CHAPTER III
GROWTH AND DEVELOPMENT OF BANKING SECTOR

3.1 INTRODUCTION

Banking system is one of the many institutions that impinge the growth and development of any economy and banks are considered as the most important of all the financial intermediaries in the financial system of the country. The importance of banking institutions is felt rather deeply in the underdeveloped and developing economies in the sense that these economies are usually short of capital and the task of mobilisation of resources and their channelisation to the priority sector belongs to such institutions. In the Indian financial sector with the existence of large non-monetised sector, widespread illiteracy and conservatism among the people; savings remain either unutilized or hoarded in the form of cash, gold, silver, investment in land, real estate etc. The development of Indian economy therefore requires proper channelising of the domestic financial resources towards productive investment. This calls for the active role of banking and other financial institutions in the Country.

3.2 GROWTH AND DEVELOPMENT OF BANKING IN WORLD

The history of money and coins takes us back to when man first felt the need to exchange goods and services. Early man lived by form of barter of goods and services system, where services rendered by members of hereditary castes of potters, carpenters, masons, weavers of goods, barbers, cooks, pandits were traditionally paid for in kind – grain, Oil, Sugar, Milk and so on. But the barter system has its limitations, there had to be a simultaneous need to buy and sell and there had to be
some standards of value. So, there was a need of exchange value and from that, money and coins in different countries in different ways occurred. Currency and coins provided the wage to create a new class of traders who dealt in money, first in addition to trading but later exclusively in money. As new, more sophisticated instruments of currency evolved, so did banking.¹

Banking in its simple form originated from temples and royal places, centers that offered security for deposits of people’s wealth. As early as 2000 BC the Babylonians had developed a system offering an incidental service from within the organized and wealthy institutions of the cult, so too temples in Egypt and large warehouses in Mohenjo-Daro served as banks of a kind. In fourth century BC, Greece had well established banking. In Babylon, there was no prohibition on accepting interest. The Greek temple system has typical banking operation, and the great temples of Delphi and Ephesus have powerful banking institutions. Private bankers followed later.

During the second part of the middle ages, Italy was the key to the growth of European banking. The age of the Crusades was the starting point for the development of monetary and credit operations when the main features of the modern bank reappeared in Italy after being eclipsed in the early middle ages. It was in Italy that the present science of banking and knowledge of the double entry system was developed. The Italian merchants established the business houses and powerful Banks. The first to be formed was San Giorgio Bank in 1148 in Genoa, and the Vitale in Venice in 1157. These were constituted by a forced loan to the state, but the lenders were empowered to organize a bank. This served as a model to banks, in subsequent ages.
In the thirteenth century, there developed in the city-states an institution called Monti, which raised loans from the people, initially by force, and collected revenue from duties and taxes distributing their profits among forced on voluntary depositors. Later they were set up by communities in need of capital, with the original shareholders sharing the profits, but with the innovative feature that their losses could never be larger than their initial deposit. This was the birth of the concept of Joint Stock Company.

In fourteenth century there were discount banks and foreign banks, were evolved. The loan held de facto Italian monopoly over banking became a common place of European Civilization. The first state bank opened in 1587 under the name of Banco-de-Rialto. Bank of Amsterdam was founded in 1609 and was established under the guarantee of the city of Amsterdam. It served as a model for other. It was the first to use money of account or ‘Banco money’ in terms of which receipts were handed over to depositors in the form of written titles showing the value of deposits. In 1619, Banco del Giro was set up to develop the use of Contadi di Banco ancestors of the cheque and the bank note.

In 1708, there was an act of prohibiting any other bank, with more than six partners, issuing promissory notes. This act, gave a monopoly of note issue to the Bank of England, so far as Joint Stock Banks were concerned. At the end of 18th century, 300 private banks were established. In 1826, an act was passed which allowed banks to be started with unlimited liability. After 1890, there were lots of amalgamations and absorptions and the number of Joint Stock banks in England and Wales evolved. Subsequently, in America, Japan, Egypt, Rom, Russia, China,
Germany, France, Scotland, Switzerland and India, Banking industry was evolved and developed till 19th century.

### 3.3 GROWTH AND DEVELOPMENT OF BANKING IN INDIA

The origin of banking in dates back to the Vedic period. There are repeated references in the Vedic literature to money lending which was quite common as a side business. Later, during the time of the Smritis, which followed the Vedic Period and the Epic age, banking become a full-time business and got diversified with bankers performing most of the functions of the present day. The Vaish Community, who conducted banking business during this period. As far back as the second or third century A.D. Manu the great Hindu Jurist, devoted a section of his work to deposits and advances and laid down rules relating to rates of interest to be charged. Still later, that is during the Buddhist period, banking business was decentralized and become a matter of volition. Consequently, Brahmins and Kshatriyas, who were earlier not permitted to take to banking as their profession except under exceptionally rare circumstances, also took to it as their business. During this period banking became more specific and systematic and bills of exchange came in wide use. “Shresthis” or bankers influential in society and very often acted as royal treasurers.

