CHAPTER-TEN
CONCLUSION AND SUGGESTIONS

Origin of the Banks is thousands of years old and associated with an Italian word "Banco". The meaning of this word was to make exchange of money on the benches. During ancient period money lenders used to offer exchange facilities of currency over these benches.

Banking in India is indeed as old as Himalayas. But, the banking functions became an effective force only after the first decade of 20th century. To understand the history of modern banking in India, one has to refer to the "English Agency Houses" established by the East India Company. These Agency Houses were basically trading firms and carrying on banking business as part of their main business.

Commercial banking in India started in 1770 with the establishment of the first joint stock bank named the 'Bank of Hindustan' by an English Agency in Calcutta. However, this bank is failed in 1832. In fact, real beginning of commercial banking in India was made in 1806 with the establishment of the 'Bank of Bengal'. After that, the Bank of Bombay and the Bank of Madras were opened in 1840 and 1843 respectively. All these banks were known as the 'Presidency Banks.' The Punjab National Bank and the people's Bank were establishes in 1894 and 1901 respectively.
At present, there are 302 scheduled commercial banks in India; of these 27 are public sector banks, 196 regional rural banks, 45 foreign banks and 34 private sector banks.

In the modern commercial age, functions of banks have grown and expanded with such rapidity that a single type of bank cannot perform all types of functions. Hence, different types of banks are required to satisfy the economic needs of different sections of society.

Public sectors banks are those banks, which are owned and controlled by the government. In India, all the nationalized banks and the regional rural banks fall under this category. They are Central Banks, Industrial Banks, Agricultural Banks, Foreign Exchange Banks, Commercial Banks, Co-operative Banks, Saving Banks and Regional Rural Banks.

Private Sector Banks are owned and run by individuals or corporations. An individual has control over the bank in proportion to the shares of the bank held by him. Bank Of Punjab, Bank Of Rajasthan etc. are the example of private sector banks in India. They are IDBI, ICICI, UTI Banks.

A bank, which is foreign in origin and has his head office in that country is called foreign bank. They are International Bank.
The major specialized financial institutions in India are IFCI, SFC, IIBIL, SIDBI, NABARD, EXIM and NHB.

Modern researchers have revealed that the business of banking was perfectly understood and fairly practiced by the people of ancient India. The development of joint-stock banking began in 1906 with the launching of the Swadeshi Movement. As a result the Bank of India (1906), the Canara Bank (1906), the Indian Bank of Madras (1907), the Bank of Baroda (1908), the Central Bank of India (1911) and a large number of small banks were established before the outbreak of First World War in 1914. In 1913, there were 13 big banks, each having capital and reserves exceeding Rs.5lakhs, and about 500 small banks operating in the country.

Some of the most important banks established during the war period were the United Commercial Bank, the Hindustan Commercial Bank, the Hindustan Mercantile Bank, the Bank Of Rajasthan, the Bank Of Maharasthra, the Indian Overseas Bank, and the Dena Bank. But the growth of banking was neither well planned nor properly controlled. Between 1939 and 1943, 482 banks with a total paid-up capital of Rs.94lakh had failed. These were mostly small banks.

The Government of India nationalized fourteen major Indian scheduled banks in the private sector, having deposits of Rs.50crores or over each, as on the last Friday of the June 1969, with effect from July 19, 1969. The aggregate deposits of these fourteen banks, at the
end of 1968, amounted to Rs.2741.8crores, nearly 72 percent of the total deposits of the Indian scheduled banks. Their advances amounting to Rs.1743.6crores were 65 percent of the total advances. These banks had a paid-up capital of Rs.28.5crores, which was about 1 percent of their aggregate resources. Their owned funds at the end of 1968 amounted to Rs.66.0crores and their aggregate net profits amounted to Rs.6.6crores.

It was intended to achieve the broad aims of bank nationalization through a two pronged approach: one, expanding the banking network in all parts of the country with special emphasis on setting up adequate banking facilities in hitherto unbanked or underbanked areas: and two, making bank credit available to all segments of the economy and regions of the country.

As a result of branch – expansion by banks, the national average population per bank-office has declined from 65,000 at the time of nationalization in 1969 to less than 15,000 at the end of June 2007.

The proportion of bank offices in rural areas to the total was 22.1 percent at the end of June 1969. This proportion increased to 57.8 percent at the end of June 1993. Despite slow expansion of rural branches in subsequent years the proportion of rural branches was 53.6 percent as on June 30, 2007.
The aggregate deposits of scheduled commercial banks had increased from Rs.881 crores at the end of March 1951 to Rs.4646 crores at the end of June 1969. The deposits increased very rapidly after nationalization of major banks. Aggregate deposits of scheduled commercial banks at the end of September 2007 stood at Rs.961678 crore. The average annual rate of growth in deposits between 1969 and 1997 was about 18 percent, as compared with 9.3 percent between 1951 and 1969.

