CHAPTER 3  AN OVERVIEW OF INDIAN BANKING SECTOR

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CHAPTER 3  AN OVERVIEW OF INDIAN BANKING SECTOR

The banking system in India is significantly different from that of other Asian nations because of the country’s unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country’s economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the “export led growth” of other Asian economies, with emphasis on self-reliance through import substitution.

These features are reflected in the structure, size, and diversity of the country’s banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in successive five year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order for the banking industry to serve as an instrument of state policy, it was subjected to various nationalization schemes in different phases (1955, 1969, and 1980). As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centers) because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers).
The banking system’s international isolation was also due to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad.

These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as their Government dominated ownership structure has reduced the conflicts of interest that private banks would face.

The Banking sector in India has always been one of the most preferred avenues of employment. In the current decade, this has emerged as a resurgent sector in the Indian economy. As per the McKinsey report ‘India Banking 2010’, the banking sector index has grown at a compounded annual rate of over 51 per cent since the year 2001, as compared to a 27 per cent growth in the market index during the same period. It is projected that the sector has the potential to account for over 7.7 per cent of GDP with over Rs.7,500 billion in market cap, and to provide over 1.5 million jobs.

Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity, etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries.
The Indian banking system is financially stable and resilient to the shocks that may arise due to higher non-performing assets (NPAs) and the global economic crisis, according to a stress test done by the Reserve Bank of India (RBI).

Significantly, the RBI has the tenth largest gold reserves in the world after spending US$ 6.7 billion towards the purchase of 200 metric tonnes of gold from the International Monetary Fund (IMF) in November 2009. The purchase has increased the country's share of gold holdings in its foreign exchange reserves from approximately 4 per cent to about 6 per cent.

In the annual international ranking conducted by UK-based Brand Finance Plc, 20 Indian banks have been included in the Brand Finance® Global Banking 500. In fact, the State Bank of India (SBI) has become the first Indian bank to be ranked among the Top 50 banks in the world, capturing the 36th rank, as per the Brand Finance study. The brand value of SBI increased from US$ 1.5 billion in 2009 to US$ 4.6 billion in 2010. ICICI Bank also made it to the Top 100 list with a brand value of US$ 2.2 billion. The total brand value of the 20 Indian banks featured in the list stood at US$ 13 billion.

Meanwhile, loan disbursement from scheduled commercial banks which included regional rural banks as well posted a growth of 16.04 per cent by March 12, 2010, on a year-on-year basis, as per the latest data released by RBI. The RBI had earlier predicted that the credit growth during 2009-10 would be around 16 per cent.

Following the financial crisis, new deposits have gravitated towards public sector banks. According to RBI's 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks: September 2009', nationalized banks, as a group, accounted for 50.5 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 23.8 per cent. The share of other scheduled commercial banks, foreign banks and regional rural banks in aggregate deposits were 17.8 per cent, 5.6 per cent and 3.0 per cent, respectively.
With respect to gross bank credit also, nationalized banks hold the highest share of 50.5 per cent in the total bank credit, with SBI and its associates at 23.7 per cent and other scheduled commercial banks at 17.8 per cent. Foreign banks and regional rural banks had a share of 5.5 per cent and 2.5 per cent respectively in the total bank credit.

The report also found that scheduled commercial banks served 34,709 banked centres. Of these centre’s, 28,095 were single office centre’s and 64 centre’s had 100 or more bank offices.

The confidence of non-resident Indians (NRIs) in the Indian economy is reviving again. NRI fund inflows increased since April 2009 and touched US$ 47.8 billion on March 2010, as per the RBI's June 2010 bulletin. Most of this has come through Foreign Currency Non-resident (FCNR) accounts and Non-resident External Rupee Accounts.

Foreign exchange reserves were up by US$ 1.69 billion to US$ 272.8 trillion, for the week ending June 11, on account of revaluation gains. June 21, 2010.

3.1 RESERVE BANK OF INDIA AND FINANCIAL INSTITUTIONS

RBI is the banker to banks—whether commercial, cooperative, or rural. The relationship is established once the name of a bank is included in the Second Schedule to the Reserve Bank of India Act, 1934.

Such bank, called a scheduled bank, is entitled to facilities of refinance from RBI, subject to fulfillment of the following conditions laid down in Section 42 (6) of the Act, as follows:

- It must have paid-up capital and reserves of an aggregate value of not less than an amount specified from time to time; and
• It must satisfy RBI that its affairs are not being conducted in a manner detrimental to the interests of its depositors.

The classification of commercial banks into scheduled and nonscheduled categories that was introduced at the time of establishment of RBI in 1935 has been extended during the last two or three decades to include state cooperative banks, primary urban cooperative banks, and RRBs. RBI is authorized to exclude the name of any bank from the Second Schedule if the bank, having been given suitable opportunity to increase the value of paid-up capital and improve deficiencies, goes into liquidation or ceases to carry on banking activities.

A system of local area banks announced by the Government in power until 1997 has not yet taken root. RBI has given in principle clearance to five applicants.

Specialized development financial institutions (DFIs) were established to resolve market failures in developing economies and shortage of long-term investments. The first DFI to be established was the

Industrial Finance Corporation of India (IFCI) in 1948, and was followed by SFCs at state level set up under a special statute. In 1955, Industrial Credit and Investment Corporation of India (ICICI) were set up in the private sector with foreign equity participation. This was followed in 1964 by Industrial Development Bank of India (IDBI) set up as a subsidiary of RBI. The same year saw the founding of the first mutual fund in the country, the Unit Trust of India (UTI).