The ancient times in India, an indigenous banking system has prevailed. The businessmen called Shroffs, Seths, Sahukars, Mahajans, Chettis etc. had been carrying on the business of banking since ancient times. These indigenous bankers included very small money lenders to shroffs with huge businesses, who carried on the large and specialized business even greater than the business. The Banking business during the reign of Emperor Akbar gave the much needed political stability to the country.
Every city, big or small had a ‘Sheth’ also known as a ‘Shah’ or ‘Shroff’, who performed a number of banking functions. He was respected by all parts of people as an important citizen. In Principal cities, besides shroffs, there was a ‘Nagar Sheth’ or ‘Town Banker’. They were instrumental in changing funds from place to place and doing collection business mainly through Hundis. The Hundis were accepted mode of change of money for commercial transactions.

English traders came to India during the seventeenth century. They established their own agency houses at the port towns of Bombay, Calcutta and Madras. These agency houses, apart from engaging in trade and commerce, also carried on the banking business. The development of the means of transport and communication causing deflection of trade and commerce along new routes, changing the nature of trade activities in the country were the other factor which also contributed to the downfall of the indigenous bankers.³

The East India Company now came to favor the establishment of the banking institutions patterned after the Western style. The first Joint Stock Bank established in the country was the Bank of Hindustan founded in 1770 by the famous English agency house of M/s. Alexander and Company. The Bengal Bank and The Central Bank of India were established in 1785. The Bank of Bengal, the first of the three Presidency Banks was established in Calcutta in 1806 under the name of bank of Calcutta. It was renamed in 1809 on the grant of the charter as a Bank of Bengal. The two other presidency banks, namely the bank of Bombay and the Bank of Madras, were established in 1840 and 1843 respectively.
After the Paper Currency Act of 1862, however the right of the note issue was taken away from them. The Presidency Banks had branches in important towns of the country. The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. In the wake of the Swadeshi Movement, a number of banks with Indian management were established in the country. The Punjab National Bank Ltd. was founded in 1895, The Bank of India Ltd in 1906, The Canara Bank Ltd. in 1906, the Indian Bank Ltd. in 1907, the Bank of Baroda Ltd. in 1908, and the Central Bank of India Ltd. in 1911. The banking crisis of 1913 to 1917 however brought out the serious deficiencies in the existing banking system in the country showing the need for effective co-ordination through the establishment of the Central Bank. After repeated efforts, the three presidency bank was fused into a single bank under the name of the Imperial Bank of India in 1921.

The bank was authorized to hold Government balances and manage public debt. It was not, however, given power to issue notes. The issuing of the currency continued to be close preserving of the Government of India. The branches of the bank were to work as clearing houses. Although, suggestions have been made from time to time that India ought to have a Central Bank. The Royal Commission on Indian currency and finance recommended that a Central Bank should be started in India so as to perfect her credit and currency organization. From 1927 to 1933, there was a proposal and constitutional reforms law process has been made. It was enacted in due course and became law on the 6th march 1934 and the Reserve Bank of India started functioning with effect from 1st April 1935. Banking regulation act was passed in 1949.4
After getting Independence our Government has taken many steps for improving banking activities in India. The country inherited a banking system that was patterned on the British Banking System. There were many joint stock companies doing banking business and they were concentrating mostly in major cities. Even the financing activities of these banks were confined to the exports of Jute, Tea like this and traditional industries like textile and sugar. There was no uniform law governing banking activity. An immediate concern after the partition of the country was about ban branches located in Pakistan and steps were taken to close some of them as or went out of banking business. Banking did not receive much attention of the policy makers and disjointed efforts were made towards the regulation of the banking industry.

India adopted a socialist pattern of society as its goal. This means in non-technical language a society with wealth distributed as equitably as possible without making the country a totalitarian state. In 1955, the Imperial Bank of India was nationalized and its undertaking was taken over by State Bank of India. Its transformation into SBI has been effective from July 1, 1955. As regards the scheduled banks, there were complaints that Indian Commercial Banks were directing their advances to the large and medium scale industries and big business houses and that the sectors demanding priority such as agriculture, small scale industries and exports were not receiving their due share. This was one of the chief reasons for imposition of social control by amending the banking regulation act, with effect from 1st February 1969. On 19th July 1969, 14 major banks were nationalized and taken over they were as under:
1. The Central Bank of India Ltd.
2. The Bank of India Ltd.
3. The Punjab National Bank Ltd.
4. The Bank of Baroda Ltd.
5. The United Commercial Bank Ltd.
6. The Canara Bank Ltd.
7. The United Bank of India Ltd.
8. The Dena Bank Ltd.
9. Syndicate Bank Ltd.
10. The Union Bank of India Ltd.
11. The Allahabad Bank Ltd.
12. The Indian Bank Ltd.
13. The Bank of Maharashtra Ltd.
14. The Indian Overseas Bank Ltd.