Bank credit (loans and advances together with bills purchased and discounted) of scheduled commercial banks increased from Rs.3599 crore to Rs.465435 crore between June 1969 and June 2004. Between 1969 and 1980 the average annual rate of increase in bank credit was around 18 percent, as against 10.6 percent between 1951 and 1969. Between 1980-81 and 1989-90 the average annual rate of increase was 16.8 percent. On an average basis, expansion in bank credit between 1990-91 and 1996-97 was around 19 percent but it varied widely from year to year. Expansion during 2006-2007 was 29.8 percent, which was smaller than the increase of 18.4 percent in 2005-2006.

At the end of September 1998, 3668 branches were fully computerized and 6961 branches were partially computerized. To provide extended banking hours to the customers, many banks are going in for Shared Payment Network System (SPNS), installation of Automated Teller Machines (ATMs) and Cash Dispensers. The number of ATMs had grown to 1100 in 2006-2007. These apart,
many banks are providing services like tele-banking and Internet banking services and have become members of the Society For World-Wide Inter-Bank Financial Telecommunication (SWIFT).

Undoubtedly Indian commercial banks have made significant process after independence and started numerous banking activities. Yet, keeping in view the population, size and geographical area of the country, banking facilities are still inadequate. In India, for the process of banking sector many banking commissions are established. These banking commissions are Nadkarni Committee, Narang Committee, Verma Committee, Ghosh Committee, Padmanabhan Committee, Rashid Jilani Committee, Shere Committee, Saraf Committee, Kalia Committee, Malegam Committee, Dr. A.C. Shah Committee, J.V. Shetty Committee, Vaz Committee, Sodhani Committee, Kannan Committee, S.L. Kapoor Committee, Vaghul Committee, Khusro Committee, Chakravartee Committee, Goiporia Committee, Tarapore Committee, R.V. Gupta Committee and Narasimham Committee.

The structure of banking differs from country to country depending upon their economic conditions, political structure and financial system. Banks can be classified on the basis of volume of operations, business pattern and area of operations. They are termed as system of banking.

Branch banking consists of a few big banks with numerous branches spread over wide geographical areas. These branch banks
operate under their head offices. Branch banking is also known as "demoralized banking".

Correspondent banks are intermediaries through which all unit banks are linked with bigger banks in financial centers. Through correspondent banking, a bank can carry-out business transactions in another place where it does not have a branch. This system is very common in international banking transactions.

Chain banking is a system of banking under which a number of separately incorporated banks are brought under the common control by a device other than holding company.

Group Banking is the system in which two or more independently incorporated banks are brought under the control of a holding company.

Relationship Banking is necessary for every bank to retain its big and good customers. These customers will be a source of regular income for the banks as they will be prompt and regular in repayment of loans and advances.

As Narrow Banking refers to restricted and limited banking activity, Universal Banking refers to broad-based and comprehensive banking activities. Under this type of banking, a bank will deal with working capital requirements as well as term loans for developmental
activities. They will be dealing with individual customers as well as big corporate customers.

Retail banking is a major form of commercial banking but mainly targeted to consumers rather than corporate clients. It is the method of banks' approach to the customers for sale of their products.

Wholesale or corporate banking refers to dealing with limited large-sized customers.

The commercial banks serve as the king pin of the financial system of the country. They render many valuable services. The important functions of commercial banks can explain as under:

The primary functions of the commercial banks are Acceptance of deposits, Advancing on loans, Investment functions, Credit creation and Dealing in foreign exchange.

The secondary functions of the commercial banks are Agency services and General utility services.

In modern times banks have become the nerve center of agriculture, industry, business and trade. Without the growth of commercial banking in the 18th and 19th centuries, industries revolution would not have taken place in Europe. Likewise, in the present-day developing economies, economic development largely
depends upon the growth of sound banking system in these economies.

The role and importance of commercial banks in the economic development of India may be viewed as follows:

A developing economy needs a high rate of capital formation to accelerate the process of economic development. The rate of capital formation depends upon three distinct processes – (i) Generation of savings, (ii) Mobilization of savings, and (iii) Canalization of savings in productive uses.

In under-developed countries, entrepreneurs do not have their own sufficient funds to invest in new ventures and undertake innovations. Bank loans enable the producers and entrepreneurs to invest in new channels of production and increase the productive capacity of the country.