A wide variety of financial institutions (FIs) has been established. Examples include the National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (Exim Bank), National Housing Bank (NHB), and Small Industries Development Bank of India (SIDBI), which serve as apex banks in their specified areas of responsibility and concern. The three institutions that dominate the term-lending market in providing financial assistance to the corporate sector are IDBI, IFCI, and ICICI. The Government owns insurance companies, including Life Insurance Corporation of India (LIC) and General Insurance Corporation (GIC). Subsidiaries of GIC also provide substantial equity and loan assistance to the industrial sector, while UTI, though a mutual fund,
conducts similar operations. RBI also set up in April 1988 the Discount and Finance House of India Ltd (DFHI) in partnership with SBI and other banks to deal with money market instruments and to provide liquidity to money markets by creating a secondary market for each instrument. Major shares of DFHI are held by SBI. Liberalization of economic policy since 1991 has highlighted the urgent need to improve infrastructure in order to provide services of international standards. Infrastructure is woefully inadequate for the efficient handling of the foreign trade sector, power generation, communication, etc. For meeting specialized financing needs, the Infrastructure Development Finance Company Ltd. (IDFC) was set up in 1997. To nurture growth of private capital flows, IDFC will seek to unbundle and mitigate the risks that investors face in infrastructure and to create an efficient financial structure at institutional and project levels. IDFC will work on commercial orientation, innovations in financial products, rationalizing the legal and regular framework, creation of a long-term debt market, and best global practices on governance and risk management in infrastructure projects.

3.2 INDIAN BUSINESS AND ECONOMIC ENVIRONMENT DURING 2011-12

Fiscal 2012 was a challenging year for the global economy. Prolonged uncertainty around the resolution of the Euro zone sovereign debt crisis, rating downgrades of sovereigns and slow recovery of the US economy increased risks to global growth.

The Indian economy saw moderation in economic activity during fiscal 2012, following domestic macroeconomic conditions of high interest rates and slowdown in investments. India’s gross domestic product (GDP) grew by 6.9% during the first nine months of fiscal 2012, compared to a growth of 8.1% in the corresponding period of fiscal 2011. During this period, the industrial sector grew by 3.3% compared to 7.0% in the corresponding period of the previous year. The
services sector grew by 8.8%, similar to the growth in the previous year, while the agriculture sector grew by 3.2% compared to 6.8%. Investments, as measured by gross fixed capital formation, declined by 0.2% during the first nine months of fiscal 2012 compared to a growth of 8.9% in the corresponding period of fiscal 2011. Private consumption growth also moderated to 5.1% during the first nine months of fiscal 2012 compared to 8.5% in the corresponding period of fiscal 2011. The Index of Industrial Production (IIP) recorded a growth of 3.5% year-on-year (y-o-y) during the first eleven months of fiscal 2012 compared to 8.1% increase in the corresponding period of fiscal 2011. During this period, production in the mining sector declined by 2.1%, while the manufacturing sector recorded a growth of 3.7% and electricity sector of 8.7%, as compared to growth of 5.8%, 8.7% and 5.3% respectively in the first eleven months of fiscal 2011. The Central Statistical Organization has estimated GDP growth for fiscal 2012 at 6.9%, compared to 8.4% in fiscal 2011.

Inflation, measured by the Wholesale Price Index (WPI), remained above 9.0% levels between April 2011 - November 2011 but moderated from thereon to end the year at 6.9% in March 2012. Average inflation for fiscal 2012 was 8.8% as compared to 9.5% in fiscal 2011. The decrease was largely driven by falling inflation in food articles, which declined from 15.8% in fiscal 2011 to 7.4% in fiscal 2012. Manufactured products inflation initially went up to above 8.0% levels till November 2011, but moderated to 4.9% by March 2012. Core inflation (defined as manufactured products excluding food products) reduced from 8.5% in March 2011 to 4.7% in March 2012.

Reserve Bank of India (RBI) calibrated its policy stance in line with macroeconomic conditions. During fiscal 2012, the repo rate was increased by 175 basis points from 6.75% to 8.50%, with the last increase of 25 basis points effective from October 25, 2011. Based on the moderation in economic growth and the inflation trajectory, RBI in its mid-quarter monetary policy review in
December 2011 paused further tightening of policy rates. In the third quarter monetary policy review announced in January 2012, RBI reduced the cash reserve ratio (CRR) by 50 basis points from 6.0% to 5.50%. CRR was further reduced by 75 basis points in March 2012 to 4.75%. In its annual policy review for fiscal 2013 announced in April 2012, RBI reduced the repo rate by 50 basis points to 8.00%. During fiscal 2012, in an attempt to improve monetary transmission in the system, RBI established the repo rate as the single independent policy rate with the reverse repo pegged at a fixed 100 basis points below the repo rate. Also, a new Marginal Standing Facility was introduced under which banks could borrow overnight up to one per cent of their net demand and time liabilities, at 100 basis points above the repo rate.

Liquidity in the system continued to remain in deficit through fiscal 2012. Compared to an average borrowing by banks under the liquidity adjustment facility (LAF) window of RBI of Rs. 470.82 billion in fiscal 2011. Average borrowing increased to Rs. 798.78 billion in fiscal 2012. The liquidity deficit crossed Rs. 1.00 trillion from November 2011. The average daily borrowing touched a peak of Rs. 1.96 trillion in end-March 2012. In view of the tight liquidity conditions, apart from the reduction in CRR, RBI also injected liquidity through open market operations aggregating around Rs. 1.30 trillion between November 2011 and March 2012. The yields on the benchmark 10 year government securities increased by about 58 basis points to 8.57% at March 30, 2012 from 7.99% at March 31, 2011. In response to tight liquidity conditions and a rising interest rate environment, scheduled commercial banks increased their deposit and lending rates particularly in the first half of fiscal 2012. In April 2012, systemic liquidity conditions have improved with the deficit reducing to around Rs. 900.00 billion at April 23, 2012. Several banks have reduced their lending and deposit rates following the monetary policy announcement.
Non-food credit growth moderated during the year, from 21.3% at March 25, 2011 to 16.8% at March 23, 2012, before picking up towards the end of the year. Non-food credit growth at March 30, 2012 was 19.3%. Based on sector-wise data available till February 2012, growth in credit to industry was 19.1% and to the services sector was 15.2% on a year-on-year basis. Credit to the infrastructure sector moderated significantly recording a growth of 18.7% year-on-year at February 24, 2012 compared to 39.7% at February 25, 2011 mainly due to a slowdown in credit to the power and telecommunication sectors. Retail loan growth also slowed down to 11.4% year-on-year at February 24, 2012 compared to 16.2% at February 25, 2011. Similarly, deposit growth moderated during the year from 15.9% at March 25, 2011 to 13.4% at March 23, 2012, driven mainly by the decline in demand deposit growth from a reduction of 0.6% at March 25, 2011 to a reduction of 2.9% at March 23, 2012. Deposit growth picked up at the year-end, with year-on-year growth in demand deposits at 15.3% and term deposits at 17.7% at March 30, 2012.

