Tamilnadu Based Private Sector Banks – An Overview
CHAPTER III
TAMILNADU BASED PRIVATE SECTOR BANKS – AN OVERVIEW

Private banking in India was practiced since the beginning of banking system in India. The important role played by the private banks in India cannot be denied. They have made banking more efficient and customer friendly. In the process they have jolted public sector banks out of complacency and forced them to become more competitive. Indian banking under the liberalisation process has recognised the significance of private sector banking in the market economy. The private sector banks play a vital role in the Indian economy. They indirectly motivate the public sector banks by offering a healthy competition to them. The private sector banks help in introducing a high degree of professional management and marketing concept into banking. It helps the public sector banks as well to develop similar skill and technology. They provide a healthy competition on general efficiency levels in the banking system.

The private sector banks are always trying to innovate new products avenues (new schemes, services, etc.) and make the industries to achieve expertise in their respective fields by offering quality service and guidance. They introduce new technology in the banking service. Thus, they lead the other banks in various new fields. For example, introduction of computerised operations, credit card business, ATM service, etc. The banks that were under the control of the private sector before the Second World War have enormous experience and expertise under their belt. Also there were many foreign banks which were functioning under complete private ownership since the 1950s. The prominent private sector banks had many unique characteristics. In those times, if a bank was not managed efficiently, it would not survive in the cut throat financial business, often dominated by different players. The only option before a bank is to either perform or perish. After the great depression, the national government nationalised many banks. Still there were some banks which were operating under the control of the private sector. However, after the great depression, the government gave permission for private entrepreneurs to set up private sector banks on a massive scale. These private sector banks can be broadly classified into two categories. They are:

1. Old Private sector banks
2. New Private sector banks
3.1 OLD PRIVATE SECTOR BANKS

The old private sector banks were those banks which were working in the private sector before the great depression. The old private sector banks have been operating since a long time and may be referred to those banks, which are in operation from before 1991. These banks are more than 50 years old. The banks, which were not nationalised at the time of bank nationalisation that took place during 1969 and 1980 are known to be the old private sector banks. These were not nationalised, because of their small size and regional focus. Most of the old private sector banks are closely held by certain communities their operations are mostly restricted to the areas in and around their place of origin. Their Board of directors mainly consist of locally prominent personalities from trade and business circles. One of the positive points of these banks is that, they lean heavily on service and technology and as such, they are likely to attract more business in days to come with the restructuring of the industry round the corner. There are fourteen old private sector banks in India. They are Catholic Syrian Bank, City Union Bank, Dhanalaxmi Bank, Federal Bank, ING Vysya Bank, Jammu and Kashmir Bank, Karnataka Bank, Karur Vysya Bank, Lakshmi Vilas Bank, Nainital Bank, Ratnakar Bank, SBI Commercial and international Bank, South Indian Bank and United Western Bank.

3.2 NEW PRIVATE SECTOR BANKS

The new private sector banks are those that have come into operation very recently. The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called as new private sector banks. Banking regulation act was then amended in 1993, which permitted the entry of new private sector banks in the Indian banking sector. However, there were certain criteria set for the establishment of the new private sector banks. Some of those criteria being:

1. The bank should have a minimum net worth of 100 crores.
2. The promoters holding should be a minimum of 25% of the paid up capital.
3. Within 3 years of the starting of the operations, the bank should offer shares to public.\textsuperscript{55}

\textsuperscript{55} \url{http://en.wikipedia.org/wiki/Private-sector_banks_in_India}
The new private sector banks that were established in the private sector after the Second World War actually escaped from the conditions of nationalisation. There are six new private sector banks in India. They are Axis Bank, Development Credit Bank, HDFC Bank, ICICI Bank, IndusInd Bank, Kotak Mahindra Bank and Yes Bank.

3.3 RECENT TRENDS IN INDIAN BANKING SECTOR

Today, a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks having the Reserve Bank of India as the fountain Head of the system. In the banking field, there has been an unprecedented growth and diversification of banking industry which has been so stupendous that it has no parallel in the annals of banking anywhere in the world. During the last 41 years since 1969, tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers. Massive branch expansion in the rural and underdeveloped areas, mobilisation of savings and diversification of credit facilities either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. This has resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking. There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

The major challenges faced by banks today are as to how to cope with competitive forces and to strengthen their balance sheet. Today, banks are groaning with burden of NPA’s. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater
disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA’s thus, lend, but lend for a purpose and with a purpose ought to be the slogan for salvation. The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake.

Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking. As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualized. That means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers.