Commercial banks, whose most of the dealing are with traders and businessmen, respond quickly to the changing demand for loans. This has injected a high degree of flexibility in the monetary system, which in turn stimulates economic activities in the country.

The use of bank cheques, bank drafts, bill of exchange, etc. has facilitated as well as revolutionized the internal and international trade. This, in turn, has accelerated the pace of industrialization.
In a planned economy, banks should grant loans to right type of industries so that right type of industrialization may take place in the economy.

By transferring surplus funds from the developed regions to the backward regions, banks can promote economic development in under-developed areas. Thus, banks may be helpful in minimizing the regional disparities.

The credit creation policies of commercial banks help increase the employment opportunities in various ways – (i) By providing loans to unemployed youths at reasonable rates of interest, banks increase self-employment opportunities in the country. (ii) Bank loans enable the farmers, producers, entrepreneurs, traders, artisans, etc. to increase their productive capacity, which leads to increase in employment opportunities and national income.

Established in 1895 at Lahore, undivided India, Punjab National Bank (PNB) has the distinction of being the first bank to have been started solely with Indian Capital. Punjab National Bank offers a wide variety of banking services, which include Corporate and Personal Banking, Industrial Finance, Agricultural Finance, Financing of Trade and International Banking. Among the clients of the bank are multinational companies, Indian conglomerates, medium and small industrial units, exporters and non-resident Indians. The large presence and vast resource base have helped the bank to build strong links with trade and industry.
Punjab National Bank as a bank is one of the most leading banks at present. The bank is creating so many activities regarding public sector day by day. It is sure that no one can neglect the role of Punjab National Bank in Indian economy in present time. So far wide approach the role of bank can highlight with the help of following strong heads.

Apart from financing traditional agriculture activities, the bank diversified its lending by targeting activities like horticulture, medicinal & aromatic plants, organic farming, fisheries etc. Due to such concerted efforts agricultural lending increased by Rs.2926crore or 25.1 percent to reach Rs.14587crore. Share of agricultural credit in net bank credit stood at 19.09 percent, above the national goal of 18 percent. Under Kisan Credit Card Scheme, the bank issued 2,96,197 Krishi Cards, taking the number of cumulative cards issued since inception to 18.01lacs.

PNB Farmer's Welfare Trust was established in the year 2000 for the welfare of farmers, women and youth. The six operational FTCs trained 47,361 persons including 7053 women by the end of March 2006. Training is being imparted free of cost by the FTCs. Besides, each FTC has adopted one village for developing it as a Model village at a cost of Rs.5lacs.

Export turnover of the bank stood at Rs.22108crore while import turnover was Rs.21848crore. Total Export- Import turnover of
the bank increased to Rs.43956 crore during the review period. Export credit outstanding has increased to Rs.5203 crore from Rs.4321 crore registering a growth of 20 percent.

Under precious metal business initiated in September 2000, the bank achieved gold import turnover of Rs.1535 crore and silver import business of Rs.279 crore.

Corporate Debt Restructuring (CDR) systems introduced by RBI become operational from October 2001. Corporates with fund based and non-fund based outstanding of Rs.20 crore and above with account categorized in standard/sub-standard/doubtful categories, are eligible for restructuring under CDR system. Out of 60 cases referred to CDR by various FIIs/banks so far, our bank has an exposure in 22 cases. Of these 22 cases restructuring has been approved in 15 cases with aggregate exposure of Rs.767 crore while 2 cases have been rejected and one case has been closed. Restructuring is under different stages of processing in remaining 4 cases.

During the year, 803 branches were under concurrent audit covering 68.82 percent of advance, 60.26 percent of deposits and 63.44 percent of bank's total business. Regular inspection was conducted in 3194 branches and the number of 'Good/Very Good' rated branches increased from 2362 to 2394.
The Score Based Rating System has been replaced by Risk Based International Audit (RBIA). Under RBIA, branches are rated fewer than five risk categories viz. Low, Medium, High, Very High and Extremely High.

"The Right to information Act 2005" came into force and has been made fully operational in the bank with effect from 12.10.2005. All the branches of the bank have been authorized to receive application from the citizens of India seeking information under the act.

Core Banking Solution (CBS) at the end of March 2006 covered 2108 Service Outlets (SOLs) across 543 centres, covering 77 percent of the business. The 2000th SOL on CBS was inaugurated by Shri P. Chidambaram, Hon'ble Finance Minister, Govt. of India. As many as 161 lakh customers of the bank have now the facility of "anytime and anywhere" banking and a host of value-added services.

