Chapter 3

Public Sector Banks

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Chapter 3

Public Sector Banks:

3.1 Concept of Public Sector Bank

Public sector in the banking industry emerged with the nationalization of Imperial Bank of India (1921) and creating the State Bank of India (1955) as a part of integrated scheme of rural credit proposed by the All India Rural Credit Survey Committee (1951). The Bank is unique in several respects and it enjoys a position of permanence as the agent of RBI wherever RBI has no branches. It is the single largest bank in the country with large international presence, with a network of 48 overseas offices spread over 28 countries covering all the time zones. One of the objectives of establishing the SBI was to provide extensive banking facilities in rural areas by opening as a first step 400 branches within a period of 5 years from July 1, 1955. In 1959, eight banking companies functioning in formerly princely states were acquired by the SBI, which later came to be known as Associate Banks. Later, two of the subsidiary banks', viz., the State Bank of Bikaner and Jaipur were merged to form the State Bank of Bikaner and Jaipur, thus form eight banks in the SBI group then making banks in the state bank group.

The Public sector in the Indian banking got widened with two rounds of nationalization-first in July 1969 of 14 major private sector banks each with deposits of Rs.50 crore or more, and thereafter in April 1980, 6 more banks with deposits of not less than Rs. 2 Crore each. It resulted in the creation of public sector banking with a market share of 76.87 per cent in deposits and 72.92 per cent of assets in the banking industry at the end of March 2003. With the merger of 'New Bank of India' with 'Punjab National Bank' in 1993, the number of nationalized banks became 19 and the number of public sector banks 27. The number of branches of public sector banks, which was 6,669 in June 1969, increased to 41874 by Mach 1990 and again to 46,752 by March 30, 2003. The public sector banks thus came to occupy a predominant position in the Indian banking scene. It is however, important to note that there has been a steady decline in the share of PSB's in the total assets of SCB's during the latter - half of 1990s. While their share was 84.5 per cent at the end of March 1996, it declined to 81.7 per cent in 1998 and further to 81 per cent in 1999.
3.1(i) **Financial Health**

Over a period of time, the financial health of PSBs continually deteriorate resulting in decline in their efficiency. Since so many obligations, economic and social, are imposed on PSBs, it was thought, that their performance should not be judged merely in terms of profits. Since 1969, PSBs began to play a large and dominant supplementary role to the government programmes in alleviating poverty, employment creation and generation of fresh resources for development. They have been highly successful in achieving their principal objective of deposit and loan expansion. Their participation in priority sector lending is highly commendable: In June 1969, on the eve of nationalization the share of priority sector in total credit of SCBs was mere 14 per cent (Rs. 504 crore). By March 2002, with the massive involvement of PSBs their outstanding lending to priority sector had climbed up to Rs. 1,71,185.26 crore. As a per cent of net bank credit the same was 43.1 per cent as against the mandated 40 per cent In terms of profitability, the SBI group has recorded a steady rise in net profits from Rs. 244 crore in 1991-92 to Rs. 2,222 crore in 2000-01 and Rs. 4,512 crore in 2002-03. In the case of 19 nationalized banks, profitability has always been low.

During 1992-93 and 1993-94 these banks actually posted huge losses to the tune of Rs. 3,513 crore and Rs. 4,705 crore respectively. It is possible to defend the low profitability by referring to their commitment to social obligations imposed by the Government: as for instance opening rural branches in large numbers, financing poverty alleviation programmes at concessional rates of interest, priority sector lending to the extent of 40 per cent huge NPAs, etc. As a result of their involvement in social banking and other factors such as directed investment, the state of health of these banks left much to be desired. The net profit as a per cent of Total assets became 0.99 per cent in 1992-93 and 1.1 per cent in 1993-94. Similarly, the net profit as a per cent of Total assets of 19 nationalized banks was 1.71 percent in 1992-93 and 9.8 per cent in 1993-94. Prior to reform period, profitability was not considered as the million objectives of PSBs. The return on assets of PSBs does not compare unfavourably with that of banks elsewhere. As per data provided by the Bank for International Settlements (BIS) 1999, return on assets, defined as profit before tax moved from 0.08 to 1.07 in Euro area in 1998 with most countries covering around the 0.5 mark even on free tax basis.

3.1(ii) **Budgetary Support for Re-Capitalization**

The government has been making budgetary provisions year after year for recapitalization of nationalized banks since 1984-85 their capital base has eroded.
The total recapitalization of Rs. 2446 Crore took place from 1985-86 to 2000-01. The Re-capitalisation measure was undertaken in three phases. In the phase-I, i.e., in the pre-reform period from 1984-85 to 1992-93, all the nationalized banks were recapitalized every year to meet their capital requirements without any preset norm and special securities (perpetual at interest rate of 7.75 per cent) were allotted to the banks. The annual exercise in the Phase I period involved an allotment of Rs. 4000 Crore. Phase II was period of two years, 1993-94 and 1994-95, when banking sector reforms were being given a big push and recapitalization of all nationalized banks had to be accorded priority. Under a well-designed recovery programme in general Rs. 10,987 crore. were injected as cash capital into the banks to repay the damage of the past.