On 15th April 1980, six more banks were nationalized. These banks were:

1. The Andhra Bank Ltd.
2. The Corporation Bank Ltd.
3. The New Bank of India Ltd.
4. The Oriental Bank of Commerce Ltd.
5. The Punjab & Sind Bank Ltd.
6. The Vijaya Bank Ltd.
There were some effects and achievements of nationalized banks. However, there are some problems relating to NPAs, competition, competency, overstaffing, inefficiency etc. for the nationalized bank.

In the early 1990s, the then Narsimha Rao government embarked on a policy of liberalisation, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. That banks should increase operational efficiency, strengthen the supervisory control over banks and the new players should be allowed to create a competitive environment.\(^6\)

3.3.1 Narasimham Committee on Banking Sector Reforms

In 1991, the year rings bells primarily owing to the widespread awareness of the economic reforms and liberalization that took place. The banking sector was in disarray to put it sensitively. Infectively contoured with high reserve requirements, unreasonable interest rates, directed credit, lack of competition, political interference and corruption. Reforms were essential to help catalyse the various dependant auxiliary financial sectors of which banking was the backbone. The Narasimham Committee Report (1991) recommended several measures to deal with the aforementioned issues. The second Narasimham Committee Report (1998) too focused on issues like strengthening of the banking system, upgrading of technology and human resource development.\(^7\)

In 1991, Indian reforms were aimed primarily at a booming economy. In this context, it is important to note that with respect to the banking sector, the media
through which this growth can be fostered are not mutually exclusive channels: improving productivity of capital, through investments in human capital and raising total factor productivity (TFP). Policy framework, financial soundness and credibility of banks were the principle aims of the reforms while simultaneously creating a competitive environment, and strengthening of the institutional framework. Intrinsically, improvements in the policy framework are aimed at removing and reducing the external constraints bearing on the profitability and functioning of commercial banks.\(^8\)

To further the above-mentioned objectives, two expert Committees were set up under the chairmanship of M. Narasimham. They submitted their recommendations in the 1990s in reports widely known as the Narasimham Committee-I (1991) report and the Narasimham Committee-II (1998) Report. In a drastic departure from the socialist-democratic era of the 1960s to 1980s, India moved to no longer insulated from the global economy and yet its banks survived the 2008 financial crisis relatively unscathed, a feat due in part to these Narasimham Committees. The first Committee was appointed by Manmohan Singh as India’s Finance Minister on 14\(^{th}\) August 1991, and the second was appointed by P.Chidambaram as Finance Minister in December 1997. The specific areas of study were identified to be the structure, organization, functions and procedures of the financial systems and to recommend improvements in their efficiency and productivity.

3.3.1.1 Narasimham Committee Report - I

Firstly, the committee dealt with reduction in the SLR (Statutory Liquidity Ratio) and CRR (Cash Reserve Ratio). At the time, SLR then was 38.5 percentages
and CRR was 15 percentages. This implicitly restricted bank resources only for
government uses. Since it heavily inconvenienced the productivity of the bank,
immediate decrease wasn’t a feasible option. Therefore, gradually, the recommended
reduction was from 38.5 percentages to 25 percentages and CRR from 15 percentages
to 3 to 5 percentages.

In India, directed credit programmes were adopted by the government. The
committee sought to phase out of this programme. The primary issue with the scheme
was that banks were required to divert their financial resources for the needy and poor
sectors at confessional rates of interest, attacking the profitability of banks. A system
of dual control which was prevalent between Reserve Bank of India and the Banking
Division of the Ministry of Finance was sought to be homogenised solely with RBI.
The control of interest rates by authorities as opposed to the generally accepted norms
of economic principles mandating the market forces to do the above. Hence the
committee recommended eliminating government controls on interest rate and
phasing out the concessional interest rates for the priority sector.

The structural reforms of the banks were considered to be of significant
importance. Three to four big banks including SBI were required to be developed as
international banks. Region specific banking, agriculture and rural financing were
sought to be some of the aims of these structural reforms. A strong anti-
nationalisation policy was formulated. With respect to the growing rates of bad debts,
the committee recommended the establishment of an Asset Reconstruction Fund.
3.3.1.2 Narasimham Committee -II

The Committee was tasked with the progress review of the implementation of the banking reforms since 1992 with the aim of further strengthening the financial institutions of India. It focussed on issues like size of banks and capital adequacy ratio among other things. M. Narasimham, Chairman, submitted the report of the Committee on Banking Sector Reforms (Committee-II) to the Finance Minister Yashwant Sinha in April 1998. Public sector banks were sought to be given more autonomy to initiate a sense of parity with the efficiency of the international counterparts. Recruitment procedures, training and remuneration policies of public sector banks were recommended to be brought in line with the best-market practices of professional bank management. Government stake holding was another concern which was reduced to 33 percentage for the same purpose. This extended to the membership on the board as well. However these recommendations haven’t been entirely successful.