The Union Budget for fiscal 2013 has projected the government’s fiscal deficit to come down from an estimated 5.9% of GDP in fiscal 2012 to 5.1% in fiscal 2013. RBI has projected India’s GDP to grow by 7.3% in fiscal 2013, with credit growth estimated at 17.0% and deposit growth at 16.0%. RBI has projected inflation to be at 6.5% in March 2013. Equity markets remained volatile during fiscal 2012 due to global and domestic events. The Euro zone sovereign debt crisis and sovereign rating downgrades by rating agencies along with the global economic slowdown impacted investor sentiment, particularly in the second and third quarter of fiscal 2012. On an overall basis, the benchmark equity index, the BSE Sensex, declined by 10.4% from 19,445 at March 31, 2011 to 17,404 at March 31, 2012. Foreign institutional investment flows into India during fiscal 2012 were significantly lower compared to fiscal 2011, with net inflows of around USD 2.74 billion during the first nine months of fiscal 2012 compared to USD 29.46 billion in the corresponding period of fiscal 2011. In addition, a steeper slowdown in exports compared to imports during the year,
contributed to a deficit of USD 7.09 billion in India’s balance of payments during the first nine months of fiscal 2012 as compared to a surplus of USD 11.02 billion during the corresponding period of fiscal 2011. The rupee depreciated by 14.6% against the US dollar from Rs. 44.65 per US dollar at March 31, 2011 to Rs. 51.16 per US dollar at March 31, 2012.

First year retail premium underwritten in the life insurance sector decreased by 4.8% (on weighted received premium basis) to Rs. 479.41 billion in fiscal 2012 from Rs. 503.68 billion in fiscal 2011. The average assets under management of mutual funds decreased by 5.1% to Rs. 6,647.92 billion in March 2012 from Rs. 7,005.38 billion in March 2011. Gross premium of the non-life insurance sector (excluding specialized insurance institutions) grew by 23.0% to Rs. 547.62 billion in fiscal 2012 from Rs. 445.34 billion in fiscal 2011.

**Banking Developments**

The moderation in GDP growth following monetary tightening by RBI affected business growth of banks, which is reflected in slowdown in their deposit and credit growth. While deposit growth of All Scheduled Commercial Banks (ASCB) decelerated to 13.4% in FY’12 from 15.9% FY’11 despite increase in interest rates, growth in ASCB credit was lower at 17.0% in FY’12 than 21.5% in FY’11 reflecting slower growth in the economy. To control inflation, RBI raised the repo rate five times during FY’12 from 7.25% to 8.50%. Reflecting monetary transmission, interest rates on bank deposits and credit also rose. Deposit rate of major banks for more than one year maturity rose from 7.75-9.50% in FY’11 to 8.50-9.25% in FY’12, and base rate of major banks rose from 8.25-9.50% to 10.0-10.75% in the same period. Due to deceleration in growth impinging on corporate profitability and move to system-driven identification of NPAs, non-performing assets of banks rose during the year.
Opportunities and Threats

The Government is increasing investment in agriculture and rural development, expanding financial inclusion and pushing for investment in manufacturing and infrastructure, which will translate into growth opportunities for several sectors such as steel, cement, aluminium, etc. To boost growth, RBI is likely to cut rates further during FY’13, though the extent of rate cuts will be contingent on the inflation trajectory. All this will provide an opportunity for banks to increase fund and non-fund business in a wide range of areas. Banks will be required to cut interest on credit in tandem with cut in key policy rate by RBI. However, due to high cost funds mobilized over the last year and large NPAs and restructured assets, banks may find it difficult to pass on the entire reduction in repo rate to customers. Net Interest Margin (NIM) of banks could come under pressure as it may be difficult for banks to cut interest rates on deposits due to sluggish deposit growth reflecting the declining trend in savings in financial assets as households favour physical assets like gold and real estate.

Risks and Concerns

The main risks to the outlook are slowing global growth as the Euro zone sovereign debt crisis continues. High international oil and commodity prices could also dampen growth. As a result of the vast pools of liquidity injected by central banks of advanced countries to stimulate growth and prevent bank deleveraging, India will need to guard against volatile capital flows and build-up of asset bubbles. The situation could be exacerbated by the return of risk aversion and deleveraging by banks in developed economies. Monsoons, inflation including food inflation and suppressed inflation on account of fuel prices, widening current account deficit, and fiscal slippage leading to higher fiscal deficit are major risk factors. The fiscal deficit is estimated to be 5.1% in FY’13 but slower revenue generation through tax collections as well as disinvestment proceeds, and rise in expenditure can lead to higher net market borrowings by the Government than the targeted Rs.4.79 lakh crore. Rising oil prices, as also slowing export growth due to
weakness in global demand could lead to widening of the current account deficit in FY’13.

Inflation could rise on the back of supply constraints from a slowdown in growth. Liquidity is likely to remain a concern and banks may need to strive for higher resources mobilization besides tapping all sources of refinance, to avoid liquidity pressure. Overall, the biggest concern is that despite strengths such as a large domestic market, high domestic savings rate and vast scope for investment, India’s growth remains below its potential.

### 3.3 GROWTH DRIVERS OF THE BANKING SECTOR

**High growth of Indian Economy:** The growth of the banking industry is closely linked with the growth of the overall economy. India is one of the fastest growing economies in the world and is set to remain on that path for many years to come. This will be backed by the stellar growth in infrastructure, industry, services and agriculture. This is expected to boost the corporate credit growth in the economy and provide opportunities to banks to lend to fulfill these requirements in the future.