3.1(iii) Privatization

The banking sector reforms sought to improve profitability of banks by lowering pre-emotions and to strengthen the banking system through institution of capital adequacy norms, in addition to income recognition, asset classification and provisioning requirements in line with the international standards. Competition is sought to be promoted through the entry of new private sector banks and more liberal entry of foreign banks. PSBs had to make lot of improvement in their work culture and in their technology etc. to be able to compete with the new entrants with aggressive marketing practices.

One way to satisfy capital adequacy norms for these banks is to approach the capital market to raise equity. Until 1991-92, all PSBs are owned by the Government. After the reform process was initiated, the Governments stake was permitted to be reduced to 51 per cent. The Committee on Banking Sector Reforms (1998) recommended that PSBs should access market to meet their needs of capital and for the purpose, the minimum shareholding by the Government/RBI should be brought down to 33 per cent from the existing statutory minimum of 51 per cent. Till 2000-01, as many as 12 PSBs accessed capital market and raised an amount of Rs. 64 Crore. The State Bank of India alone raised through public issue over Rs. 2200 Crore bym public issue of equity shares and Rs. 1,000 Crore through bond issue in December 1993 and January 1994. The reduction in government stake in PSBs amounts to partial privatization of banks.

3.1(iv) Branch Expansion

Indian banking system is predominantly branch-banking system. After nationalization of major banks, for nearly have decades there had been massive branch expansion, primarily with the objective of covering the unbanked centres in
rural and semi-urban centres, coupled with intensive branch network in metro urban centres to sustain profitability. In the decade that followed 1990 (reform period) it was felt that haphazard growth should be contained and there should be qualitative network in branch banking. The Narasimham Committee-I recommended that branch licensing be abolished and the matter of opening and closing branches are left to commercial judgment of individual banks. This recommendation was partly implemented. Although branch licensing has not been abolished, greater operational freedom has been given to individual banks to open certain specialized branches as well as expanding branches in a more systematic way in its geographical spared. Of late, the banking system has been increasingly looking towards technology-based delivery channels and progressive reduction of physical branches to the extent possible.

3.2 Types of Public Sector Banks

Public sector banks are the ones in which the government has a major holding. They are divided into two groups i.e. Nationalized Banks and State Bank of India and its associates. Among them, there are 19 nationalized banks and 8 State Bank of India associates. Public Sector Banks dominate 75% of deposits and 71% of advances in the banking industry. Public Sector Banks dominate the commercial banking India. These can be further classified into:-

1) State Bank Group
2) Nationalized banks
3) Regional Rural Banks

3.2(i) State Bank of India:

The roots of the State Bank of India rest in the first decade of 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on 2 June 1806. The Bank of Bengal and two other Presidency banks, namely, the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1 July 1843). All three Presidency banks were incorporated as joint stock companies, and were the result of the royal charters. These three banks received the exclusive right to issue paper currency in 1861 with the Paper Currency Act, a right they retained until the formation of the Reserve Bank of India. The Presidency banks amalgamated on 27 January 1921, and the reorganized banking entity took as its name Imperial Bank of India. The Imperial Bank of India continued to remain a joint stock company.
Pursuant to the provisions of the State Bank of India Act (1955), the Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 30 April 1955 the Imperial Bank of India became the State Bank of India. The Govt. of India recently acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

Offices of the Bank of Bengal In 1959 the Government passed the State Bank of India (Subsidiary Banks) Act, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries. On Sept 13, 2008, State Bank of Saurashtra, one of its Associate Banks, merged with State Bank of India. SBI has acquired local banks in rescues. For instance, in 1985, it acquired Bank of Cochin in Kerala, which had 120 branches. SBI was the acquirer as its affiliate, State Bank of Travancore, already had an extensive network in Kerala.