The Committee in 1991 had segregated and siphoned the power between the dual authorities to entirely being under the RBI. The 1998 report sought to further that control of power by regulating the role of the RBI. A distinction was put forth to be established between the regulatory and ownership of the banks with reference to the RBI. It observed that “The Reserve Bank as a regulator of the monetary system should not be the owner of a bank in view of a possible conflict of interest”. Pursuant to the recommendations, the RBI introduced a Liquidity Adjustment Facility (LAF) operated through repo and reverse repos in order to set a corridor for money market interest rates. To begin with, in April 1999, an Interim Liquidity Adjustment Facility (ILAF) was introduced pending further up-gradation in technology and legal/procedural changes to facilitate electronic transfer.
Corporate restructuring has only of late become a business strategy and in
terms of economy, a policy. The erstwhile committee recommended for merger of
large Indian banks to make them strong enough to support the international trade in its
infant stages. A three tier banking hierarchy was mandated at the international,
domestic and rural/local levels. However, this caste-like segregation wasn’t
appreciated by the unions. Earlier the Narasimham Committee-I had broadly
concluded that the main reason for the reduced profitability of the commercial banks
in India was the priority sector lending. The committee had highlighted that ‘priority
sector lending’ was leading to the build-up of Non-performing assets of the banks and
thus it recommended it to be effectively phased out.

Subsequently, the Narasimham Committee-II also highlighted the need for
‘zero’ Non-Performing Assets for all Indian banks with International presence. The
1998 report further accused poor credit decisions, behest-lending and cyclical
economic factors among other reasons for the build-up of the non-performing assets
of these banks to unnervingly high levels. The Committee recommended creation of
Asset Reconstruction Funds or Asset Reconstruction Companies to take over the bad
debts of banks, allowing them to start on a clean-slate. In 1998, RBI Governor Bimal
Jalan informed the banks that the RBI had a three to four year perspective on the
implementation of the Committee’s recommendations. Based on the other
recommendations of the committee, the concept of a universal bank was discussed by
the RBI and consequently ICICI bank became the first universal bank of India. Most
of the recommendations of the Committee have been acted upon although some major
recommendations are still awaiting action from the Government of India. \(^9\)
3.3.2 Adoption of Information Technology by Banks

The IT revolution had a great impact in the Indian banking system. The use of computers had led to introduction of online banking in India. The use of the modern innovation and computerization of the banking sector of India had increased many folds after the economic liberalization of 1991 as the country's banking sector had been exposed to the world's market. The Indian banks were finding it difficult to compete with the international banks in terms of the customer service without the use of the information technology and computers. In 1988, the RBI set up Committee on Computerization in Banks headed by Dr. C.R. Rangarajan which emphasized that settlement operation must be computerized in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It is further stated that there should be National Clearing of inter-city cheques at Kolkata, Mumbai, Delhi, Chennai and MICR should be made Operational. It also focused on computerization of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerization began form 1993 with the settlement between IBA and bank employees’ association.

In 1994, Committee on Technology Issues relating to Payments System, Cheque Clearing and Securities Settlement in the Banking Industry (1994) was set up with chairman Shri W.S Saraf, Executive Director, Reserve Bank of India. It emphasized on Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier. It also said that MICR clearing should be set up in all branches of all banks with more than one hundred branches. Committee for proposing Legislation on Electronic Funds Transfer and other Electronic Payments
(1995) emphasized on EFT system. Electronic banking refers to DOING BANKING by using technologies like computers, internet and networking, MICR, EFT so as to increase efficiency, quick service, productivity and transparency in the transaction.\textsuperscript{10}

### 3.3.3 Prospective Changes in the Banking Sector

An important issue specifically related to future banking sector development is consolidation. The consolidation process within the banking system has primarily been confined to a few mergers in the private sector segment induced by the financial position of banks. More than 20 banks were merged, amalgamated or acquired during the time period 1991-2007. The Indian economy is moving from a regime of ‘large number of small banks’ to a ‘small number of large banks’.

The Reserve Bank of India in its ‘road map’ for the banking industry has indicated that the Indian market will be opened for international banks by 2009. It is expected that many foreign banks would gain entry in the Indian markets to tap the vast potential that exists today. These banks with the help of advanced technology, adequate capital for investment, and their customer centric approach will be able to attract the profitable customers from the existing banks. A fierce competition between the existing banks and the new entrants is likely to provide impetus for business growth. To effectively meet the competitive challenge from such banks, the Indian banking industry will have to gear up and adopt the global best practices, which would make them stronger and comparable with the international banks.

