr>
<td>Dealing in foreign Exchange.</td>
<td></td>
</tr>
</tbody>
</table>

3.3. Evolution of Banking

Babylonians are credited with the first development of a system of banking, which dates back to 2000 B.C. During the same time, the practice of granting credit was also prevalent in ancient Greece and Rome. In Rome, the banks were called *Tabernoe Agrentanioe* and the bankers were addressed by various names like *Argentani, Mensani* and *callylaztoe*. These bankers were engaged in receiving deposits and lending money, the money being lent on the security of land. Much of the banking business was done by private individuals. The other banks were appointed by the government to receive taxes. In the Indian context, the rules and regulations concerning credit was first mentioned in the book of Manu, the ancient Sanskrit scholar. *Manusastra* speaks of the law governing credit transactions. It contains references regarding deposits, pledges, policy of loans and rates of interest.

The genesis of modern banking can be traced to the bank of Venice which was established in 1157 A.D. and served as an institution for transfer of public debt. There are also references to “Monte” (meaning a standing bank or
mount of money) in Florence in 1936. The Primary function was exchange of money, receiving deposits and discounting bills of exchange, both for the citizen and for the foreigners. Successively in 1407, the Bank of Genoa was established. In the first decade of 17th Century, the Bank of Amsterdam was established. Most of the European banks, that are now prevalent, are based on this bank which was initially planned to meet the needs of the merchant class. The concept of "cheque" originated from the practice of this bank in which a depositor received a kind certificate entitling him/her to withdraw, on demand, his/her deposits to transfer the money from one account to another.

Western style of banking began in the 18th Century – Year 1770. The first joint stock Bank – Bank of Hindustan started in Calcutta. Later, East Indian Company also established three banks – Bank of Bengal in 1789, Bank of Bombay in 1840 and Bank of Madras in 1843 (All known as presidency banks). In 1920, the Imperial Bank of India Act was enacted amalgamating the three banks. In 1921, Imperial Bank of India was established to hold government balance and manage public debts. They had no power to issue currency notes which was the exclusive prerogative of Government of India.

In 1955 the Imperial Bank of India was nationalized by SBI Act. Freedom struggle and Swadeshi Movement saw the opening of banks under Indian Managements. The Punjab National Bank Ltd., in 1905, the Bank of India Limited, in 1906, the Bank of Baroda limited in 1908 are some such prominent banks opened during this period.

3.4. Origin of Banking in India

Banking in India has its origin as early as the Vedic period. It is believed that the transition from money lending to banking must have occurred even before Manu, the great Hindu Jurist, who has devoted a section of his work to deposits and advances and laid down rules relating to rates of interest. During the Mogul period, the indigenous bankers played a very important role in lending money and financing foreign trade and commerce.
During the days of the East India Company, it was the turn of the agency houses to carry on the banking business.

The general Bank of India was the first Joint Stock Bank to be established in the year 1786. The others which followed were the Bank of Hindustan and the Bengal Bank. The Bank of Hindustan is reported to have continued till 1906 while the other two failed in the meantime. In the first half of the 19th century, the East India Company established three banks; the Bank of Bengal in 1809, the Bank of Bombay in 1840 and the Bank of Madras in 1843. These three banks, also known as Presidency Banks, were independent units and functioned well. They were amalgamated in 1920 and a new bank, the Imperial Bank of India was established on 27th January 1921. After the enactments of the State Bank of India Act the imperial Bank of India was taken over by the newly constituted State Bank of India. The Reserve Bank which is the Central Bank was created in 1935 by enacting the Reserve Bank of India Act 1934. In the wake of the Swadeshi Movement, a number of banks with Indian management were established in the country namely, Punjab National Bank Ltd, Bank of India Ltd, Canara Bank Ltd, Indian Bank Ltd, the Bank of Baroda Ltd, the Central Bank of India Ltd. On July 19, 1969, fourteen major banks of the country were nationalized and on 15th April 1980 six more commercial private sector banks were also taken over by the Government of India.

3.5. Indian Banking System

The Banking system is an integral sub-system of the financial system. The financial system functions as an intermediary and facilities the flow of funds from the areas of surplus to areas of deficits. A financial system is a composition of various institutions, markets regulations and laws, practices, money managers, analysis, transactions and claims and liabilities. It represents an important channel of collecting small savings from the households and lending it to the corporate sector.
RBI is the apex body of the Indian banking system and for all matters relating to the banking system. It is the ‘Central Bank’ of India and the banker to all other banks.

Functions of the RBI

The functions rendered by the RBI are as follows

1. Currency issuing authority.
2. Banker to the Government.
3. Banker to other banks.
4. Framing of monetary policy.
5. Exchange control
6. Custodian to Foreign Exchange and gold reserves
7. Developmental activities.
8. Research and Development in the banking sector.

3.6. Growth of Banking System in India

In order to understand the present make up of banking sector in India and its past progress, it will be in fitness of things to look at its development in a somewhat longer historical perspective. The past four decades and particularly the last two decades witnessed cataclysmic change in the face of commercial banking all over the world. Indian banking system has also followed the same trend.

In over five decades since independence, the banking system in India has passed through five distinct phase, viz.,

1. Evolutionary phase (prior to 1950)
2. Foundation phase (1950-1968)
5. Reformatory phase (since 1990)
3.6.1. Evolution Phase: (Prior to 1950)

Enactment of the RBI Act 1935 gave birth to scheduled banks in India, and some of these banks had already been established around 1981. The prominent among the scheduled banks is the Allahabad Bank, which was set up in 1865 with European management. The first bank which was established with Indian ownership and management was the Oudh Commercial Bank, formed in 1881, followed by the Ajodhya Bank in 1884, the Punjab National Bank in 1894 and Nedungadi Bank in 1899. Thus, there were five banks in existence in the 19th century. During the period 1901-1914, twelve more banks were established, prominent among which were the Bank of Baroda (1906), the Canara Bank (1906), the Indian Bank (1907), the Bank of India (1908) and the Central Bank of India (1911).