**Associate Banks of State Bank of India**

There are six associate banks that fall under SBI, and together these six banks constitute the State Bank Group. All use the same logo of a blue keyhole and all the associates use the "State Bank of" name followed by the regional headquarters' name. Originally, the then seven banks that became the associate banks belonged to princely states until the government nationalized them between October, 1959 and May, 1960. In tune with the first Five Year Plan, emphasizing the development of rural India, the government integrated these banks into State Bank of India to expand its rural outreach. There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline operations. The first step along these lines occurred on 13 August 2008 when State Bank of Saurashtra merged with State Bank of India, which reduced the number of state banks from seven to six. Furthermore on 19th June 2009 the SBI board approved the merger of its subsidiary, State Bank of Indore, with itself. SBI holds 98.3% in the bank, and the balance 1.77% is owned by individuals, who held the shares prior to its takeover by the government. The acquisition of State Bank of Indore will help SBI add 470 branches to its existing network of 11,448. Also, following the acquisition, SBI’s total assets will inch very close to the Rs. 10-lakhcrore mark. Total assets of SBI and the State Bank of Indore stood at Rs 998,119 crore as on March 2009.
Growth of State Bank of India

State Bank of India has often acted as guarantor to the Indian Government, most notably during Chandra Shekhar's tenure as Prime Minister of India. With 11,448 branches and a further 6500+ associate bank branches, the SBI has extensive coverage. State Bank of India has electronically networked all of its branches under Core Banking System (CBS). The bank has one of the largest ATM networks in the region. More than 8500 ATMs across India. The State Bank of India has had steady growth over its history, though it was marred by the Harshad Mehta scam in 1992. In recent years, the bank has sought to expand its overseas operations by buying foreign banks. It is the only Indian bank to feature in the top 100 world banks in the Fortune Global 500 rating and various other rankings.

International Presence of State Bank of India

The bank has 92 branches, agencies or offices in 32 countries. It has branches of the parent in Colombo, Dhaka, Frankfurt, Hong Kong, Johannesburg, London and environs, Los Angeles, Male in the Maldives, Muscat, New York, Osaka, Sydney, and Tokyo. It has offshore banking units in the Bahamas, Bahrain, and Singapore, and representative offices in Bhutan and Cape Town. SBI operates several foreign subsidiaries or affiliates. In 1990 it established an offshore bank, State Bank of India (Mauritius). It has two subsidiaries in North America, State Bank of India (California), and State Bank of India (Canada). In 1982, the bank established its California subsidiary, named State Bank of India (California), which now has eight branches - seven branches in the state of California and one in Washington DC which was recently opened on 23rd November, 2009. The seven branches in the state of California are located in Los Angeles, Artesia, San Jose, Canoga Park, Fresno, San Diego and Bakersfield. The Canadian subsidiary too dates to 1982 and has seven branches, four in the greater Toronto area, and three in British Columbia. In Nigeria, SBI operates as INMB Bank. This bank began in 1981 as the Indo-Nigerian Merchant Bank and received permission in 2002 to commence retail banking. It now has five branches in Nigeria. In Nepal SBI owns 50% of Nepal SBI Bank, which has branches throughout the country. In Moscow SBI owns 60% of Commercial Bank of India, with Canara Bank owning the rest. In Indonesia towns 76% of PT Bank Indo-Monex. State Bank of India already has a branch in Shanghai and plans to open one up in Tianjin.
Journey And Vision of SBI

The State Bank of India, the country’s oldest Bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits is today going through a momentous phase of Change and Transformation – the two hundred year old Public sector behemoth is today stirring out of its Public Sector legacy and moving with an agility to give the Private and Foreign Banks a run for their money. The bank is entering into many new businesses with strategic tie ups – Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc. each one of these initiatives having a huge potential for growth. The Bank is forging ahead with cutting edge technology and innovative new banking models, to expand its Rural Banking base, looking at the vast untapped potential in the hinterland and proposes to cover 100,000 villages in the next two years. It is also focusing at the top end of the market, on whole sale banking capabilities to provide India’s growing mid large Corporate with a complete array of products and services. It is consolidating its global treasury operations and entering into structured products and derivative instruments. Today, the Bank is the largest provider of infrastructure debt and the largest arranger of external commercial borrowings in the country. It is the only Indian bank to feature in the Fortune 500 list.

The Bank is changing outdated front and back end processes to modern customer friendly processes to help improve the total customer experience. With about 8500 of its own 10000 branches and another 5100 branches of its Associate Banks already networked, today it offers the largest banking network to the Indian customer.

The Bank is also in the process of providing complete payment solution to its clientele with its over 8500 ATMs, and other electronic channels such as Internet banking, debit cards, mobile banking, etc. With four national level Apex Training Colleges and 54 learning Centres spread all over the country the Bank is continuously engaged in skill enhancement of its employees. Some of the training programmes are attended by bankers from banks in other countries. The bank is also looking at opportunities to grow in size in India as well as International. It presently has 82 foreign offices in 32 countries across the globe. It has also 7 Subsidiaries in India – SBI Capital Markets, SBICAP Securities, SBI DFHI, SBI Factors, SBI Life and SBI Cards forming a formidable group in the Indian Banking scenario. It is in the process of raising capital for its growth and also consolidating its various holding. Throughout, all this change, the Bank is also attempting to change old mind sets, attitudes and take all employees together on this exciting road to Transformation. In a recently concluded mass internal communication programme termed ‘Parivartan’ the Bank rolled out over 3300 two day workshops.
across the country and covered over 130,000 employees in a period of 100 days using about 400 Trainers, to drive home the message of Change and inclusiveness. The workshops fired the imagination of the employees with some other banks in India as well as other Public Sector Organizations seeking to emulate the programme.