Further, as part of employee welfare measure, the bank has proposed to introduce an innovative health insurance scheme for all existing employees of the bank. Under this scheme, the bank would extend a total of Rs.50000 (per employee) as an insurance cover towards medical expenses, after the retirement of the employee on attaining the age of superannuating. The premium of this insurance cover would be borne out of PNB Staff Welfare Fund. A contributory hospitalization scheme for serving workman employees of the bank.
has also been approved. Two new Holiday Homes were established at Chennai and Patni top in Jammu.

After surrendering corporate agency arrangement with New India Assurance Co. the bank’s newly formed joint venture, Insurance broking company i.e. PNB Principal Insurance Advisory Co (P) Ltd. commenced its activities. The company is being managed by highly qualified professionals who have expertise in designing products suiting to the requirements of corporate clients as well as general public and it collected a premium of Rs. 79.71 crore from over 3.80 lac policies through branch network of PNB and Vijaya Bank across the country. The Company has earned brokerage of Rs. 9.51 crore. The Company has recently designed PNB- Met Life product for PNB customers.

The bank is offering co-branded PNB- HSBC International Credit Card, for which the marketing operations are looked after by the bank while back office operations are taken care of by HSBC. The bank is in the process of launching its own credit card in the market.

The bank is providing ECS (Cr/Dr) facility at 11 centers i.e. Agra, Allahabad, Aurangabad, Jalandhar, Kolhapur, Lucknow, Ludhiana, Mysore, Udaipur, Varanasi and Erode against only 2 centres i.e. Lucknow and Ludhiana.

The bank is already providing alternative delivery channels like ATMs, Tele banking, Internet banking, etc. The bank has set up 'May
I help You Counter’ in the branches where staff strength is 25 and above. The bank’s Customer Care Center with Toll free telephone line (1800 180 2222) and 0124- 2340000 is working round the clock.

The foregoing analysis about commercial banks in India leads to the emergence of the following suggestions for the bright future of Punjab National Bank: --

**Need for trained and devoted personnel:** -- To make a success of institutional agriculture finance there should be trained, devoted and committed personnel to manage and run Punjab National Bank.

**Need for low rates of interest:** -- Interest rate and repayment schedule are two important elements of a credit plan. Low rate of interest in general, for agricultural loans and differential rates of interest for different classes peasants as well as different uses to which agricultural credit is put are called for such rates are also called for to encourage small peasants to adopt new technology, better farming practices, etc.

**Simplification of procedure:** -- The procedure of loan should be so designed as to minimize the processing time so that the barrowers get the loan at the time when he needs it and the least possible difficulties. The procedural formalities should be minimum consistent with the need to ensure that the amount of credit is not more than what is needed and what can be repaid in time. Every effort should be made to simplify the loan application form at the procedure of
advancing loans and the procedural formalities to the complied with by the borrowers.

Preference for other securities than land: -- Land being a poor security the basis of agricultural credit should not be land but other easily en cashable securities such as agricultural produce, implements etc.

Need For Consumption Loans Also: -- Consumption loans to be necessary in the case of small and marginal farmers, landless labour whose sources of income and hence savings are poor. Necessary provision will have to be made for such loans. But such loans should not be available freely.

Public Involvement: -- Distribution of finance is no doubt an important function for agricultural reconstruction in the India. But a more important point is to enlist public co-operation and public involvement in all these schemes undertaken by different financing agencies in each area.

Mobile Bank Facility: -- Mobile bank offices should be set up which help for attracting deposits.

Direct Relationship Of Borrower: -- There should direct relation between the financial institutions and the borrowers to avoid the mechanization of middleman.
Increase In Repaying Capacity: -- Punjab National Bank should give more emphasis to devise such measures as to increase the repaying capacity of the borrowers and render them viable.

Specific Geographical Demarcation: -- A complete geographical area and specific branch to avoid overlapping of the operations.

Eradication Of Corrupt Practices: -- Eradication Of Corrupt Practices at all levels must be ensured to develop confidence among borrowers about the honest intention of the Punjab National Bank.

Availability Of Housing Facilities: -- Housing facilities should be provided to the members of the staff of the Punjab National Bank.

Hostel And Education Facilities: -- Hostel and education facilities should be provided to the staff children of Punjab National Bank.

The above noted suggestions, if implemented honestly and sincerely the problem relating to finance in India will be solved. The flow of finance will become smooth. The most deserving section of the people will get the maximum benefit of the various cheap finance schemes and misuse of the credit will be checked. This will lead to rapid development of the India. Improvement in the recovery position and flow of fund in the hands of needy deserving people will certainly improve the financial performance of the institutions engaged in providing finance. Thus, the people will themselves taste and better results.