Thus, the five big banks of today had come into being prior to the commencement of the First World War in 1913, and also in 1929, the Indian Bank faced serious crisis. Several banks succumbed to this crisis. Public confidence in banks received a jolt. There was a heavy rush on banks. An important point to be noted here is that no commercial bank was established during the First World War, while as many as twenty scheduled banks came into existence after independence – two in the public sector and one in the private sector. The United Bank of India was formed in 1950 by the merger of four existing commercial banks. Certain non-scheduled banks were included in the second schedule of the RBI. In view of these facts, the number of scheduled banks rose to 81. Out of 81 Indian scheduled banks, as many as 23 were either liquidated or merged into or amalgamated with other scheduled banks in 1968, leaving 58 Indian Scheduled Banks. The period wise distribution of these 58 Indian scheduled banks is given in the following table.
It may be emphasized at this stage that banking system in India came to be recognized in the beginning of the 20th century as a powerful instrument to influence the pace and pattern of economic development of the country. In 1921 a need was felt to have a State Bank endowed with all support and resources of the Government with a view to helping industries and banking facilities to grow in all parts of the country. It is towards the accomplishment of this objective that the three Presidency banks were amalgamated to form the Imperial Bank of India. The role of the Imperial Bank was envisaged to extend banking facilities, and to render the money resources of India more accessible to the trade and industry thereby promoting a financial system which is an indisputable condition of the social and economic advancement of the nation.

Until 1935, when the RBI came into existence to play the role of the Central Bank of the country and regulatory authority for the banks. The Imperial Bank of India played the role of a quasi central bank. It was by making it the sole repository of all its funds and by changing the volume of its deposits with the Bank as and when desired by it, the Government tried to influence the base of deposits and hence credit creation by Imperial Bank and by rest of the banking system.

### Table 3.2

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Period of Establishment</th>
<th>No. of Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>19th Century</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>Pre-First world War</td>
<td>14</td>
</tr>
<tr>
<td>3.</td>
<td>Inter-War period</td>
<td>21</td>
</tr>
<tr>
<td>4.</td>
<td>Second World War</td>
<td>3</td>
</tr>
<tr>
<td>5.</td>
<td>Post-Second world War</td>
<td>15</td>
</tr>
</tbody>
</table>
Thus, the role of commercial banks in India remained confined to providing vehicle for the community's savings and attending to the credit needs of only certain selected and limited segments of the economy. The operations of banks were influenced primarily by the commercial principle and not by development factor. Regulation was still only being introduced and unhealthy practices in the banks were then more rules than exceptions. Failure of banks was common as governance in privately owned joint stock banks left much to be desired.

3.6.2. Foundation Phase (1948-1968)

In those initial days, the need of the hour was to reorganize and to consolidate the prevailing banking network keeping in view the requirements of the economy. The first step taken to that end was the enactment of the Banking companies Act, 1949 followed by rapid industrial finance. The role played by banks was instrumental behind industrialization with the impetus given to both heavy and small scale industries. Subsequently, after the adoption of social control, banks started taking steps in extending credit to agriculture and small borrowers. Finally, on July 1969, 14 banks were nationalized with a view to extending credit to all segments of the economy and also to mitigate regional imbalances. Thus, the period of regulated growth from 1950 till bank nationalization witnessed a number of far-reaching changes in the banking system.

The banking scenario prevalent in the country during the period 1948-1968 presented a strong focus on class banking on security rather than on purpose. The emphasis of the banking system during this period was on laying the foundation for a sound banking system in the country. Banking Regulation Act was passed in 1949 to conduct and control operations of the commercial banks in India. Another major step taken during this period was the transformation of the Imperial Bank of India into the State Bank of India and a redefinition of its role in the Indian economy, strengthening of the
co-operative credit structure and setting up of institutional framework for providing long-term finance to agriculture and industry. Banking sector, which during the pre-independence India was catering to the needs of the government, rich individuals and traders opened its door wider and set out for the first time to bring the entire productive sector of the economy -- large as well as small, in its fold.

Table No.3.3

Number of Commercial Banks During 1951 – 1968

<table>
<thead>
<tr>
<th>Particulars</th>
<th>December 1951</th>
<th>December 1956</th>
<th>December 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Banks</td>
<td>92</td>
<td>89</td>
<td>71</td>
</tr>
<tr>
<td>Non-scheduled Banks</td>
<td>474</td>
<td>334</td>
<td>210</td>
</tr>
<tr>
<td>Total</td>
<td>566</td>
<td>423</td>
<td>281</td>
</tr>
</tbody>
</table>

During this period number of commercial banks declined remarkably. There were 566 banks as on December, 1951; of this, the number scheduled banks was 92 and the remaining 474 were non-scheduled banks. This number went down considerably to the level of 281 at the close of the year 1968. The sharp decline in the number of banks was due to heavy fall in the number of non-scheduled banks which touched an all time low level of 210.

The banking scenario prevalent in the country up to the year 1968 depicted a strong stress on class banking based on security rather than on purpose. Before 1968, only the RBI and Associate Banks of the SBI were mainly controlled by the government. Some associates were fully owned subsidiaries of the SBI and in the rest, there was a very small shareholding by individuals and the rest by the RBI.