Evolution of SBI

The origin of the State Bank of India goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2 June 1806. Three years later the bank received its charter and was re-designed as the Bank of Bengal (2nd January 1809). A unique institution, it was the first joint-stock bank of British India sponsored by the Government of Bengal. The Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India on 27 January 1921. Primarily Anglo-Indian creations, the three presidency banks came into existence either as a result of the compulsions of imperial finance or by the felt needs of local European commerce and were not imposed from outside in an arbitrary manner to modernise India's economy. Their evolution was, however, shaped by ideas culled from similar developments in Europe and England, and was influenced by changes occurring in the structure of both the local trading environment and those in the relations of the Indian economy to the economy of Europe and the global economic framework.

Establishment

The establishment of the Bank of Bengal marked the advent of limited liability, joint-stock banking in India. So was the associated innovation in banking, viz. the decision to allow the Bank of Bengal to issue notes, which would be accepted for payment of public revenues within a restricted geographical area. This right of note issue was very valuable not only for the Bank of Bengal but also its two siblings, the Banks of Bombay and Madras. It meant an accretion to the capital of the banks, a capital on which the proprietors did not have to pay any interest. The concept of deposit banking was also an innovation because the practice of accepting money for safekeeping (and in some cases, even investment on behalf of the clients) by the indigenous bankers had not spread as a general habit in most parts of India. But, for a long time, and especially up to the time that the three presidency banks had a right of note issue, bank notes and government balances
made up the bulk of the investible resources of the banks. The three banks were governed by royal charters, which were revised from time to time. Each charter provided for a share capital, four-fifth of which were privately subscribed and the rest owned by the provincial government. The members of the board of directors, which managed the affairs of each bank, were mostly proprietary directors representing the large European managing agency houses in India. The rest were government nominees, invariably civil servants, one of whom was elected as the president of the board.

Business

The business of the banks was initially confined to discounting of bills of exchange or other negotiable private securities, keeping cash accounts and receiving deposits and issuing and circulating cash notes. Loans were restricted to Rs. One lakh and the period of accommodation confined to three months only. The security for such loans was public securities, commonly called Company’s Paper, bullion, treasure, plate, jewels, or goods ‘not of a perishable nature’ and no interest could be charged beyond a rate of twelve per cent. Loans against goods like opium, indigo, salt woollens, cotton, cotton piece goods, mule twist and silk goods were also granted but such finance by way of cash credits gained momentum only from the third decade of the nineteenth century. All commodities, including tea, sugar and jute, which began to be financed later, were either pledged or hypothecated to the bank. Demand promissory notes were signed by the borrower in favour of the guarantor, which was in turn endorsed to the bank. Lending against shares of the banks or on the mortgage of houses, land or other real property was, however, forbidden. Indians were the principal borrowers against deposit of Company’s paper, while the business of discounts on private as well as salary bills was almost the exclusive monopoly of individuals Europeans and their partnership firms. But the main function of the three banks, as far as the government was concerned, was to help the latter raise loans from time to time and also provide a degree of stability to the prices of government securities.

SBI International (Mauritius) Ltd., Offshore Bank

(A subsidiary of State Bank of India) State bank of India International (Mauritius) Ltd is one of the first offshore banks to be established in Mauritius in 1990, with a paid up capital of USD 10 Million. The Bank has had a consistent record of having earned profits since its very first year of operations. SBI IML, with the expertise of its management and personnel, is customer focussed, and offers to all its clients, all over the world, high quality, cost effective professional services and
innovative products. The Bank lays emphasis on technology, which is an integral part of its operations having a significant impact on services rendered. It has, presently, clients spread over 40 countries. The principal activities include:

- Acceptance of deposits in foreign currencies mainly US Dollar, Pound Sterling, Euro and also other currencies. Attractive rates of interest are offered.

- International remittances in all major currencies through SWIFT, quickly and effectively.


- Trade Services, including issuance of/negotiations under documentary letters of credits and issuance of bank guarantees.

- Hedging of exchange and interest rate risks on behalf of customers.

- Sales and Purchases of foreign currencies in the Spot and Forward Market.

- Rendering custodial services for offshore funds registered in Mauritius.

- Products tailored to suit the requirements of customers.

The Bank adopts the best Corporate Governance practices, and comprehensive risk management policies and systems ensure effective control of risks. A strong capital base, and near zero non-performing assets further add to the strength and stability of Banks.