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and to strengthen its supervisor mechanism. There will be more transparency and disclosures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system.56
3.4 PROFILE OF TAMILNADU BASED PRIVATE SECTOR COMMERCIAL BANKS

There are four private sector banks based on TamilNadu. They are City Union Bank Ltd., The Karur Vysya Bank Ltd., The Lakshmi Vilas Bank Ltd. and Tamilnad Mercantile Bank Ltd. The profiles of these banks are as follows.

3.4.1 CITY UNION BANK LTD.

The bank, 'The Kumbakonam Bank Limited' as it was then called was incorporated as a limited company on 31st October, 1904. 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.Raghavacharier. Shri T.S.Raghavachariar was the First Agent 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 Andhrapradesh. 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 it's 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 Authorized Dealers License to deal in Foreign Exchange business with effect from October, 1990. The bank has introduced computerization in the year 1990 and as of now all the Branches have been computerized.

The Bank has been accorded license by Insurance Regulatory Authority of India [IRDA] to act as Corporate Agent. The bank has entered into an agreement with Tata Consultancy Services Limited for introducing Core Banking Solution [CBS].As such all the branches have been brought under CBS as on date. The bank has made arrangements with IDBI Bank Ltd., and UTI Bank Ltd., for issuing at par cheques and sending outstation bills for collection. Automated Teller Machines are available at select branches of the bank where the ATM Card holders can withdraw cash, make balance enquiries and obtain Statement of accounts. The Bank has tied up with Export Credit & Guarantee Board, Government of India for Availing foreign exchange facility for import of equipment. The Bank is a member of Indian Bankers Association since 1905.
Corporation Limited [ECGC] for marketing export credit insurance products through its branch network. The Bank has obtained License to function as Depository Participant under National Securities Depository Ltd., The Bank is having a network of 202 Branches spread in different parts of our Country as on 01/02/2009. City Union Bank, old Yet modern With 107 years behind it, but when it came to embracing technology - bank automation and core banking - it was among the fastest. That has paid off. In the past 10 years, its business has grown 10 times to 25,000 crore and branches doubled to 286, without much staff addition because of technology adoption and plans to reach 500 branches in the next three years, it seeks to position itself as a strategic player.\(^{57}\)

**3.4.2 THE KARUR VYSYA BANK LTD.**

The Karur Vysya Bank Limited, popularly known as KVB, one such endeavour, was set up in 1916 by two great visionaries and illustrious sons of Karur, the Late Shri M A Venkatarama Chettiar and the Late Shri Athi Krishna Chettiar to inculcate the habit of savings and provide financial assistance to traders and small agriculturists in and around Karur, a textile town in Tamil Nadu. Though the bank started with a seed capital of 1 lakh, it has withstood innumerable changes and challenges in the past few decades and has profitably emerged as one of the leading banks in India without compromising on its fundamentals. The bank is professionally managed and guided by the Board of Directors drawn from different fields with vision, experience, knowledge and business acumen. Shedding its inherent regional flavour, the bank has now spread its wings far and wide in 13 States and 3 Union Territories in order to gain a pan India presence. KVB has also been generating profits and rewarding its stakeholders with handsome dividends since inception. The bank that carries with it a tradition of 96 years and yet is young enough to adapt itself to the rapidly changing scenario in the banking industry.

The bank had a branch network of 451 and an ATM network of 825 as on 31.03.2012. The bank plans to improve the branch network to 570 by the end of the financial year 2012 -13. KVB is one of the earliest banks in the country to achieve full networking of its branches under Core Banking Solutions, offering services through alternate delivery channels. They are any Branch Banking, Multicity Account facilities
for both current and savings bank customers, Internet banking, On line utility bill payments and shopping facilities, On line payment of electricity bill in Tamilnadu through Net Banking, E-commerce facilities, Mobile banking with Interbank Mobile Payment Services enabled by NPCI, point of sale machines, Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT) facilities, VISA and MasterCard Debit card facility with a card base of over 2 million, Anmol Rewards for use of KVB Debit card for POS and e-POS transactions, On-line rail and air ticket booking using KVB VISA Debit card, VISA enabled Gift and Travel Cards, access to over 850 KVB ATMs and over 13000 domestic ATMs and over 1 million VISA ATMs worldwide, Card to Card and Card to account transfer of funds through KVB ATMs and payment of institutional fees through ATMs. 24 X 7 toll free professional help desk services for all ATM, Internet Banking, Mobile Banking and e-commerce transactions are available in this bank.