**Rising per capita income:** The rising per capita income will drive the growth of retail credit. Indians have a conservative outlook towards credit except for housing and other necessities. However, with an increase in disposable income and increased exposure to a range of products, consumers have shown a higher willingness to take credit, particularly, young customers. A study of the customer profiles of different types of banks reveals that foreign and private banks share of younger customers is over 60% whereas public banks have only 32% customers under the age of 40. Private Banks also have a much higher share of the more profitable mass affluent segment.
New channel – Mobile banking is expected to become the second largest channel for banking after ATMs: New channels used to offer banking services will drive the growth of banking industry exponentially in the future by increasing productivity and acquiring new customers. During the last decade, banking through ATMs and internet has shown a tremendous growth, which is still in the growth phase. After ATMs, mobile banking is expected to give another push to this industry growth in a big way; with the help of new 3G and smart phone technology (mobile usage has grown tremendously over the years). This can be looked at as branchless banking and so will also reduce costs as there is no need for physical infrastructure and human resources. This will help in acquiring new customers, mainly who live in rural areas (though this will take time due to technology and infrastructure issues). The IBA-FICCI-BCG report predicts that mobile banking would become the second largest channel of banking after ATMs.

Financial Inclusion Program: Currently, in India, 41% of the adult population doesn’t have bank accounts, which indicates a large untapped market for banking players. Under the Financial Inclusion Program, RBI is trying to tap this untapped market and the growth potential in rural markets by volume growth for banks. Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The RBI has also taken many initiatives such as Financial Literacy Program, promoting effective use of development communication and using Information and Communication Technology (ICT) to spread general banking concepts to people in the underbanked areas. All these initiatives of promoting rural banking are taken with the help of mobile banking, self help groups, microfinance institutions, etc. Financial Inclusion, on the one side, helps corporate in fulfilling their social responsibilities and on the other side it is fueling growth in other industries and so as a whole economy.
3.4 CONCERNS OF BANKING SECTORS

More stringent capital requirements to achieve as per Basel III: Recently, the RBI released draft guidelines for implementing Basel III. As per the proposal, banks will have to augment the minimum core capital after a stringent deduction. The two new requirements – capital conservative buffer (an extra buffer of 2.5% to reduce risk) and a counter cyclical buffer (an extra capital buffer if possible during good times) – have also been introduced for banks. As the name indicates that the capital conservative buffer can be dipped during stressed period to meet the minimum regulatory requirement on core capital. In this scenario, the bank would not be supposed to use its earnings to make discretionary payouts such as dividends, shares buyback, etc. The counter cyclical buffer, achieved through a pro-cyclical build up of the buffer in good times, is expected to protect the banking industry from system-wide risks arising out of excessive aggregate credit growth.

Under current Basel Norm II, Indian banks follow more stringent capital adequacy requirements than their international counterparts. For Indian Banks, the minimum common equity requirement is 3.6%, minimum tier I capital requirement is 6% and minimum total capital adequacy requirement is 9% as against 2%, 4% and 8% respectively recommended in the Basel II Norm. Due to this the capital adequacy position of Indian banks is at comfortable level. So, going ahead, they should not face much problem in meeting the new norms requirements. But as we saw earlier, private sector banks and foreign banks have considerable high capital adequacy ratio, hence are not expected to face any problem. But, public sector banks are lagging behind. So, the Government will have to infuse capital in public banks to meet Basel III requirements. With the higher minimum core Tier I capital requirement of 7-9.5% and overall Tier I capital of 8.5-11%, Banks ROE is expected to come down.
**Increasing non-performing and restructured assets:** Due to a slowdown in economic activity in past couple of years and aggressive lending by banks many loans have turned non-performing. Restructuring of assets means loans whose duration has been increased or the interest rate has been decreased. This happens due to inability of the loan taking company/individual to pay off the debt. Both of these have impacted the profitability of banks as they are required to have a higher provisioning amount which directly eats into the profitability. The key challenge going forward for banks is to increase loans and effectively manage NPAs while maintaining profitability.

**Intensifying competition:** Due to homogenous kind of services offered by banks, large number of players in the banking industry and other players such as NBFCs, competition is already high. Recently, the RBI released the new Banking License Guidelines for NBFCs. So, the number of players in the Indian banking industry is going to increase in the coming years. This will intensify the competition in the industry, which will decrease the market share of existing banks.

**Managing Human Resources and Development:** Banks have to incur a substantial employee training cost as the attrition rate is very high. Hence, banks find it difficult manage the human resources and development initiatives.

### 3.5 MAJOR DEVELOPMENTS

The Monetary Authority of Singapore (MAS) has provided qualified full banking (QFB) privileges to ICICI Bank for its branch operations in Singapore. Currently, only SBI had QFB privileges in country.

The Indian operations of Standard Chartered reported a profit of above US$ 1 billion for the first time. The bank posted a profit before tax (PAT) of US$ 1.06 billion in the calendar year 2009, as compared to US$ 891 million in 2008.
Punjab National Bank (PNB) plans to expand its international operations by foraying into Indonesia and South Africa. The bank is also planning to increase its share in the international business operations to 7 per cent in the next three years.

The State Bank of India (SBI) has posted a net profit of US$ 1.56 billion for the nine months ended December 2009, up 14.43 per cent from US$ 175.4 million posted in the nine months ended December 2008.

3.6 BANKING SECTOR IN LIBERALIZED PERIOD

The year 1991 marked a decisive changing point in India's economic policy since Independence in 1947. Following the 1991 balance of payments crisis, structural reforms were initiated that fundamentally changed the prevailing economic policy in which the state was supposed to take the "commanding heights" of the economy. After decades of far reaching government involvement in the business world, known as the "mixed economy" approach, the private sector started to play a more prominent role.