**State Bank of India (CALIFORNIA)**

State Bank of India (California), a wholly owned subsidiary in California is a California State Chartered Bank and a member of the Federal Deposit Insurance Corporation. With eight full service branches, the Bank caters to the Banking needs of the community, ethnic and non-ethnic alike, through various deposit and loan schemes. SBIC takes prides in providing state-of-the-art remittance facility to its customers. The Bank also provides Internet Banking, Tele-Banking, ATM service and Credit Cards.
State Bank of India (CANADA)

State Bank of India (Canada) - a wholly owned subsidiary of State Bank of India has been operating in Canada at four locations Toronto, Vancouver, Surrey and Mississauga, extending various facilities to the Indians settled in Canada such as remittance of funds through a network of over 9000 offices of State Bank of India, the largest commercial bank in India and through the branches of its Associate Banks. SBI(C) has also been instrumental in fostering trade ties between India and Canada by extending financial, advisory and logistic support to Canadian and Indian corporate.

SBI Life Insurance Company Ltd (SBI LIFE)

SBI Life Insurance India’s largest private life Insurance is a joint venture between State Bank of India and BNP Paribas Assurance SBI owns 74% of the total capital and BNP Paribas Assurance. The remaining 26% SBI Life Insurance has an authorized capital of Rs. 2,000 crore and a paid up capital of Rs 1,000 crores.

BNP Paribas Assurance is the insurance arm of BNP Paribas – Euro Zone’s leading Bank. BNP Paribas, part of the world’s top 10 groups of banks by market value and part of Europe top 3 banking companies, is one of the oldest foreign banks with a presence in India dating back to 1860. BNP Paribas Assurance is the fourth largest life insurance company in France, and a worldwide leader in Creditor insurance products offering protection to over 50 million clients. BNP Paribas Assurance operates in 41 countries mainly through the Bancassurance and partnership model.

SBI Life Insurance’s mission is to emerge as the leading company offering a comprehensive range of Life Insurance and pension products at competitive prices, ensuring high standards of customer service and world class operating efficiency. SBI Life has a unique multi-distribution model encompassing Bancassurance, Agency and Corporate Solutions. SBI Life extensively leverages the SBI Group relationship as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans. Agency Channel, comprising of the most productive force of over 68,000 Insurance Advisors, offers door to door insurance solutions to customers.
3.2(ii) NATIONALIZED BANKS

In July 1969, 14 banks with a deposit base of Rs.50 crores or more were nationalized. Again in 1980, six more private banks were nationalized, bringing up the number to twenty. These Banks were:
(1) Bank of Baroda
(2) Punjab National Bank
(3) Bank of India
(4) Canara Bank
(5) Central Bank of India
(6) Indian Bank
(7) Indian Overseas Bank
(8) Syndicate Bank
(9) UCO Bank
(10) Allahabad Bank
(11) United Bank of India
(12) Oriental Bank of Commerce
(13) Corporation Bank
(14) Vijaya Bank
(15) Dena Bank
(16) Bank of Maharashtra
(17) Andhra Bank
(18) Punjab & Sind Bank
(19) New Bank of India
(20) Corporation Bank.
(21) IDBI Bank.

Nationalized banks have always dominated the other banks in India and this occurred in 20th century when one of its banks was nationalized that is Imperial bank in 1955 according to SBL Act and it became the state bank, most of nationalized bank in India were nationalized and some of this banks are state bank of Travancore, state bank of Saurashtra, state bank of Patiala, state bank of Mysore, state bank of Indore, state bank of Hyderabad and state bank of Indore. The main aim of nationalizing the banks in India was to make it reach its clients in rural areas and be able to provide them with quality services and this occurred more in 1969, in this year only 14 more banks were nationalized and in 1980 seven more banks were also nationalized, the state bank is always the best commercial bank in India and it is also rated the top five banks in the whole world.
India has 88 commercial banks and also 27 public sector banks and they also have other banks in other foreign countries that are 38 banks, nationalized bank in India.
is of higher quality because they have 53,000 branches and 17,000 ATMs and this is good because it helps their clients withdraw their money in any of their branches.

Nationalised banks in India are of higher quality because they are strong, clean and have very transparent balance sheets than other ordinary banks and the main aim of this bank is to manage volatility, with a fixed exchange rate. Credit cards have been the best system of making payments, and this can be made by cheque, debit cash and cash, with the help of improved technology one can be bale to apply for a credit card on online, and this is a easy way of getting one, Canara Bank in India is a nationalized bank that offer this services at a cheaper cost than other banks in India, by provided great services to their clients they visit them in where they work and also in their homes and explain to them on their services and how they can get them.