The aim of bank nationalization was to make banking services reach the masses that can be attributed as “first banking revolution”. Commercial banks acted as vital instruments for this purpose by way of rapid branch expansion, deposits mobilization and credit creation. Penetrating into rural areas and agenda for geographical expansion in the form of branch expansion continued. The second dose of nationalization of 6 more commercial banks on April 15, 1980 further widened the phase of the public sector banks and therefore banks were to implement all the government sponsored programmes and change their attitude in favour of social banking, which was given the highest priority.

This phase witnessed socialization of banking in 1968. Commercial banks were viewed as agents of change and social control on banks. However, inadequacy of social control soon became apparent because all banks except the SBI and its seven associate banks were in the private sector and could not be influenced to serve social interests. Therefore, banks were nationalized (14 banks in 1969 and 6 banks in 1980) in order to control the heights of the economy in conformity with our national policy and objectives. This period saw the birth and the growth of what is now termed as directed lending by banks. It also saw commercial banking spreading to far and wide areas in the country with great pace during which a number of poverty alleviation and employment generating schemes were sought to be implemented through commercial banks. Thus, this period was characterized by the death of private banking and the dominance of social banking over commercial banking. It was hardly realized that banks were organizations with social responsibilities but not social organizations. This period also witnessed the birth of Regional Rural bank (RRBs) in 1975 and NABARAD in 1982 which had priority sector of society as their focus of activity.
Although the number of commercial banks declined from 281 in 1968 to 268 in 1984, the number of scheduled banks shot up from 71 to 264 during the corresponding period, the number of non-scheduled banks having registered perceptible decline from 210 to 4 during the period under reference. The rise in the number of scheduled banks was, as stated above, due to the emergence of the RRBs.

The fifteen years following the nationalization of banks in 1969 were dominated by the expansion of banks at a path breaking pace. As many as 50,000 branches were set up. Three-fourths of these branches were opened in the rural and the semi-urban areas. Thus, during this period a distinct transformation of far reaching significance occurred in the Indian banking system as it assumed a broad mass-base and emerged as an important instrument of socio-economic changes. Thus, with growth came inefficiency and loss of control over widely spread offices. Moreover, retail lending to more risk-prone areas at concessional interest rates had raised costs, affected the quality of assets of banks and put their profitability under strain. The competitive efficiency of the banks was at a low ebb. Customer service became least available commodity. Performance of a bank/banker began to be measured merely in terms of growth of deposits, advances and other such targets and quality became a casualty.


A realization of the above weakness thrust the banking sector into the phase of consolidation. This phase began in 1985 when a serious of policy initiatives were taken with the objectives of consolidating the gains of branch expansion undertaken by the banks, and of relaxing albeit marginally, the very tight regulation under which the system was operating. Although the number of scheduled banks increased from 264 in 1984 to 276 in 1990, branch expansion of the banks slowed down. Hardly 7000 branches were set up during this period. For the first time, serious attention was paid to
improving housekeeping, customer services, credit management, staff productivity and profitability of the banks and concrete steps were taken during this period to rationalize the rates of bank deposits and lending. Measures were initiated to reduce the structural constraints which were then inhibiting the development of money market.

By this time about 90% of commercial banks were in the public sector and closely regulated in all its facets. Prices of assets and liabilities were fixed by the RBI; prices of services were fixed uniformly by the Indian Banking Association (IBA); composition of assets was also somewhat fixed in as much as 63.5% of bank funds were mopped up by CRR and SLR and the remaining was directed towards the priority sector lending and small loaning. The salary structure of the staff was negotiated by the IBA and validated by the Government. Thus there was no autonomy in vital decisions. Commercial approach in operations and drive towards efficiency was almost non-existent. The result was that during this period, the banks ended up consolidating their losses rather than the gains.

3.6.5. Reformatory Phase (1991 and Onwards)

By 1991, the country had erected an unprofitable, inefficient and financially unsound banking sector. A few facts will suffice. The profitability of Indian banks was extremely low in spite of rapid growth in deposits. The average return on assets in the second half of the 1980s was about 0.15 per cent, an extraordinarily low figure by world standards. Return on equity was higher (about 9.5 per cent) but that was simply a reflection of capitalization of Indian banks. Capital and reserves averaged about 1.5 percent of assets, compared to 4-6 percent in other Asian countries (Vijay Joshi & IMD Little, 1996)

Reforms paved the way for changing the fortunes of the country that was on the brink of a precipice in May 1991. The financial position of the economy was then extremely difficult with current account deficit of 10
billion dollars, Foreign Exchange reserves down to two weeks imports, Damaging import cuts, Difficult position for commercial borrowing abroad, inflation at 13 percent, and reserved trend of inflow of foreign exchange (Joshi, PN, 2002).

In August 1991 recognizing the looming danger to the Indian Financial system, the Government of India had appointed a High-level committee headed by Mr. M. Narasimham, ex-Governor of RBI to address the problem and suggest remedial measures.

The most important recommendations of the committee on financial Sector Reforms (CFS) made and accepted for implementation over a three year period from April, 1992 were for entry deregulation, deregulation of Interest Rates for deposits and advances, gradual reduction in reserve pre-emption levels, liberalized branch expansion policy, introduction of new accounting and prudential norms relating to Income recognition, provisioning and Capital Adequacy, allowing public sector banks to access the capital market, lesser emphasis on priority sector lending, institution of Asset Reconstruction funds, greater autonomy to public sector banks, cutting excessive regulation, and bringing NBFCs under the ambit of regulatory framework.