The enacted reforms not only affected the real sector of the economy, but the banking sector as well. Characteristics of banking in India before 1991 were a significant degree of state ownership and far reaching regulations concerning among others the allocation of credit and the setting of interest rates. The blueprint for banking sector reforms was the 1991 report of the Narasimham Committee. Reform steps taken since then include a deregulation of interest rates, an easing of directed credit rules under the priority sector lending arrangements, a reduction of statutory pre-emptions, and a lowering of entry barriers for both domestic and foreign players.
The regulations in India are commonly characterized as "financial repression". The financial liberalization literature assumes that the removal of repressionist policies will allow the banking sector to better perform its functions of mobilizing savings and allocating capital what ultimately results in higher growth rates. If India wants to achieve its ambitious growth targets of 7-8% per year as lined out in the Common Minimum Programme of the current government, a successful management of the systemic changes in the banking sector is a necessary precondition.

While the transition process in the banking sector has certainly not yet come to an end, sufficient time has passed for an interim review. The objective of this paper therefore is to evaluate the progress made in liberalizing the banking sector so far and to test if the reforms have allowed the banking sector to better perform its functions.

The paper proceeds as follows: section 2 gives a brief overview over the role of the banking sector in an economy and possible coordination mechanisms. A discussion of different repressive policies and their effect on the functioning of the banking sector follows in section 3. Section 4 gives a short historical overview over developments in the Indian banking sector and over the reforms since 1991. An evaluation of the status of the reforms and their effects follows in section 5. Section 6 concludes.

3.7 ROLE AND MANAGEMENT OF THE BANKING SECTOR

A banking sector performs three primary functions in an economy: the operation of the payment system, the mobilization of savings and the allocation of savings to investment projects. By allocating capital to the highest value use while limiting the risks and costs involved, the banking sector can exert a positive influence on the overall economy, and is thus of broad macroeconomic importance.
Since the general importance of a banking sector for an economy is widely accepted, the questions arise under which coordination mechanism – state or market – it best performs its functions, and, if necessary, how to manage the transition to this coordination mechanism. Currently, there are opposing views concerning the most preferable coordination mechanism.

According to the development and political view of state involvement in banking, a government is through either direct ownership of banks or restrictions on the operations of banks better suited than market forces alone to ensure that the banking sector performs its functions. The argument is essentially that the government can ensure a better economic outcome by for example channelling savings to strategic projects that would otherwise not receive funding or by creating a branch infrastructure in rural areas that would not be build by profit-maximizing private banks. The active involvement of government thus ensures a better functioning of the banking sector, which in turn has a growth enhancing effect.

The proponents of financial liberalization take an opposite stance. In their view, repressive policies such as artificially low real interest rates, directed credit programs and excessive statutory pre-emptions that are imposed on banks have negative effects on both the volume and the productivity of investments.

Removing these repressionist policies and giving more importance to market forces will, in the view of the proponents of financial liberalization, increase financial development and eventually lead to higher economic growth. A majority of empirical studies support the conclusion of the financial liberalization hypothesis. The policy recommendations arising from these studies are evident: abolishment of repressionist policies and privatization of state-owned banks.
3.8 DEVELOPMENT OF THE INDIAN BANKING SECTOR

Development from Independence until 1991

At the time of Independence in 1947, the banking system in India was fairly well developed with over 600 commercial banks operating in the country. However, soon after Independence, the view that the banks from the colonial heritage were biased in favour of working-capital loans for trade and large firms and against extending credit to small-scale enterprises, agriculture and commoners, gained prominence.

To ensure better coverage of the banking needs of larger parts of the economy and the rural constituencies, the Government of India (GOI) created the State Bank of India (SBI) in 1955.

Despite the progress in the 1950s and 1960s, it was felt that the creation of the SBI was not far reaching enough since the banking needs of small scale industries and the agricultural sector were still not covered sufficiently. This was partly due to the still existing close ties commercial and industry houses maintained with the established commercial banks, which gave them an advantage in obtaining credit.

Additionally, there was a perception that banks should play a more prominent role in India's development strategy by mobilizing resources for sectors that were seen as crucial for economic expansion. As a consequence, in 1967 the policy of social control over banks was announced. Its aim was to cause changes in the management and distribution of credit by commercial banks.

Following the Nationalization Act of 1969, the 14 largest public banks were nationalized which raised the Public Sector Banks' (PSB) share of deposits from 31% to 86%. The two main objectives of the nationalizations were rapid branch expansion and the channelling of credit in line with the priorities of the five-year plans. To achieve these goals, the newly nationalized banks received quantitative targets for the expansion of their branch network and for the
percentage of credit they had to extend to certain sectors and groups in the economy, the so-called priority sectors, which initially stood at 33.3%.

Six more banks were nationalized in 1980, which raised the public sector's share of deposits to 92%. The second wave of nationalizations occurred because control over the banking system became increasingly more important as a means to ensure priority sector lending, reach the poor through a widening branch network and to fund rising public deficits. In addition to the nationalization of banks, the priority sector lending targets were raised to 40.

However, the policies that were supposed to promote a more equal distribution of funds, also led to inefficiencies in the Indian banking system. To alleviate the negative effects, a first wave of liberalization started in the second half of the 1980s. The main policy changes were the introduction of Treasury Bills, the creation of money markets, and a partial deregulation of interest rates. Besides the establishment of priority sector credits and the nationalization of banks, the government took further control over banks' funds by raising the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR). From a level of 2% for the CRR and 25% for the SLR in 1960, both witnessed a steep increase until 1991 to 15% and 38.5% respectively.

In summary, India's banking system was at least until an integral part of the government's spending policies. Through the directed credit rules and the statutory pre-emptions it was a captive source of funds for the fiscal deficit and key industries. Through the CRR and the SLR more than 50% of savings had either to be deposited with the RBI or used to buy government securities. Of the remaining savings, 40% had to be directed to priority sectors that were defined by the government. Besides these restrictions on the use of funds, the government had also control over the price of the funds, i.e. the interest rates on savings and loans. This was about to change at the beginning of the 1990s when a balance-of-payments crisis was a trigger for far-reaching reforms.
Developments after 1991

Like the overall economy, the Indian banking sector had severe structural problems by the end of the 1980s. Joshi and Little characterize the banking sector by 1991 as unprofitable, inefficient, and financially unsound. By international standards, Indian banks were even despite a rapid growth of deposits extremely unprofitable. In the second half of the 1980s, the average return on assets was about 0.15%. The return on equity was considerably higher at 9.5%, but merely reflected the low capitalization of banks. While in India capital and reserves stood at about 1.5% of assets, other Asian countries reached about 4-6%. These figures do not take the differences in income recognition and loss provisioning standards into account, which would further deteriorate the relative performance of Indian banks.