Nationalized banks in India offer great and quality services to their customers, they also offer insurance services like health insurance which enables a person to save money for any accidents that may occur. If you want to get more information about nationalized bank in India you can visit them in the website and get to know what they offer. By the 1960s, the Indian banking industry has become an important tool to facilitate the development of the Indian economy. At the same time, it has emerged as a large employer, and a debate has ensured about the possibility to nationalise the banking industry. Indira Gandhi, the-then Prime Minister of India expressed the intention of the Government of India (GOI) in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalisation". The paper was received with positive enthusiasm. Thereafter, her move was swift and sudden, and the GOI issued an ordinance and nationalised the 14 largest commercial banks with effect from the midnight of July 19, 1969. Jayaparakash Narayan, a national leader of India, described the step as a "Masterstroke of political sagacity" Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertakin) Bill, and it received the presidential approval on 9 August, 1969. A second step of nationalisation of 6 more commercial banks followed in 1980. The stated reason for the nationalisation was to give the government more control of credit delivery. With the second step of nationalisation, the GOI controlled around 91% of the banking business in India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.
**Liberalisation**

In the early 1990s, the then Narsimha Rao government embarked on a policy of liberalisation, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. This move along with the rapid growth in the economy of India revolutionized the banking sector in India which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks. The next stage for the Indian banking has been setup with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 49% with some restrictions. The new policy shook the banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for the traditional banks. All this led to the retail boom in India. People not just demanded more their banks but also received more. Currently (2007), 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 as compared to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate—and this has mostly been true. With the growth in the Indian economy expected to be strong for quite some time—especially in its services sector—the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong.

**Government policy on banking industry:**

Banks operating in most of the countries must contend with heavy regulations, rules enforced by Federal and State agencies to govern their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public. A banker works within the financial system to provide loans, accept deposits, and provide other services to their customers. They must do so
within a climate of extensive regulation, designed primarily to protect the public interests.

The main reasons why the banks are heavily regulated are as follows:

- To protect the safety of the public’s savings.
- To control the supply of money and credit in order to achieve a nation’s broad economic goal.
- To ensure equal opportunity and fairness in the public’s access to credit and other vital financial services.
- To promote public confidence in the financial system, so that savings are made speedily and efficiently.
- To avoid concentrations of financial power in the hands of a few individuals and institutions.
- Provide the Government with credit, tax revenues and other services.
- To help sectors of the economy that they have special credit needs for e.g. Housing, small business and agricultural loans etc.

Nationalization of banks in India generated a controversy which was meaningless. In fact the public deposits in the banks have increased so much that it is unsafe to leave them in the private hands. Banks by advancing loans to the speculators and non-priority sectors can play havoc with the economy of the country. So banks were nationalized in the larger interests of the nation.

Banks are the custodians of the public money but they were in private hands. Some directors of the banks used to utilize funds for their personal benefit by entering into partnership with some business they would sanction loans and get profits. Thus public money was used for personal profit. In a welfare state a government cannot sleep over the matters that do harm to the public interest.

Banks, thus, used to advance loans to the individuals or non-priority sectors. Planned economy cannot work till all the factors influencing economy are geared up in that direction. Agriculture and cottage industries were to be financed in order to give a fillip to them. This could be done if the government had a control over the disbursement of Banks’ loans.

Nationalization is in accordance with our national policy of adopting socialistic pattern of society. Some may say that industries which provide proper place for
exploitation should have been nationalized first they forget that the control of the capital is necessary because it gives power to exploit.

Another objection raised against nationalization is that it has resulted in inefficient working of the banks. No denying the fact the initiative which the private entrepreneur can take is not possible in a nationalized organization. But can we risk the economy of the country and the public money for the sake of efficiency?

One legitimate criticism level against nationalization is that some banks were not nationalized so that the businessmen may not have to suffer. The government argued that the nationalized banks had the maximum deposits with them and other banks were not in a position to influence the economy of the country. But there should be a complete control over the banks if we want them to boost our economy. Nationalization of banks is the proper step in the proper direction.

3.2(iii) **Regional Rural Banks:**

NABARD is an apex development bank with an authorization for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas
2. Bringing about or promoting institutions development and
3. Evaluating, monitoring and inspecting the client banks

Besides this fundamental role, NABARD also:

- Act as a coordinator in the operations of rural credit institutions
- To help sectors of the economy that they have special credit needs for eg. Housing, small business and agricultural loans etc.

Regional Rural Banks (RRBs) had been established to take the banking services to the doorsteps of rural masses especially in remote rural areas with no access to banking services. These banks were originally intended to provide institutional
credit to those weaker sections of the society at concessional rate of interest, who depend on private money-lenders. The banks were also intended to mobilise and channelize rural savings for supporting productive activities in the rural areas. However, with effect from 22 March 1997, the RRBs were allowed to lend outside the target group by classifying their advances into ‘Priority Sector’ and ‘others’. Similarly the interest rates on term deposits offered by RRBs have also been freed. Subsequently, it has been decided to permit RRBs at their discretion to offer differential rate of interest on their term deposits of maturity subject to certain conditions. The credit outstanding of all the 196 RRBs stood at Rs. 32,870 crore as at the end of March 2005 and Rs. 62,143 crore was mobilized as deposits by RRBs till that date.