Entry deregulation has resulted in a significant increase in the number of private sector banks and also an increase in the network of the existing foreign banks. These banks have harnessed the latest information technology, made the customers conscious of quality and has turned the market to a buyer’s market from a seller’s market all these years. These changes have necessitated even public sector banks to become market oriented and to meet the needs and wants of the customers.
3.7. **Classification of Banks**

Following is the classification of banks:

A. **Scheduled Banks**

Scheduled banks are banks which are included in the second schedule of the Banking Regulation Act, 1965. According to this schedule, a scheduled bank must have paid-up capital and reserve of not less than Rs.5,00,000 and satisfy the RBI that its affairs are not conducted in a manner detrimental to the interests of its depositors.

B. **Non Scheduled Banks**

Non scheduled banks are banks which are not included in the second schedule of the Banking Regulation Act, 1965. It means they need not satisfy the conditions laid down by that schedule.

**Schedule Banks are sub-divided into the following**

1. **State Co-operative Banks:** These are co-operative owned and managed by the State.

2. **Commercial Banks:** These are business entities whose main business is accepting deposits and extending loans. Their main objective is profit maximization and adding shareholder value. These are further sub-divided into
   
   a. **Indian Banks:** These banks are companies registered in India under the Companies Act, 1956. Their place of origin is in India.
   
   b. **Foreign Banks:** These are banks that were registered outside India and had originated in a foreign country.
Indian Banks are also sub-divided into

a) **State Bank of India and its subsidiaries:** This group comprises of the State Bank of India (SBI) and its seven subsidiaries viz., State Bank of Patiala, State Bank of Hyderabad, State Bank of Travancore, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Saurastra and State Bank of Indore.

b) **Other Nationalized Banks:** This group consists of nationalized private sector banks. The Government of India Nationalized 14 private banks in 1969 and another six in 1980.

c) **Regional Rural Banks:** These were established by the RBI in 1975. They were established to operate exclusively in rural areas to provide credit and other facilities to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs.

d) **Old Private Sector Banks:** This group consists of banks established by the privy states, community organizations or by a group of professionals for the cause of economic betterment in their area of operations. Initially their operations were concentrated in a few regional areas. However, their branches slowly spread throughout the nation as they grew.

e) **New Private Sector Banks:** These banks were started as profit oriented companies after the RBI opened the banking sector to the private sector. They are mostly technology driven and better managed than the other banks.

Today the Commercial Banking System in India may be classified based on the following
C. Public Sector Banks

The Public Sector Banks can further be subdivided into the following

a. State Bank of India and its associate banks called the State Bank group.

b. 20 nationalized banks.

c. Regional rural banks mainly sponsored by the public sector banks.

D. Private Sector Banks

The Private Sector Banks can further be subdivided in the following manner

a. Old generation Private Banks
b. New generation Private Banks
c. Foreign Banks in India
d. Scheduled Co-operative Banks and Non-Scheduled Banks

E. Cooperative Sector Banks

The co-operative banking sector has been developed in the country to supplement the village money lender. The co-operative banking sector in India is divided into 4 components.

1. State Co-operative Banks
2. Central Co-operative Banks
3. Primary Agricultural credit societies
4. Land Development Banks
5. Urban Co-operative Banks
6. Primary Agricultural Development Banks
7. Primary Land Development Banks
F. Development Banks

The Development Banks are established in the country mainly for the purpose of promoting, developing the industries in India. The Development Banks in India can further be classified into.

1. Industrial Finance Corporation of India (IFCI)
2. Industrial Development Bank of India (IDBI)
3. Industrial Credit and Investment Corporation of India (ICICI)
4. Industrial Investment Bank of India (IIBI)
5. Small Industries Development Bank of India (SIDBI)
6. National Bank for Agriculture and rural Development (NABARD)
7. Export Import Bank of India (EXIM Bank)
8. National Housing Bank (NHB)

3.8. Profile of Public and Private Sector Banks under study

3.8.1. Public sector Banks

The three public sector banks selected for the study are the State Bank of India, the Indian Bank and the Canara Bank. The profile of these banks are given below.
Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank was strewn with many memorable milestones. Today, it occupies a premier position in the comity of Indian banks. With an unbroken record of profits since its inception, it has several achievements to its credit. These include:

- Launching Inter-City ATM Network
- Obtaining ISO Certification for a Branch
• Articulation of ‘Good Banking’ – Bank’s Citizen Charter
• Commissioning an Exclusive Mahila Banking Branch
• Launching an Exclusive Subsidiary for IT Consultancy
• Issuing credit cards to farmers
• Providing Agricultural Consultancy Services

Over the years, the Bank has been scaling up its market position to emerge as a major ‘Financial Conglomerate’ with as many as nine subsidiaries/sponsored institutions/joint ventures in India and abroad. As in September 2008, the Bank has further expanded its domestic presence, with 2710 branches spread across all geographical segments. Keeping customer convenience at the forefront, the Bank provides a wide array of alternative delivery channels that include over 2000 ATMs- the highest among nationalized banks- covering 698 centres, 1351 branches providing Internet and Mobile Banking (IMB) services and 2027 branches offering ‘Anywhere Banking’ services. Under advanced payment and settlement system, all branches of the Bank have been enabled to offer Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) facilities.