It was under this background the Basel-I norms were announced by the Basel committee in 1988 were adopted by the banks by the end of 1992. The capital adequacy framework of the Basel committee on Banking Supervision (BCBS) 1988 is considered as the single most successful attempt in the move towards convergence of
international standards in banking. A three-track approach was adopted with regard to capital adequacy rules. On the first track, commercial banks are required to maintain capital for both credit risks and market risks, Co-operative banks on the second track are required to maintain capital for credit risk and surrogates for market risks, RRBs on the third track, though subject to prudential norms do not have capital requirement on par with the Basel-I framework. As part of the financial sector reforms initiated since 1991, RBI has brought the Indian financial system in line with Basel I norms for capital adequacy and prudential norms.

During 1999 the Basel committee proposed a new set of norms to reinforce the soundness of the global financial systems. These norms came to be called Basel-II. Commercial banks in India were expected to start implementing Basel-II with effect from March 31, 2007. This deadline was however extended postponed to March 2008 for internationally active banks and March 2009 for domestic commercial banks as per RBIs mid-year policy announcements on Oct 30, 2006.

The Basel-II norms are built on three pillars or principles that reinforce each other and create incentives for banks to enhance the quality of their control processes. The standardised approach or pillar I of Basel-II norms provide banks with guidelines to measure the various types of risks like credit, market and operational risks and the capital required to cover these risks. It ensures that banks measure their risks properly and maintain adequate capital to cover them. The second pillar or supervisory review emphasise that banks should not only have adequate capital to cover their risks but also should employ better risk management practices so as to minimise the risks. The third pillar of market discipline aims at bringing greater transparency by asking banks to make adequate disclosures. According to Basel-II norms banks will initially adopt
standardised approach for credit risk and basic indicator approach for operational risk. After adequate skills are developed both at the banks and also at supervisory levels, some banks may be allowed to migrate to the Internal Rating Based (IRB) Approach. Under Basel-II, Indian banks will require large capital for meeting operational risk. The banks that are not able to attain Basel-II norms within the stipulated time frame will have to merge with other large banks. The RBI has introduced capital instruments both in Tier-I and Tire-II and is involved in capacity building for ensuring the ability of regulators in identifying and permitting eligible banks to adopt Internal Rating Based (IRB) advanced measurement approaches. Adopting the Basel-II norms will help the high performing banks to manage capital better and will raise the standard of Indian banks to international levels. The next changing trend is expected in the role of foreign banks. The foreign banks are becoming dominant in the forex and derivatives market. Foreign banks ownership in several new private banks is over 50 percent and account for around half of the total assets of domestic private banks during 2006. The next area of development in Indian banking is in the efforts to encourage greater financial inclusion. A beginning has been made to ensure greater outreach of banking facilities in rural areas through appointment of reputed Non-Governmental Organisations (NGOs), post offices, and like as banking facilitators and banking correspondents. The development of micro finance activities, Self-Help Groups (SHGs), etc., formed by NGOs and financed by banks represent this development process in the country. Various committees and working groups have been set up to ensure greater outreach of banking facilities in rural areas and to ensure availability of bank finance at reasonable rates.

Finally it is observed that along with the technological progress made in this sector, customer service is also gaining prominence. The financial infrastructure and
regulatory framework in the country are broadly on par with those prevailing internationally and The Indian economy is striving to evolve a globally competitive banking sector, stressing on banking services relevant to the socio-economic conditions of the country and which contributes for both growth and stability.\textsuperscript{11}

3.4 BANKING PRODUCTS

Banks in India have traditionally offered mass banking products. Most common deposit products being savings bank, current account, term deposit account and lending products being cash credit and term loans. Due to Reserve Bank of India guidelines, Banks have had little to do besides accepting deposits at rates fixed by Reserve Bank of India and lend amount arrived by the formula stipulated by Reserve Bank of India at rates prescribed by the latter. PLR (Prime Lending Rate) was the benchmark for interest on the lending products. But PLR itself was, more often than not, dictated by RBI. Further, remittance products were limited to issuance of Drafts, Telegraphic Transfers, Bankers Cheque and Internal Transfer of funds.\textsuperscript{12}

In view of several developments in the 1990s, the entire banking products structure has undergone a major change. As part of the economic reforms, banking industry has been deregulated and made competitive. New players have added to the competition. IT revolution has made it possible to provide ease and flexibility in operations to customers. Rapid strides in information technology have, in fact, redefined the role and structure of banking in India. Further, due to exposure to global trends after Information explosion led by Internet, customers - both Individuals and Corporate - are now demanding better services with more products from their banks. Financial market has turned into a buyer's market. Banks are also changing with time
and are trying to become one-stop financial supermarkets. Market focus is shifting from mass banking products to class banking with introduction of value added and customized products.\textsuperscript{13}

A few foreign and private sector banks have already introduced customized banking products like Investment Advisory Services, SGL-II accounts, Photo-credit cards, Cash Management services, Investment products and Tax Advisory services. A few banks have gone in to market mutual fund schemes. Eventually, the Banks plan to market bonds and debentures, when allowed. Insurance peddling by Banks will be a reality soon. The Credit Policy of RBI announced on 27.4.2000 has further facilitated the entry of banks in this sector. Banks also offer advisory services termed as 'private banking' - to "high relationship - value" clients.