Activities of modern economy are significantly influenced by the functions and services of banks. Banking sector constitutes the core part of economic system. Indian economy is agricultural economy and real India lies in villages. Village economy is the backbone of Indian economy. Even after 60 years of independence, the rural economy in India is still handicapped in terms of infrastructure and other chronic problems of cultivators. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture; 60% of industries are agro based; 50% of national income is contributed by rural sector and the agricultural sector is the largest foreign exchange earner to India. Such an essential and key sector is neglected by financial institutions and especially by the banks.

Regional Rural Banks (RRBs) are constituted to meet the financial and banking needs of weaker sections of the rural areas with a special attention on small and marginal farmers, agricultural labourers, artisans, landless farmers, small traders, tint enterprises etc. Hence, RRBs were established in India in 1975 essentially for the purpose of taking banking service to the doorsteps of rural people, particularly in places where banking facilities are not available.

In general, RRBs are commercial banks but they adopt some of the principles of cooperatives such as location in areas, work for rural population in a limited area etc. Thus they are hybrid institutes. RRBs operate under the control of two institutions, the National Agricultural Bank and Rural Development (NABARD) and Reserve Bank of India (RBI). The primary objective of this study is to analyse
the performance in terms of loans provided to the priority and non-priority sectors of the country and especially various types of loans such as crop loans, term loans, loans to rural artisans, retail trade, small scale industries and self-help groups etc. The paper is divided into six sections.

**Regional Rural Banks (RRBs) in India-An Overview**

Rural people in India such as small and marginal farmers, landless agricultural labourers, artisans and socially and economically backward castes and classes, have been exploited in the name of credit facility by informal sectors. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural masses in India. The informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and non-economic conditions in the rural population of India.

The supply of total formal credit is inadequate and rural credit markets are imperfect and fragmented.

Moreover, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in the country side.

The history of Regional Rural Banks in India dates back to the year 1975. It’s the Narasimham committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural banks’ that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. The first five RRBs were set up in
five States in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks.

These banks covered 11 districts of these five states. The first five Regional Rural Banks are as follows;

- Prathama Bank and Gorakhpur kshetriya Gramin Bank in Uttar Pradesh,
- Haryana Krishi Gramin Bank in Haryana,
- Gour Gramin Bank in West Bengal,
- Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan.

Regional Rural Banks have been in existence for around three decades in the Indian financial scene. Inception of regional rural banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint shareholding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narsimham committee conceptualised the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act1 of 1976. Their equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. RRBs were supposed to evolve as specialised rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

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The mandate of promoting banking with a rural focus, however, would be an enduring phenomenon only when the financial health of the RRBs is sound. With built-in restrictions on their operations, it is common to expect that the financial health of the RRBs itself would be a matter of concern. As regards their financial status, during the year 2003-04, 163 RRBs earned profits amounting to Rs.953 crore while 33 RRBs incurred losses to the tune of Rs.184 crore. Ninety RRBs had accumulated losses as on March 31, 2004. Aggregate accumulated loss of RRBs amounted to Rs. 2,725 crore during the year 2003-04. Of the 90 RRBs having accumulated loss, 53 RRBs had eroded their entire owned funds as also a part of their deposits.

Furthermore, non-performing assets (NPAs) of the RRBs in absolute terms stood at Rs.3,299 crore as on March 31,2004. The percentage of gross NPAs was 12.6 during the year ending March 31, 2004. While 103 RRBs had gross NPAs less than the national average, 93 had NPAs more than it.

The presence of RRBs shows wide variation both across States and sponsor banks. Although RRBs are spread over twenty-six States, they have most of their presence in seven States, i.e., Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh. Uttar Pradesh has the highest number of RRBs, i.e., thirty six and Kerala has got only two amongst the major states of the country. The north-eastern States like Manipur, Meghalya, Mizoram and Nagaland have got only one RRB. Like-wise, seven sponsor banks amongst twenty-eight, viz., Bank of Baroda, Bank of India, Central Bank of India, Punjab National Bank, State Bank of India, United Bank of India and UCO bank account for more than three fifths of the RRBs. More than 160 RRBs earned profit in
March 2004 while 150 RRBs were found to be earning profits for three consecutive years beginning with the year 2000-01. More than half of these loss-making RRBs are found to be operating in four States, i.e., Bihar, Madhya Pradesh, Maharashtra, and Orissa. Seen at the level of sponsor banks, three banks, i.e., Bank of India, Central Bank of India, and State Bank of India accounted for more than half of the loss-making RRBs.