KVB offers several deposit and loan products, tailormade to cater to the specific needs of customers, NRE / FCNR deposits and remittance services to NRIs, all types of general insurance policies through a tie-up with M/s Bajaj Allianz General Insurance Company and life insurance policies through a tie-up with M/s Birla Sun Life Insurance Company. The Bank distributes the Mutual Fund products of UTI, SBI MF, Reliance MF, Sundaram BNP Paribas MF, Birla Sunlife MF, Franklin Templeton MF and LIC MF. The Bank is a Depository Participant through NSDL and opens demat accounts. ASBA facility is available in this bank. Off-line and on-line trading facility is available to the demat customers enabled through a tie-up with M/s Religare Securities Ltd and M/s IDBI Caps respectively. KVB is one of the authorized banks to open accounts under the New Pension Scheme. KVB POS terminal facility is available at merchant establishments. KVB sells pure 24 carat Assay certified Gold Coins and bars and silver coins and bars.


3.4.3 THE LAKSHMI VILAS BANK LTD.

It 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 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 291 branches, \textbf{1 satellite branch and 10 extension counters}, spread over 15 states and the union territory of Puducherry, 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, has a vibrant industrial environment. LVB has been focusing on retail banking, corporate banking and bancassurance. It is rendering high-tech services which include 100% CBS Branches, VISA Enabled International Debit Card, RTGS & NEFT enabled electronic funds transfer services, Internet Banking, Mobile Banking & SMS Alerts, Electronic Clearing Services (ECS), National Electronic Clearing Services (NECS) and Payment through mobile phone via, Paymate. The bank has a suite of products that are constantly innovated to suit the changing needs of the customers. To facilitate all the financial services under one roof, the bank has tied up for a bancassurance pact with Life Insurance Corporation of India for marketing life insurance products, Bajaj Allianz General Insurance Co. Ltd for General Insurance distribution business and arrangements for distributing the mutual fund products of 16 various reputed AMCs. The Bank believes in cost effective service delivery powered by “appropriate” technology to enhance value to customers. All the bank branches of LVB are in the state-of-the-art core banking software viz. Flexcube. The Bank has an ATM network of 548, in vital/Major locations. Consequent to the tie-up with Cash Tree Network and NFS for ATMs, over 81000 & above ATMs. In terms of service standards and operational efficiency, the bank has bench marked its practices with the best in the industry.

The bank has taken great strides in reaching out to the various segments of the society through its innovative products delivered through multiple channels woven around branches in different geographies. It serves 1.8 million clients through a network of its branches, ATMs and 3200 staff; this family is only growing by the day. Bank will continue to expand the branch network and ATMs, but the underlying strength of a personal touch in services, which defines the bank, will never be traded in the name of growth. A slew of other services introduced by the Bank are tie up for e-tax payment, online opening of Term Deposits (e-DCD), point of Sale (POS) machines installed in established business concerns, share trading facility 3 in 1 account with savings, Demat and trading facilities launched and is in the advanced stage of implementation, Online bill payment, many other specialized services like Door Step banking is now available for the needy clients and New Pension Scheme is all set to be introduced shortly and the first bank to offer NRE deposit rates at 10% that has received overwhelming support. LVB

http://www.kvb.co.in/global/bank_profile.html
bagged the “Best Bank award for electronic payment systems amongst small banks for the year 2010-11” from Institute for Development and Research in Banking Technology (IDRBT). The Bank has been rated 2nd fastest growing bank among 17 small sized banks. It has been adjudged as “The Second Best Bank among the private sector banks by State Forum of Bankers’ Club – Kerala”. The bank is directionally well positioned to grow in a consistent and profitable manner, balancing the needs of all stakeholders – customers, staff and investors.59

3.4.4 TAMILNAD MERCANTILE BANK LTD.

The history of Tamilnad Mercantile Bank Ltd., the then Nadar Bank Ltd., dates back to 1921. The bank was having only 4 branches until the year 1947 at Tuticorin, Madurai, Sivakasi and Virudhunagar. The Nadar Bank Ltd. changed its name to the Tamilnad Mercantile Bank Ltd., on Nov 26, 1962. Ever since the bank stands pre-eminently among the galaxy of banks in the private sector depicting scientific and sound functioning. The first branch outside the State of Tamilnadu was opened in the year 1976 at Bangalore. The first fully computerized branch was opened at WGC Road, Tuticorin on Dec 09, 1984. The bank had established its first currency chest in 1993 at Madurai & has industrial finance branches at Coimbatore, Chennai and Secunderabad. The Bank has launched ATM Card from Nov 11, 2003. The bank has now 286 full fledged branches all over India, 8 Regional Offices, 11 Extension Counters, 2 Mobile Banking Branch, 6 Central Processing Centres, 1 Service Branch, 2 Currency Chests and 325 Automated Teller Machines. All the 286 branches are computerized and interconnected. Now, anyone can purchase Demand Drafts on 667 additional locations throughout the country in addition to 286 TMB Branches. The bank has taken it as a challenge to participate in various Government sponsored schemes and extended its support in uplifting the downtrodden in the society. The bank has taken up, the assistance to various industrial and export sectors, as a thrust area and granted loans to the needy clients.