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**Personal Banking**

It includes Deposit Schemes, Personal Finance, Services and Special Salary Packages.
Agriculture / Rural

It includes Agricultural Banking, Micro Credit, Regional Rural Banks and Agri Debt Waiver/Relief Scheme.

NRI Services

It includes Opening of NRI Account, Types of Deposit Accounts, Remittances to India, NRI Home Loan, NRI-Car Loan Scheme and Miscellaneous.

International Banking

It includes Trade Finance, Correspondent Banking, Merchant Banking, Project Export Finance, Exporter Gold Card, Treasury and Offshore Banking.

Corporate Banking

It includes Corporate Accounts Group (CAG), Mid- Corporate Group, Project Finance, Products and Services, Gold Banking and Cash Management Product.

Services

It includes Rtgs/Neft, Foreign Travel Card, Service Charges & Fees Other Than Personal Banking Segment W.E.F. 11.02.2008, ATM Services, Internet Banking, E-Rail, E-Pay, Safe Deposit Locker, Broking Services, Magnetic Ink Character Recognition (Micr) and Foreign Inward Remittance.

Government Business

It includes Centralized Pension Processing Center (Cppc), E-Tax, E-Freight, Government Accounts, Public Provident Fund and Senior Citizens Savings Scheme.
SME

It includes Commodity Backed Warehouse Receipt Financing, Code of Banks Commitment to Micro and Small Enterprise, Debt Restructuring Mechanism, Traders Easy Loan Scheme, SSI Loans, Business Current Accounts, Open Term Loan, Retail Trade, Cyber Plus, SME Credit Plus, Small Business Credit Card and SME Petro Credit.¹⁴

3.5 E-BANKING SERVICES

The process of computerization of bank branches were the starting point of e-banking services. Computerization means the installation of computers and the required soft-wares to automate the functions of bank transactions. In the case of electronic banking, the customers can avail themselves of certain financial services without the assistance of the bank employees and with the help of technologies. As stated earlier, the e-banking services include: Automatic Teller Machine, Credit Card, Debit Card, Internet Banking, Mobile Banking, Electronic Clearing Service, National Electronic Funds Transfer, Real Time Gross Settlement and the like.

Types of E-Banking Products and Services offered in India

The following are the important up-to-date e-banking products and services offered by the Indian banks.

I. ATM
II. Credit Card
III. Internet Banking
IV. Mobile banking
V. Phone Banking
VI. Tele Banking

VII. Utility Bill Payment and other regular periodical payment facilities

VIII. Electronic Fund Transfer (NEFT / RTGS/ MICR)

IX. Electronic Clearing Services

X. MICR/OCR Clearing System

3.5.1 Automated Teller Machines (ATM)

An automated teller machine (ATM) is an electronic telecommunications device that enables customers of financial institutions to perform financial transactions, such as cash withdrawals, deposits, transfer funds, or obtaining account information, at any time and without the need for direct interaction with bank staff. For this purpose, plastic currency and debit cards are used while withdrawing cash from the ATM machine. The users or customers account number and credit limit are magnetically embedded on a strip of the tape on the back of the card, the operation mechanism is that the card is inserted into the ATM. The terminal feeds and transmits the tape data to a processor which activates the accounts. According to the instructions, the details are displayed on the screen and by clicking a few keys of the keyboard, the user can direct the computer to carry out the financial transactions.

ATM was installed in chemical bank at Rockvilla center, New York in the year 1969. They did not stop the task with the emergence of the ATM chemical Bank. Since they had a passion for its advancement, they are innovated facilities other than cash dispensing. Then they got next version in the year 1971, thus all those had been installed were provided with the new facilities those we have nowadays in the different bank’s ATM.15
Services Offered Through ATM

Following are the important services offered by the Indian banks through their ATM:

a) Cash and Cheque deposit
b) Transfer of funds between accounts
c) Printing of mini-statement
d) Paying of insurance premium
e) Balance enquiry
f) Product information
g) Change of Personal Identification Number (PIN)
h) Ordering of Cheque book
i) Receipt of cash
j) Recharge of prepaid mobile card
k) Option for mobile banking etc.

3.5.2 National Electronic Fund Transfer (NEFT)

National Electronic Funds Transfer (NEFT) is an electronic funds transfer system maintained by the Reserve Bank of India (RBI). Started in November 2005, the setup was established and maintained by Institute for Development and Research in Banking Technology (IDRBT). NEFT is a facility enabling bank customers in India to transfer funds between any two NEFT-enabled bank accounts on a one-to-one basis. It is done via electronic messages.

NEFT facility is available with all Core Banking Branches (CBS). The beneficiary gets the credit on the same day or the next day depending on the time of settlement. It is available across a longer time window, the NEFT system provides for
batch settlements at hourly intervals, thus enabling near real-time transfer of funds. Certain other unique features viz. accepting cash for originating transactions, initiating transfer requests without any minimum or maximum amount limitations, facilitating one-way transfers to Nepal, receiving confirmation of the date / time of credit to the account of the beneficiaries, etc., are available in the system.