Not just in commercial banking, the Canara Bank has also carved a distinctive mark in various corporate social responsibilities, namely, serving national priorities, promoting rural development, enhancing rural self-employment through several training institutes and spearheading financial inclusion objective. Promoting an inclusive growth strategy, which has been formed as the basic plank of national policy agenda today, is in fact deeply rooted in the Bank's founding principles. One such principle is "A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people". These insightful words of the founder continue to resonate even today in serving the society with a purpose.
The growth story of Canara Bank in its first century was due, among others, to the continued patronage of its valued customers, stakeholders, committed staff and uncanny leadership ability demonstrated by its leaders at the helm of affairs. They strongly believe that the next century is going to be equally rewarding and eventful not only in service of the nation but also in helping the Bank emerge as a "Global Bank with Best Practices". This justifiable belief is founded on strong fundamentals, customer centricity, enlightened leadership and a family like work culture.

**Vision statement**

The vision statement of Canara Bank are to emerge as a ‘Best Practices Bank’ by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach.

**Mission statement**

The mission statement of canara bank is to provide quality banking services with enhanced customer orientation, higher value creation for stakeholders and to continue as a responsive corporate social citizen by effectively blending commercial pursuits with social banking.
Indian Bank is one of the indigenous banks of India that emerged as a result of the Swadeshi Movement during the British Raj. The bank was established on 15th of August, 1907. One of the prime figures associated with the establishment of the bank was V. Krishnaswamy Iyer, a lawyer from Madras (Now Chennai). The bank soon spread its wings outside India too, and opened its branch in Colombo, Sri Lanka in the year 1932 and Rangoon, Burma in 1940. The bank was further nationalized by the Government of India in the year 1969.

**Global Presence**

The modest beginning made by the Indian Bank has come a long way since then, with 1642 branches located nationwide within India and Overseas branches in Singapore and Colombo as of April 2009. The bank also has 40 Overseas Correspondent banks in 70 countries, giving a strong presence internationally. A 22,000 strong workforce of dedicated employees takes pride in serving the Indian Bank.
Banking Activities

Indian Bank offers a wide variety of Banking Products and Services to its customers, including various Deposit Schemes, Loan Options, Financial Services, Stock Investment Services and a number of specialized services such as Remittance, Collection, 7 Day Banking Branches, Cash Management and Electronic Funds Transfer. As of April 2009, the bank has Core Banking Solution (CBS) implemented in its 1642 branches and 66 extension counters. The bank has 755 connected Automatic Teller Machines (ATMs) installed in 225 locations nationwide.

Subsidiary Companies

Apart from its Regular Banking Services, the Indian Bank has also been offering various other services through its 3 subsidiary companies, which are Indbank Merchant Banking Services Ltd., IndBank Housing Ltd. and IndFund Management Ltd.

Rural Banking

Indian Bank has been a leader in bringing new initiatives for development of rural Banking and extending help to the farmers of India. The Bank has received award from Honorable Union Minister of Finance for Excellence in Agricultural Lending. Apart from it, the Bank also received the Best Performer Award for Micro-Finance activities in Tamil Nadu and Union Territory of Puducherry from National Bank for Agriculture and Rural Development (NABARD).
The evolution of State Bank of India can be traced back to the first decade of the 19th century. It began with the establishment of the Bank of Calcutta in Calcutta, on 2 June 1806. The bank was redesigned as the Bank of Bengal, three years later, on 2 January 1809. It was the first ever joint-stock bank of the British India, established under the sponsorship of the Government of Bengal. Subsequently, the Bank of Bombay (established on 15 April 1840) and the Bank of Madras (established on 1 July 1843) followed the Bank of Bengal. These three banks dominated the modern banking scenario in India, until when they were amalgamated to form the Imperial Bank of India, on 27 January 1921.

An important turning point in the history of State Bank of India is the launch of the first Five Year Plan of independent India, in 1951. The Plan aimed at serving the Indian economy in general and the rural sector of the country, in particular. Until the Plan, the commercial banks of the country, including the Imperial Bank of India, confined their services to the urban sector. Moreover, they were not equipped to respond to the growing needs of the economic revival taking shape in the rural areas of the country. Therefore, in order to serve the economy as a whole and rural sector in particular, the All India Rural Credit Survey Committee recommended the formation of a state-partnered and state-sponsored bank.

The All India Rural Credit Survey Committee proposed the takeover of the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. Subsequently, an Act was passed in the Parliament of India in May 1955. As a result, the State Bank of India (SBI) was established on 1 July 1955. This resulted in making the State Bank of India more
The State Bank of India emerged as a pacesetter, with its operations carried out by the 480 offices comprising branches, sub offices and three Local Head Offices, inherited from the Imperial Bank. Instead of serving as mere repositories of the community's savings and lending to creditworthy parties, the State Bank of India catered to the needs of the customers, by banking purposefully. The bank served the heterogeneous financial needs of the planned economic development.

**Branches**

The corporate center of SBI is located in Mumbai. In order to cater to different functions, there are several other establishments in and outside Mumbai, apart from the corporate center. The bank boasts of having as many as 14 local head offices and 57 Zonal Offices, located at major cities throughout India. It is recorded that SBI has about 10000 branches, well networked to cater to its customers throughout India.

**ATM Services**

SBI provides easy access to money to its customers through more than 8500 ATMs in India. The Bank also facilitates the free transaction of money at the ATMs of State Bank Group, which includes the ATMs of State Bank of India as well as the Associate Banks – State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Indore, etc. You may also transact money through SBI Commercial and International Bank Ltd by using the State Bank ATM-cum-Debit (Cash Plus) card.
Subsidiaries

The State Bank Group includes a network of eight banking subsidiaries and several non-banking subsidiaries. Through the establishments, it offers various services including merchant banking services, fund management, factoring services, primary dealership in government securities, credit cards and insurance.