The bank has a sound portfolio of advances consisting a wide basket of retail finance. The bank as a matter of policy grants advances to retail segments consisting of retail traders and business enterprises. Tamilnad Mercantile Bank Ltd., is the only bank in

India declaring consistently higher rate of dividend to its shareholders from the very beginning. The bank had declared 6% dividend to its shareholders in 1921. The ever increasing profit figures of the bank depict the efficiency of the management. The bank, which was opened with a small capital of 5 Lakhs, has an impeccable record of having crossed a net worth of 1000 Crores as on Mar 31, 2010 making it a strong and sound bank. Tamilnad Mercantile Bank Ltd. has to its credit, the history of 90 successful years and the trust reposed on the Bank by millions of customers shows that the Bank is enjoying an admirable position in the banking industry. Tamilnad Mercantile Bank Ltd. is having the record as the first private sector bank in India to introduce massive computerization for branch level operations. The bank adopted modernization, as early in the year 1983. Today all 286 branches are computerized which include small rural branches too. New branches are being opened with full mechanization. The bank is the pioneer in introducing issuance of computerized drafts to its customers. Computerization has enabled the bank to render much better and satisfied service to its customers. The Bank has launched Debit Card from Nov 11, 2003.

The bank has implemented new technologies like internet banking, mobile banking. As a part of this effort, the Bank has taken steps to embark on a scheme of Total Branch Automation with a centralized Data-Base System to integrate all branches and thereby provide better service to its customers. Plans to implement new technologies like Cyber banking are on the unveil to enable the customers of our Bank to have access to their accounts from their business spot itself. A hi-tech Data Centre was established and opened in banks own building, at TMB Pearl Towers, Anna Nagar, Chennai and it become fully operational in January 2002. In terms of Forex turnover, this bank ranks first among the Tamilnadu based private sector banks. The bank is known for its quick and efficient service in this segment. With a view to provide enhanced facilities to the bank’s customers the Foreign Exchange Department which was functioning at Tuticorin has been shifted to Chennai as International Banking Division. The bank has become a member of the Society for Worldwide Inter Bank Financial Telecommunications (SWIFT). Tamilnad Mercantile Bank has been rated 2nd Best Bank in Small Banks Category (Asset size less than 30,000 crore) (Out of 17 Banks), 3rd Socially Responsible Bank among 57 Banks of the Country and 5th Fastest Growing Bank among

Leveraging the CBS platform, the Bank has always given top priority in adding value to the customers through innovative customer centric products and services. The Bank has launched various technology driven products such as Internet Banking, SMS Banking, Mobile Banking and other e-payment channels like RTGS / NEFT etc. The Bank provides financial products such as Mutual Fund Investments (in tie-up with six Asset Management Companies) and General Insurance (in tie-up with United India Insurance Co Ltd). All innovation in technology will be available to the Tamilnad Mercantile Bank customers, today the bank has a full suite of such products such as Online share trading facility 3 in 1 account with the advantage of savings, Demat and trading facilities is offered by the bank, Online Fixed Deposit opening through TMB e-connect facility and SMS alert introduced for NRI customers. The bank also provides other financial products such as Life Insurance (in tie up with LIC). It tie-up with IDBI Bank for making e-tax payment online. POS machines are put in merchant establishments. Introduction of mobile banking is in final stage and testing is going on.

quest to expand and go global has increased our appetite for expansion and resulted in setting high but practical growth targets in the recent years. Having the prime mover advantage in technology upgrading it has been easy for the bank to scale new heights in business volumes and also ensure 100% customer satisfaction.60

Customer satisfaction is an integral element in inculcating trust among the common people on the banking sector. Understanding the importance of customer service in banking, the Reserve Bank set up a separate Customer Service Department in 2006 and also Banking Ombudsman (BO) offices in 15 major banking centres. The Reserve Bank has been encouraging the banking sector to expand the banking network by leveraging upon the information and communication technology (ICT). Quality of banking services is an important area, which requires continuous improvement to attract more customers to the formal banking channels. The private sector banks need to promote transparency by way of informing customers about different charges levied by them. This is because, to avoid complaints with regard to hidden charges against private sector banks. To conclude, focused attention on the issues that are being confronted by the private banking sector may be imperative in the larger interest of securing economic growth with equity. Once these issues are addressed, the private banking sector has the potential to become further deeper and stronger. Greater attention to these issues would facilitate better financialisation of the economy and in the medium to long-term lead to broad-based economic growth.61

60 http://www.tnmbonline.com/aboutus.html