### 3.5.3 Real Time Gross Settlement (RTGS)

RBI introduced Real Time Gross Settlement (RTGS) system with a view to enhance the efficiency of the Cheque clearing system. The Real Time Gross Settlement was implemented by the RBI after a comprehensive audit and review of the software and also by conducting extensive training of users at commercial banks on March 26, 2004. The Real Time Gross Settlement system is being designed to provide large volume funds transfer and settlement in an on-line real time environment to the banking industry, with settlement on a gross basis.

RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a ‘Real time’ and on ‘Gross’ basis. This is the fastest possible money transfer system through the banking channel. Settlement in ‘Real Time’ means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. ‘Gross settlement’ means the transaction is settled on one to one basis without bunching with any other transactions. Considering that money transfer takes place in the books of the Reserve Bank of India, the payment is taken as final and irrevocable.
3.5.4 Electronic Clearing Service (ECS)

The first systems that had the attributes of a RTGS system were the US Fedwire system which was launched in 1970. Electronic clearing service is a mode of electronic funds transfer from one bank account to another bank account using the services of a clearing house. This is normally for bulk transfers from one account to many accounts or vice versa. This can be used both for making payments like distribution of dividend, interest, salary, pension etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity or charges such as house tax, water tax etc. or for loan instalments of financial institutions/banks or regular investments of persons.

Electronic Clearing Service (ECS) is a non-paper based movement of funds which is encouraged by the Reserve Bank of India on a wide scale. Indian banking sector has made a quantum leap forward in terms of switching over from paper based transactions like use of currency notes, cheques, drafts or challans to electronic means like Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT) and other electronic modes.16

3.5.5 Card Based Payment Systems

There are three types of card based payment system. They are (i).Credit card (ii). Debit card (iii).Smart card. Here, they are explained in detail with latest data.

3.5.5.1 Credit Cards

A credit card is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts so paid plus the other agreed
charges. The card issuer (usually a bank) creates a revolving account and grants a line of credit to the cardholder, from which the cardholder can borrow money for payment to a merchant or as a cash advance. In other words, credit cards combine payment services with extensions of credit. Complex fee structures in the credit card industry may limit customers' ability to comparison shop, helping to ensure that the industry is not price-competitive and helping to maximize industry profits. Due to concerns about this, many legislatures have regulated credit card fees.

A credit card is different from a charge card, which requires the balance to be repaid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged. A credit card also differs from a cash card, which can be used like currency by the owner of the card. A credit card differs from a charge card also in that a credit card typically involves a third-party entity that pays the seller and is reimbursed by the buyer, whereas a charge card simply defers payment by the buyer until a later date.

Credit cards began to be used in USA as early as 1920's and their use began to increase after 1950. Diners Club introduced their credit card in 1950 and the American company in 1958 and Bank of America in 1959. In India, the Central Bank of India was the first bank to introduce the credit card known as 'Central Card' in the middle of 1981. Credit card facility became immensely popular among customers in India by 1990. With the introduction of credit card system, the concept of everywhere and any-where banking became a reality.

3.5.5.2 Debit Cards

Debit card is a pre-paid card with some stored value, which optimizes conveniences for the customers. A customer possessing a debit card need not carry
cash. It is like carrying cash from the bank account, without the inconvenience or risk of carrying liquid cash. In other words, debit card allows 'anywhere any time access' to the customer with their savings or current account. To receive a debit card, an individual need only to open an account, either current or savings with the issuing bank. However, debit card facility does not extent to cash credit and other loan account. The banks should issue cards to its customers only having good financial standing with satisfactory record on accomplishment for at least six months.

A Personal Identification Number (PIN) will be issued to the customers for using a debit card. Debit card can be used at all outlets that accounts such card for payments viz., departmental stores, petrol bunks, jewellery shops, restaurants, textile shops, hospitals, airlines, railways, etc. Debit card works in the same way as a credit card for purchase transactions at merchant outlets, the only difference is that the transaction amount is directly debited to the bank account of the customers.

After finishing the purchases, card holder has to submit the card to the business outlet. The card holder enters the personal identification number on the shop's pin pad. The merchant on an electronic data capture terminal for authorization swipe the debit card. When the card is swiped through the electronic terminal, it dials the acquiring bank system, which validates the PIN and finds out from the issuing bank whether to accept or not the transaction. The terminal wills sure approval regarding the availability of balance in the account from the card issuing bank. After a successful authorization or an approval from the bank, the terminal will print a charge slip. The transaction generated by the point of sale will be conclusive and binding on the cardholder.
3.5.5.3 Smart Cards

Banks are adding chips to their current magnetic stripe cards to enhance security and offer new service, called Smart Cards. Smart cards are plastic cards just in the shape of visiting cards. It looks like any other credit cards. Smart card contains a small microprocessor or computer chip on the face of the card. Smart Cards allow thousands of times of information storable on magnetic stripe cards. It is actually a debit card loaded with a sum of money. It can be used for both small payments and pre-paid telephone card. The aim of the smart card technology is to replace multiple numbers of cards with one or two smart cards with storable information. In addition, these cards are highly secure, more reliable and perform multiple functions. They hold a large amount of personal information, from medical and health history to personal banking and personal preferences.  