The Eight Banking subsidiaries are:

- State Bank of Bikaner and Jaipur (SBBJ)
- State Bank of Hyderabad (SBH)
- State Bank of India (SBI)
- State Bank of Indore (SBIR)
- State Bank of Mysore (SBM)
- State Bank of Patiala (SBP)
- State Bank of Saurashtra (SBS)
- State Bank of Travancore (SBT)

Products and Services Personal Banking

- SBI Term Deposits, SBI Loan for Pensioners
- SBI Recurring Deposits, Loan Against Mortgage of Property
- SBI Housing Loan, Loan Against Shares & Debentures
- SBI Car Loan, Rent Plus Scheme
- SBI Educational Loan, Medi-Plus Scheme
Other Services

The other services of State Bank of India are

- Banking
- NRI Services
- ATM Services
- Demat Services
- Corporate Banking
- Internet Banking
- Mobile Banking
- International Banking
- Safe Deposit Locker
- RBIEFT
- E-Pay
- E-Rail
- SBI Vishwa Yatra Foreign Travel Card
- Broking Services
- Gift Cheques

3.8.2. Private Sector Banks

The three private sector banks selected for the study are Karur visya bank, Lakshmi vilas Bank, City Union Bank. The profile of these banks are given below
The Karur Vysya Bank Limited commonly known as KVB was set up by Late Shri M.A. Venkatarama Chettiar and the Late Shri Athi Krishna Chettiar, the two great visionaries in 1916 in Karur, a textile town in the Tamil Nadu state of India. This bank was formed as a simple financial unit in order to provide aid and financial assistance to the traders and small agriculturists in and around Karur. The Bank began with a mere capital of Rs. 1 lakh, with time it has emerged as one of the leading private sector banks in India.

Karur Vysya Bank: Branches and Business

The Karur Vysya Bank is professionally managed by a by the Board of Directors, who are visionaries from different fields. The aim of the bank is to please their customers continually with providing a perfect blend of tradition and technology along with innovative facilities and best service at affordable rates. With a very effective management and efficient work force, within its 93 years of existence the bank has spread to numerous parts of the country.
Started with a regional flavor, the bank has spread throughout the length and breadth of the country with over 285 branches in 13 States and 2 Union Territories.

The Karur Vysya Bank recorded a 33.77% growth in total business during fiscal 2007-08. The total business of the bank at the end of financial year 2007-2008 was Rs.22118.83. The Karur Vysya Bank is also said to be the earliest bank in India to adhere by CAR (Capital Adequacy Ratio) predetermined by RBI. Even today, the bank maintains over 16% Capital Adequacy Ratio against the mandatory norm of 9% stipulated by the RBI. This strict adherence to a standard Capital Adequacy Ratio will certainly take care of future asset growth of the bank.

Karur Vysya Bank: Facilities and Customer service

Karur Vyasya Bank provides customers with numerous facilities right from personal banking to corporate banking, insurance and foreign outward remittance. As a part of personal banking facilities you get savings account, personalized loans, debit cards, deposits, life insurance, general insurance, mobile top ups, farmer's green card, freedom saving accounts, students saving account. As a part of corporate banking, you get to enjoy facilities like current account, lending and financing along with multi-city account. The bank also offers its customers other facilities like Locker facility and VISA Debit Card. The Karur Vyasya Bank provides you with 24x7 retail as well as corporate Internet Banking Solutions.
The Lakshmi Vilas Bank Limited (LVB) was founded eight decades ago (in 1926) by seven people of Karur under the leadership of Shri V.S.N. Ramalinga Chettiar, mainly to cater to the financial needs of varied customer segments. The bank was incorporated on November 03, 1926 under the Indian Companies Act, 1913 and obtained the certificate to commence business on November 10, 1926, The Bank obtained its license from RBI in June 1958 and in August 1958 it became a Scheduled Commercial Bank.

During 1961-65 LVB took over nine Banks and raised its branch network considerably. To meet the emerging challenges in the competitive business world, the bank started expanding its boundaries beyond Tamil Nadu from 1974 by opening branches in the neighboring states of Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Gujarat, West Bengal, Uttar Pradesh, Delhi and Pondicherry. Mechanization was introduced in the Head office of the Bank as early as 1977. At present, with a network of 246 branches, 5 satellite branches and 5 extension counters, spread over 14 states and the union territory of Pondicherry, the Bank's focus is on customer delight, by maintaining high standards of customer service and amidst all these new challenges, the bank is progressing admirably. LVB has a strong and wide base in the state of Tamil Nadu, one of the progressive states in the country, which is politically stable and has a vibrant industrial environment. LVB has been focusing on retail banking, corporate banking and banc assurance.

The Bank's business crossed Rs. 9,477 Crores as on March 31, 2008. The Bank earned a Net profit of Rs. 25.27 Crores. The Net owned Funds of the Bank reaches Rs. 417.68 Crores. With a fairly good quality of loan assets
the Net NPA of the bank was pegged at 1.55 % as on March 31, 2008 down from 4.98% as on March 31, 2005.

New Identity

The new logo unit depicts the following

- Red is for the values, Pure and Strong. Red is for Truth that can do no wrong.
- Gold is the land of prosperity where we all belong, the abode of wealth where happiness hails from.
- A glimmer of lights from ochre gold, the circle of kumkum where all good things hold.
- Come walk the path of Lakshmi and celebrate her blessings, wisdom, growth and contentment and a life full of rich meaning.

Vision

"To be a sound and dynamic banking entity providing financial services of excellence with Pan Indian presence."