The 1991 report of the Narasimham Committee served as the basis for the initial banking sector reforms. In the following years, reforms covered the areas of interest rate deregulation, directed credit rules, statutory pre-emptions and entry deregulation for both domestic and foreign banks. The objective of banking sector reforms was in line with the overall goals of the 1991 economic reforms of opening the economy, giving a greater role to markets in setting prices and allocating resources, and increasing the role of the private sector.

The most important reforms follows:

Statutory pre-emptions

The degree of financial repression in the Indian banking sector was significantly reduced with the lowering of the CRR and SLR, which were regarded as one of the main causes of the low profitability and high interest rate spreads in the banking system.

During the 1960s and 1970s the CRR was around 5%, but until 1991 it increased to its maximum legal limit of 15%. From its peak in 1991, it has
declined gradually to a low of 4.5% in June 2003. In October 2004 it was slightly increased to 5% to counter inflationary pressures, but the RBI remains committed to decrease the CRR to its statutory minimum of 3%. The SLR has seen a similar development. The peak rate of the SLR stood at 38.5% in February 1992, just short of the upper legal limit of 40%. Since then, it has been gradually lowered to the statutory minimum of 25% in October 1997.

The reduction of the CRR and SLR resulted in increased flexibility for banks in determining both the volume and terms of lending

**Priority sector lending**

Besides the high level of statutory pre-emptions, the priority sector advances were identified as one of the major reasons for the below average profitability of Indian banks. The Narasimham Committee therefore recommended a reduction from 40% to 10%. However, this recommendation has not been implemented and the targets of 40% of net bank credit for domestic banks and 32% for foreign banks have remained the same. While the nominal targets have remained unchanged, the effective burden of priority sector advances has been reduced by expanding the definition of priority sector lending to include for example information technology companies.

**Interest rate liberalization**

Prior to the reforms, interest rates were a tool of cross-subsidization between different sectors of the economy. To achieve this objective, the interest rate structure had grown increasingly complex with both lending and deposit rates set by the RBI. The deregulation of interest rates was a major component of the banking sector reforms that aimed at promoting financial savings and growth of the organized financial system.
The lending rate for loans in excess of Rs200,000 that account for over 90% of total advances was abolished in October 1994. Banks were at the same time required to announce a prime lending rate (PLR) which according to RBI guidelines had to take the cost of funds and transaction costs into account. For the remaining advances up to Rs200,000 interest rates can be set freely as long as they do not exceed the PLR.

On the deposit side, there has been a complete liberalization for the rates of all term deposits, which account for 70% of total deposits. The deposit rate liberalization started in 1992 by first setting an overall maximum rate for term deposits. From October 1995, interest rates for term deposits with a maturity of two years were liberalized. The minimum maturity was subsequently lowered from two years to 15 days in 1998. The term deposit rates were fully liberalized in 1997. As of 2004, the RBI is only setting the savings and the non-resident Indian deposit rate. For all other deposits above 15 days, banks are free to set their own interest rates.

**Entry barriers**

Before the start of the 1991 reforms, there was little effective competition in the Indian banking system for at least two reasons. First, the detailed prescriptions of the RBI concerning for example the setting of interest rates left the banks with limited degrees of freedom to differentiate themselves in the marketplace. Second, India had strict entry restrictions for new banks, which effectively shielded the incumbents from competition.

Through the lowering of entry barriers, competition has significantly increased since the beginning of the 1990s. Seven new private banks entered the market between 1994 and 2000. In addition, over 20 foreign banks started operations in India since 1994. By March 2004, the new private sector banks and the foreign banks had a combined share of almost 20% of total assets.
Deregulating entry requirements and setting up new bank operations has benefited the Indian banking system from improved technology, specialized skills, better risk management practices and greater portfolio diversification.

**Prudential norms**

The report of the Narasimham Committee was the basis for the strengthening of prudential norms and the supervisory framework. Starting with the guidelines on income recognition, asset classification, provisioning and capital adequacy the RBI issued in 1992/93, there have been continuous efforts to enhance the transparency and accountability of the banking sector. The improvements of the prudential and supervisory framework were accompanied by a paradigm shift from micro-regulation of the banking sector to a strategy of macro-management.

The Basle Accord capital standards were adopted in April 1992. The 8% capital adequacy ratio had to be met by foreign banks operating in India by the end of March 1993, Indian banks with a foreign presence had to reach the 8% by the end of March 1994 while purely domestically operating banks had until the end of March 1996 to implement the requirement.

Significant changes were also made concerning non-performing assets (NPA) since banks can no longer treat the putative 'income' from them as income. Additionally, the rules guiding their recognition were tightened. Even though these changes mark a significant improvement, the accounting norms for recognizing NPAs are less stringent than in developed countries where a loan is considered nonperforming after one quarter of outstanding interest payments compared to two quarters in India.
Public Sector Banks

At the end of the 1980s, operational and allocative inefficiencies caused by the distorted market mechanism led to a deterioration of Public Sector Banks’ profitability. Enhancing the profitability of PSBs became necessary to ensure the stability of the financial system. The restructuring measures for PSBs were threefold and included recapitalization, debt recovery and partial privatization.

Despite the suggestion of the Narasimham Committee to rationalize PSBs, the Government of India decided against liquidation, which would have involved significant losses accruing to either the government or depositors. It opted instead to maintain and improve operations to allow banks to create a good starting basis before a possible privatization.

Due to directed lending practices and poor risk management skills, India’s banks had accrued a significant level of NPAs. Prior to any privatization, the balance sheets of PSBs had to be cleaned up through capital injections. In the fiscal years 1991/92 and 1992/93 alone, the GOI provided almost Rs40 billion to clean up the balance sheets of PSBs. Between 1993 and 1999 another Rs120 billion were injected in the nationalized banks. In total, the recapitalization amounted to 2% of GDP.