3.5.6 Phone Banking

Phone banking includes mobile banking, tele banking and banking via landline phone network.

3.5.6.1 Mobile banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet. Unlike the related internet banking it uses software, usually called an app, provided by the financial institution for the purpose. Mobile banking is usually available on a 24-hour basis. Some financial institutions have restrictions on which accounts may be accessed through mobile banking, as well as a limit on the amount that can be transacted. Transactions through mobile banking may include obtaining account balances and lists of latest transactions, electronic bill
payments, remote check deposits, P2P payments, and funds transfers between a customer's or another's accounts.

The earliest mobile banking services used SMS, a service known as SMS banking. With the introduction of smart phones with WAP support enabling the use of the mobile web in 1999, the first European banks started to offer mobile banking on this platform to their customers.

3.5.6.2 Tele-Banking

Telephone banking is a service provided by a bank or other financial institution, that enables customers to perform over the telephone a range of financial transactions which do not involve for cash or documents (such as cheques), without the need to visit a bank branch or ATM. The types of financial transactions which customers may transact through telephone banking include obtaining account balances and list of latest transactions, electronic bill payments, and funds transfers between a customer's or to another's accounts. Telephone banking times are usually longer than branch opening times, and some financial institutions offer the service on a 24-hour basis. However, some banks impose restrictions on which accounts may be accessed through telephone banking and usually limit the amounts that can be transacted. Telephone banking became available in the 1980s, first introduced by Girobank in the United Kingdom, which establishing a dedicated telephone banking service in 1984.  

3.5.7 Internet Banking

Internet banking can be defined as a facility provided by banking and financial institutions that enable the user to execute bank related transactions through Internet. The biggest advantage of Internet banking is that people can expend the services
sitting at home, to transact business. Due to which, the account holder does not have to personally visit the bank. With the help of Internet banking many transactions can be executed by the account holder. When small transactions like balance inquiry, record of recent transaction, etc. are to be processed, the Internet banking facility proves to be very handy. The concept of Internet banking has thus become a revolution in the field of banking and finance.

The concept of Internet banking has been simultaneously evolving with the development of the World Wide Web. Programmers working on banking data bases came up with ideas for online banking transactions. The first online banking service in United States was introduced, in October 1994. Internet banking enables customers to open accounts, pay bills, know account balances, forward loan applications, calculate interest, view and print copies of cheques and deposits, transfer funds, stop payments, recording of stop payment instructions, reorder Cheque books and statements, receive banking industry news, send and receive messages to and from the bank through e-mail and other forms of traditional banking services.19

3.5.8 MICR/OCR Clearing System

MICR code is a character-recognition technology used mainly by the banking industry to ease the processing and clearance of cheques and other documents. The MICR encoding, called the MICR line, is at the bottom of cheques and other vouchers and typically includes the document-type indicator, bank code, bank account number, cheque number, cheque amount and a control indicator. The technology allows MICR readers to scan and read the information directly into a data-collection device. In 1958, the American Bankers Association (ABA) adopted E13B font as the MICR standard for negotiable documents in the United States. By the end of 1959, the first cheques had been printed using MICR.
The two types of technology being adopted in clearing are the Magnetic Ink Character Recognition (MICR) and Optic Character Recognition (OCR) technology. This is also known as Automated Clearing System (ACS). In India, MICR technology is used in clearing of cheques. Under this system, specific type of paper is used for printing the cheques. These cheques are processed in a high-speed machine. The cheques should conform to the required specification as laid down. MICR cheques have two white bands one at the top and another at the bottom. In these bands, the details of the Cheque are encoded with special magnetic ink. These bands should be free from any marking or impression. Further, the cheques should not be folded in between and either end should be free from any tabs. Cheque number, centre code and transaction code are usually printed at the time of printing the Cheque itself. Before presentation of the Cheque only the amount column is required to be encoded.\

3.6 SUMMARY

This chapter is descriptive in nature based on the secondary data collected from the reports of the Reserve Bank of India, Journals and Books. It has dealt with the origin and growth of banking in World level and India. The performance of banking services has been analyzed with the support of data. Besides, the operational aspect of e-banking has been discussed. In the service delivery system, the role of technology has been highlighted. It is to be noted that the various e-banking products and services have been discussed with relevant features. The challenges and risks involved in e-banking have been explained theoretically with the support of available data. Thus, in this chapter, e-banking services have been discussed in an exploratory sense under different heads.
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