Mission

"To develop a range of quality financial services and products to create value for customers, shareholders and the society; to motivate people to achieve excellence in performance leading to sustained profitable growth and build a vibrant organization"
It was on 31st October, 1904 that the bank, 'The KUMBAKONAM BANK LIMITED,' as it was then called was incorporated as a limited company. The first Memorandum of Association was signed by twenty devoted and prominent citizens of Kumbakonam including Sarvashri R. Santhanam Iyer, S. Krishna Iyer, V. Krishnaswami Iyengar and T.S. Raghavachariar. The first Articles of Association provided for an Agent to be in charge of the Bank and Shri T.S. Raghavachariar was the First Agent of the Bank. In 1908, he was succeeded by Shri R. Santhanam Iyer who became the Secretary of the bank under the amended Articles of Association which created the office of a Secretary to be in charge of the Bank's Management in the place of the Agent. It was during his regime that the Bank attained the position of one of the important financial institutions in Thanjavur District. He was elected year after year to the office of the Secretaryship which he held till his death in 1926. He was succeeded by Shri S. Mahalinga Iyer as Secretary who subsequently became the First full-time Managing Director of the bank in tune with the amendment of Articles in 1929. During his stewardship, the bank made progress and gained popularity. He held the position of Secretary from 1926 to 1929 and that of Managing Director from 1929-1963.

The bank in the beginning preferred the role of a regional bank and slowly but steadily built for itself a place in the Delta District of Thanjavur. The first Branch of the Bank was opened at Mannargudi on 24th January 1930. Thereafter, branches were opened at Nagapattinam, Sannanallur, Ayyampet, Tirukattupalli, Tiruvarur, Manapparai, Mayuram and Porayar within a span of twenty five years. The Bank was included in the Second Schedule of Reserve Bank of India Act of 1934, on 22nd March 1945.
The Bank celebrated its Golden Jubilee on 14th November, 1954 at Kumbakonam under the presidency of Shri. C.R. Srinivasan, Editor, ‘Swadesmitran’ & Director, Reserve Bank of India.

In 1957, the bank took over the assets and liabilities of the Commonwealth Bank Limited and in the process annexed to it the five Branches of Common Wealth Bank Limited at Aduthurai, Kodavasal, Valangaiman, Jayankondacholapuram and Ariyalur.

In 1963, Shri R. Venkataramani Iyer took charge as the Chairman of the Bank which position he held up to 1969.

In April, 1965, two other local banks viz., 'The City Forward Bank Limited' and 'The Union Bank Limited' were amalgamated with the Bank under a scheme of amalgamation with the resultant addition of six more branches at Kumbakonam-Town, Nannilam, Koradacherry, Tiruvidaimarudur, Tirupanandal and Kuttalam. Consequently, the Bank’s name was changed to 'The Kumbakonam City Union Bank Limited'.

In November 1965, its first branch at Madras was opened at Thiyagaraya Nagar. With the wise counsel and business prudence of the Board of Directors, the bank made gradual progress.

In May, 1969 the Bank secured the services of Shri. O.R. Srinivasan, a former Officer of the Reserve Bank of India to be at the helm of affairs as Chairman and Chief Executive Officer which event proved to be a turning point in the annals of the Bank. Shri. R. Kuppabhatten, a former Senior Officer of the Indian Bank was appointed as Secretary in June, 1969, and he too played a major role in streamlining the administration of the Bank. Under the new Management the Branch Expansion got a fresh impetus and branches were opened at Eravancheri, Sembanarkoil, Tiruchirapalli, Madurai, Thanjavur, Dindigul. Keelapalur, Tirumakkottai, Kottur, Tiruvarur Town and Coimbatore during the period from March, 1968 to August, 1973.
In April, 1974 the bank secured the services of Shri.K.Srinivasan, another former Senior Officer of Reserve Bank of India as its Secretary. At that time a Young Chartered Accountant from Thippirajapuram a village near Kumbakonam Shri.V.Narayanan was appointed as Assistant Secretary of the Bank. During the period ended 31-12-1976 Branches were opened at Periyakulam, Mandaveli [Madras], Pattukottai, Triplicane [Madras], Cuddalore, Pudukkottai, Chidambaram and Salem.

When Shri.O.R.Srinivasan relinquished his office in June, 1977, the then Secretary Shri.K.Srinivasan was appointed as Chairman and Chief Executive Officer of the Bank and Shri.V.Narayanan was elevated to the rank of the Secretary.

From July, 1977 to September, 1979 the bank has opened ten more branches including those at George Town [Madras], Mount Road [Madras], Tirunelveli and Karaikudi.

The Bank celebrated its platinum jubilee on 9th December, 1979 at Kumbakonam with Dr.Rajah Sir M.A.Muthiah Chettiar, Shri. G.Rengasamy Moopanar, Shri.Kosi.Mani and Shri. M.V.Arunachalam as Guests of Honour.

In November, 1980, the then Secretary Shri.V.Narayanan, assumed charge as the Chairman and Chief Executive Officer of the Bank consequent to the completion of the term by Shri.K.Srinivasan. The event opened a glorious chapter in the history of the bank.

The first branch outside the state of Tamilnadu was opened at Sultanpet, Bangalore in Karnataka in September, 1980. Branches were also opened at the twin cities of Hyderabad and Secunderabad in Andhra Pradesh. In tune with the national image attached to the Bank, the Bank's name was changed to 'CITY UNION BANK LIMITED' with effect from December 1987.
The Bank started its own Staff Training College on 21st August, 1989 at Kumbakonam with the avowed objective of imparting need based and result oriented training to its Staff Members irrespective of the cadre.