In 1993, the SBI Act of 1955 was amended to promote partial private shareholding. The SBI became the first PSB to raise equity in the capital markets. After the 1994 amendment of the Banking Regulation Act, PSBs were allowed to offer up to 49% of their equity to the public. This lead to the further partial privatization of eleven PSBs. Despite those partial privatizations, the government is committed to keep their public character by maintaining strong administrative control such as the ability to appoint key personnel and influence corporate strategy.
After an overview of the developments in the Indian banking sector over the last years, the next section tries to measure the changing degree of finance until 1991 to 15% and 38.5% respectively.

### 3.9 FINANCIAL STRUCTURE IN INDIA

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<th>Financial Structure</th>
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<td>The Indian Financial system comprises the following institutions:</td>
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1. Commercial Banks  
   a. Public Sector  
   b. Private sector  
   c. Foreign Banks  
   d. Co-operative institutions  
      i. Urban co-operative banks  
      ii. State co-operative Banks  
      iii. Central co-operative banks  
2. Financial institutions  
   a. All – India Financial Institutions (AIFIs)  
   b. State financial Corporation’s (SFCs)  
   c. State industrial development corporations (SIDCs)  
3. Nonbanking financial Companies (NBFCs)  
4. Capital market intermediaries

About 92 percent of the country’s banking segment is under State control while the balance comprises private sector and foreign banks. The public sector, commercial banks are divided into three cries.

In summary, India's banking system was at least until an integral part of the government's spending policies. Through the directed credit rules and the statutory
pre-emption it was a captive source of funds for the fiscal deficit and key industries. Through the CRR and the SLR more than 50% of savings had either to be deposited with the RBI or used to buy government securities. Of the remaining savings, 40% had to be directed to priority sectors that were defined by the government. Besides these restrictions on the use of funds, the government had also control over the price of the funds, i.e. the interest rates on savings and loans. This was about to change at the beginning of the 1990s when a balance-of-payments crisis was a trigger for far-reaching reforms.

**Private sector banks:** Private banking in India was practiced since the beginning of banking system in India. The first private bank in India to be set up in Private Sector Banks in India was IndusInd Bank. It is one of the fastest growing Bank Private Sector Banks in India. IDBI ranks the tenth largest development bank in the world as Private Banks in India and has promoted world class institutions in India.

The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector banks in India as part of the RBI's liberalization of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as Scheduled Commercial Bank in January 1995.

ING Vysya, yet another Private Bank of India was incorporated in the year 1930. Bangalore has a pride of place for having the first branch inception in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya Bank has many credits to its account.

Initially all the banks in India were private banks, which were founded in the pre-independence era to cater to the banking needs of the people. In 1921, three major banks i.e. Banks of Bengal, Bank of Bombay, and Bank of Madras,
merged to form Imperial Bank of India. In 1935, the Reserve Bank of India (RBI) was established and it took over the central banking responsibilities from the Imperial Bank of India, transferring commercial banking functions completely to IBI. In 1955, after the declaration of first-five year plan, Imperial Bank of India was subsequently transformed into State Bank of India (SBI).

Following this, occurred the nationalization of major banks in India on 19 July 1969. The Government of India issued an ordinance and nationalized the 14 largest commercial banks of India, including Punjab National Bank (PNB), Allahabad Bank, Canara Bank, Central Bank of India, etc. Thus, public sector banks revived to take up leading role in the banking structure. In 1980, the GOI nationalized 6 more commercial banks, with control over 91% of banking business of India.

In 1994, the Reserve Bank of India issued a policy of liberalization to license limited number of private banks, which came to be known as New Generation tech-savvy banks. Global Trust Bank was, thus, the first private bank after liberalization; it was later amalgamated with Oriental Bank of Commerce (OBC). Then Housing Development Finance Corporation Limited (HDFC) became the first (still existing) to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector.

At present, Private Banks in India includes leading banks like ICICI Banks, ING Vysya Bank, Jammu & Kashmir Bank, Karnataka Bank, Kotak Mahindra Bank, SBI Commercial and International Bank, etc. Undoubtedly, being tech-savvy and full of expertise, private banks have played a major role in the development of Indian banking industry. 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.
3.10 CHALLENGES FACED BY INDIAN BANKING INDUSTRY

Developing countries like India, still has a huge number of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and competition. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. Now, the existing situation has created various challenges and opportunity for Indian Commercial Banks. In order to encounter the general scenario of banking industry we need to understand the challenges and opportunities lying with banking industry of India.

Rural Market

Banking in India is generally fairly mature in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region.

Consequently, we have seen some examples of inorganic growth strategy adopted by some nationalized and private sector banks to face upcoming challenges in banking industry of India. For example recently, ICICI Bank Ltd. merged the Bank of Rajasthan Ltd. in order to increase its reach in rural market and market share significantly. State Bank of India (SBI), the largest public sector bank in India has also adopted the same strategy to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.
Management of Risks

The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for Indian banking industry. We have already witnessed the bankruptcy of some foreign banks.

Growth of Banking

Banks' ownership structure does not seem to matter as much as increased competition in TFP growth. Foreign banks appear to have acted as technological innovators when competition increased, which added to the competitive pressure in the banking market. Finally, our results also indicate an increase in risk-taking behaviour, along with the whole deregulation process. It was found that small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it is one of the reasons for merger. Some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of India, which is not yet explored by the major banks. Therefore ICICI Bank Ltd. has used mergers as their expansion strategy in rural market. They are successful in making their presence in rural India. It strengthens their network across geographical boundary, improves customer base and market share.

Market Discipline and Transparency

Transparency and disclosure norms as part of internationally accepted corporate governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad, operating and profitability indicators, the total investments made in the equity share, units of mutual funds, bonds, debentures, aggregate advances against shares and so on.
**Human Resource Management**

Significant correlations were found between work climate, human resource practices, and business performance. The results showed that the correlations between climate and performance cannot be explained by their common dependence on HRM factors, and that the data are consistent with a mediation model in which the effects of HRM practices on business performance are partially mediated by work climate. The relationship between human resource management and establishment performance of employees on the manufacturing sector. The HRM environment could vary across branches. Site visits provided specific examples of managerial practices that affected branch performance. An analysis of responses to the bank’s employee attitude survey that controls for unobserved branch and manager characteristics shows a positive relationship between branch performance and employees’ satisfaction with the quality of performance evaluation, feedback, and recognition at the branch—the “incentives” dimension of a high-performance work system. In some fixed effects specifications, satisfaction with the quality of communications at the branch was also important.

**Global Banking**

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.
**Financial Inclusion**

Financial inclusion has become a necessity in today’s business environment. Whatever is produced by business houses, that has to be under the check from various perspectives like environmental concerns, corporate governance, social and ethical issues. Apart from it to bridge the gap between rich and poor, the poor people of the country should be given proper attention to improve their economic condition.

**Employees’ Retention**

The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority. Long-time banking employees are becoming disenchanted with the industry and are often resistant to perform up to new expectations. The diminishing employee morale results in decreased revenue. Due to the intrinsically close ties between staff and clients, losing those employees completely can mean the loss of valuable customer relationships. The retail banking industry is concerned about employee retention from all levels: from tellers to executives to customer service representatives because competition is always moving in to hire them away. The competition to retain key employees is intense. Top-level executives and HR departments spend large amounts of time, effort, and money trying to figure out how to keep their people from leaving.

**Social and Ethical Aspects**

There are some banks, which proactively undertake the responsibility to bear the social and ethical aspects of banking. This is a challenge for commercial banks to consider these aspects in their working. Apart from profit maximization, commercial banks are supposed to support those organizations, which have some social concerns.
3.11 MAJOR PRIVATE BANKS IN INDIA

Bank of Rajasthan

A leading private sector bank, the Bank of Rajasthan was founded on the auspicious day of Akshya Tritiya on May 8, 1943, at Udaipur. Shri Rai Bahadur P.C. Chatterji, the then finance minister of the erstwhile Mewar Government, extensively contributed towards the establishment of the Bank.

Catholic Syrian Bank

With the Swadeshi Movement of early 20th century as its base, Catholic Syrian Bank was incorporated on 26th November 1920, in the Thrissur district of Kerala. The bank commenced its operations on 1st January 1921, with an authorized capital of Rs. 5 lakhs and a paid up capital of Rs. 45270.

Dhanalakshmi Bank

The foundation of Dhanalakshmi Bank Limited was laid down on 14th November 1927, in the Thrissur district of Kerala. A group of innovative entrepreneurs had started the bank with a capital of Rs. 11,000 and only 7 employees.

Federal Bank

Federal Bank Limited was founded as Travancore Federal Bank Limited in the year 1931, with an authorized capital of Rs. 5000. It was established at Nedumpuram, a place near Tiruvalla, in Central Travancore (a princely state later merged into Kerala), under Travancore Company's Act.
HDFC Bank

Housing Development Finance Corporation Limited, more popularly known as HDFC Bank Ltd, was established in the year 1994, as a part of the liberalization of the Indian Banking Industry by Reserve Bank of India (RBI). It was one of the first banks to receive an 'in principle' approval from RBI, for setting up a bank in the private sector.

ICICI Bank

ICICI Bank started as a wholly owned subsidiary of ICICI Limited, an Indian financial institution, in 1994. Four years later, when the company offered ICICI Bank's shares to the public, ICICI's shareholding was reduced to 46%. In the year 2000, ICICI Bank offered made an equity offering in the form of ADRs on the New York Stock Exchange (NYSE)

ING Vysya Bank

ING Vysya Bank Ltd came into being in October 2002, when erstwhile Vysya Bank Ltd was merged with ING, a global financial powerhouse boasting of Dutch origin. Vysya Bank Ltd, one of initial banks to be set up in the private sector of India

Jammu& Kashmir Bank

The origin of Jammu and Kashmir Bank Limited, more commonly referred to as J&K Bank, can be traced back to the year 1938, when it was established as the first state-owned bank in India. The bank was incorporated on 1st October 1938 and it was in the following year (more precisely on 4th July 1939) that it commenced its business, in Kashmir (India).
**Karnataka Bank**

Karnataka Bank Limited is a leading private sector bank in India. It was incorporated on 18th February 1924 at Mangalore, a town located in the Kannada district of Karnataka. The bank emerged as a major player during the freedom movement of 20th Century India.

**Karur Vysya Bank**

The Karur Vysya Bank Limited commonly known as KVB was set up by Late Shri M.A. Venkatarama Chettiar and the Late Shri Athi Krishna Chettiar, the two great visionaries in 1916 in Karur, a textile town in the Tamil Nadu state of India.

**Kotak Mahindra Bank**

Kotak Mahindra Bank is one of India's leading financial private banking institutions. It offers banking solutions that covers almost every sphere of life. Some of its financial services include commercial banking, stock broking, mutual funds, life insurance and investment banking.

**SBI Commercial and International Bank**

SBI Commercial and International Bank, (SBICI) is a completely owned private auxiliary of India's biggest banking and financial services set up, the State Bank of India. Established in 1995 to back SBI's corporate and international banking services, the SBI Commercial and International Bank is the only bank in India to be been awarded ISO-9002 quality systems certification for the Bank as a whole.
**UTI Bank**

Axis Bank was formed as UTI when it was incorporated in 1994 when Government of India allowed private players in the banking sector. The bank was sponsored together by the administrator of the specified undertaking of the Unit Trust of India, Life Insurance Corporation of India (LIC) and General Insurance Corporation ltd.

**YES Bank**

Yes Bank is one of the top most private Indian banks. Awarded by the only Greenfield license award by RBI in last 14 years, this bank is established and run by Rana Kapoor and Ashok Kapur with the financial support of Rabobank Nederland, the world's single AAA rated private Bank.