Taking into account the bank's financial strength, managerial competence and consistent progress in all spheres of its activities, Reserve Bank of India has granted an Authorised Dealers License to deal in Foreign Exchange business with effect from October, 1990.

In the month of June 1998, the Bank came out with a public issue for an amount aggregating to Rs.21 crores. Its present paid-up capital is Rs.24 crores.

The bank has introduced computerisation in the year 1990 and as of now all the Branches have been computerised. The Bank is having Nine on-site ATMs and proposed to open 50 ATM before March 2006.

To provide value added services, the Bank has entered into Memoranda of understanding with Life Insurance Corporation of India and National Insurance Company Limited for selling insurance products. The Bank has been accorded license by Insurance Regulatory Authority of India [IRDA] to act as Corporate Agent.

The Bank has entered in to an agreement with Tata Consultancy Services Limited for introducing Core Banking Solution.

The Bank has also entered into a franchise agreement for the Money Transfer Service Scheme of M/S Western Union Financial Services Inc .U.S.A. with their agents in India M/S AFL Pvt. Limited.
In August 2002, the then General Manager Shri. S. Balasubramanian was elevated to the rank of Executive Director of the Bank.

The Bank is having 135 Branches as on 30-11-2004. The bank has 1421 Staff Members comprising of 26 Executives, 449 Officers, 686 Clerks and 260 Sub-ordinate Staff as on 30-11-2004.

The Bank's CENTENARY CELEBRATIONS were inaugurated on 27th December, 2003 at the Saraswathi Patasala Girl's Higher Secondary School Grounds, Kumbakonam under the Chairmanship of Shri. V. Narayanan with Shri. R. Venkataraman, Former President of India, Dr. A. R. Lakshmanan, Judge, Supreme Court, New Delhi and Shri. N. Rengachari, Retired Chairman, IRDA & Advisor to the Government of Andhra Pradesh as distinguished Guests.

In the midst of all arrangements for the Valedictory function of the Bank's Centenary, the Chairman of the Bank Shri. V. Narayanan met with an unexpected accident near Chennai on 5th November, 2004.

In the glorious history of CITY UNION BANK LIMITED, nearly one third of the period of it's existence and progress centered around a key person, namely, Shri. V. Narayanan The enviable leadership style of Shri. V. Narayanan and his vision for the consistent growth of the bank in all spheres, his tireless efforts in augmenting the Bank's Business, widening the branch network, maintaining harmonious industrial relations, ensuring the unique achievement of not loosing not even a single man day by way of Labour unrest-a record of sort in the country has earned name and fame not only for himself but to the bank in the entire Banking Industry in India.

His famous words of 'You take care of the Bank; I will take care of you' have made wonders enhancing the morale and improving the productivity of the workforce, the facts of which can be vouchsafed by the financial results of the bank during his tenure as Chairman. But the Man who
is known for his simplicity and honesty, the man who toiled and moiled in this soil for the growth of the bank, the man who showered Mother's care on the official as well as the personal welfare of its work force, the man who was not only the First person to assume charge as the Chairman of a Scheduled Bank at the youngest age in India but also the FIRST to care for the needy people in times of distress, the man who rendered a helping hand at the time of a cruel tragedy at a school at Kumbakonam on 16th July, 2004, the man who was instrumental in beautifying and maintaining the monuments of Kumbakonam like renovation of Gandhi Park and the Clock Tower, the man who silently strived hard for the peaceful conduct of MAHAMAHAM-2004 and the man who not only preached but also practiced the noble virtues of impeccable integrity and sterling character is no more.

Picture of famous Mahamaham festival in Kumbakonam
(once in 12 Years)

With the irreparable loss of Shri.V.Narayanan the Bank has lost its illustrious Chairman. But his vision to take the bank to greater heights persists.
Shri S. Balasubramanian
Managing Director and CEO

The mantle of leading the bank to make his dreams a reality has fallen on Shri. S. Balasubramanian, the Executive Director, the next in command in the hierarchy, who has since been appointed as the Chairman & Chief Executive Officer of the Bank by the Board of Directors.

The bank is poised for further growth in all spheres with its dedicated and committed workforce.

3.9. Summary

The third chapter banking system in India reveals the fact that Babylonians first developed a system of Banking in 2000 B.C and in India Banking originated as early as the Vedic period. The general bank of India was the first Joint stock bank established in the year 1786. In the first half of the 19th century the East India company established three banks the Bank of Bengal in 1809, Bank of Bombay in 1840 and the Bank of Madras in 1843 these are also known as presidency Banks and amalgamated in 1920 as a new bank the imperial bank of India.
The Reserve Bank which is the central Bank was created in 1935 by enacting the Reserve Bank of India Act 1934. In the wake of the swadeshi movement vast number of banks established in the country. In 1969 fourteen major banks of the country were nationalized and in 1980 six more commercial private banks were also taken over by the government of India. RBI is the apex body of the Indian banking system and for all matters relating to the banking system. In over five decades since independence, the banking system in India has passed through five distinct phase, viz., Evolutionary phase (prior to 1950), Foundation phase (1950-1968), Expansion phase (1968-1984), Consolidation phase (1984-1990), and Reformatory phase (since 1990 on words). Different classification of Banks and profile of the public and private sector Banks used in the study is also included in this chapter.

References


4. www.sbi.com

5. www.Indianbank.in

6. www.canbankindia.com

7. www.cityunionbank.com

8. www.kvb.co.in

9. www.lvb.com