As a number of sponsor banks have promoted RRBs in more than one State, it becomes natural to ask whether the presence of RRBs sponsored by a few banks whose area of operation is confined to some specific States is camouflaging the performance of better-run RRBs. There can be three possibilities in such a situation. One, irrespective of the State, the RRBs sponsored by some banks are incurring losses; second, irrespective of sponsor banks, certain States are simply not conducive to better performance for RRBs; and third, there is nothing inherent either with a sponsor bank or a particular State in which the RRBs operate to contribute towards the performance of RRBs and it is a combination of some other factors.

3.3 Functions of Public Sector Banks:

Figure 3.1
The main functions of commercial banks are accepting deposits from the public and advancing them loans.

However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads:

1. Accepting deposits
2. Giving loans
3. Overdraft
4. Discounting of Bills of Exchange
5. Investment of Funds
6. Agency Functions
7. Miscellaneous Functions

3.3(i) Accepting Deposits:

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as follows:

i. (a) Current Deposits:

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand Deposits because these can be demanded or withdrawn by the depositors at any time they want.
Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

i(b) Fixed Deposits:

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits.

These deposits generally carry a higher rate of interest because banks can use these deposits for a definite time without having the fear of being withdrawn.

i(c) Saving Deposits:

In such deposits, money upto a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilise small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

3.3(ii) Granting Loans:

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income.

Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks.

Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.

At times, banks give loan on the basis of personal security also. Therefore, such loans are called as unsecured loan. Banks generally give following types of loans and advances:
ii(a) Cash Credit:

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

ii(b) Demand loans:

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

ii(c) Short-term loan:

These loans may be given as personal loans, loans to finance working capital or as priority sector sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower.

3.3(iii) Over-Draft:

Banks advance loans to its customer’s up to a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

3.3(iv) Discounting of Bills of Exchange:

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

3.3(v) Investment of Funds:

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc.

Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural banks etc.
3.3[vi] **Agency Functions:**

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

(i) Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.

(ii) Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.

(iii) Banks pay insurance premium of their customers. Besides this, they also deposit loan installments, income-tax, interest etc. as per directions.

(iv) Banks purchase and sell securities, shares and debentures on behalf of their customers.

(v) Banks arrange to send money from one place to another for the convenience of their customers.

3.3[vii] **Miscellaneous Functions:**

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

(i) Banks make arrangement of lockers for the safe custody of valuable assets of their customers such as gold, silver, legal documents etc.

(ii) Banks give reference for their customers.

(iii) Banks collect necessary and useful statistics relating to trade and industry.

(iv) For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.

(v) Banks advise their clients relating to investment decisions as specialist

(vi) Banks does the under-writing of shares and debentures also.

(vii) Banks issue letters of credit.

(viii) During natural calamities, banks are highly useful in mobilizing funds and donations.
Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc.

3.4 Advantages of Public Sector Banks:

The system of banking has completely revolutionized our lives. The prime depiction that rushes to our mind when we think of banks is the panorama of the glutinous goldsmiths who took up the responsibility of safekeeping the assets of the affluent ones in the social order during the medieval times. Gradually they also began the process of providing funds to the deprived classes. Indeed, this was the earliest glimpse of banking in our Indian history. It can also be termed an “Indigenous Beginning of Banking”.

According to chronological facts, the system of banking originated in India with the setting of “The General Bank of India”. Subsequently, there was an upsurge of banks all over the country. A few, like “The Bank of Bengal” (now The State Bank of India), have withstood the troubles and tribulations of time and functions very smoothly even today.

Banking has undergone many changes and developments in the due course of time. It has never failed to meet the budding demands of the nation. For them satisfaction and contentment of the customers is of great importance nowadays. In other words the renovation and reconstruction of the banking sector was carried out to tender to the ever-growing needs of people of the country.

The relation of banks with their customers has deeply amplified in the present days. For each and vary aspect of money, we now rely on banks. In the meanwhile, banks have also introduced customer friendly services and beneficial activities for the public. Banking in the earlier days was supposed to be a very hectic chore. Opening an account in the bank was a very lengthy procedure carefully monitored by the concerned officials. Earlier, sanctioning of loans meant recurrent visits to the bank for the customers. Now it has become much uncomplicated and less time consuming. Sitting in our homes, in front of our personal computer, we can execute any banking transaction with just a mouse click. Thanks to the new generation banking facility termed as E-Banking, which respects the concept of “Time Is Money”.

Furthermore, banks also offer a lot of other amenities to their clientele. Carrying with us, a huge sum of liquid cash while traveling was a very incommmodious affair. But with the prologue of credit cards, debit cards, traveler’s
cheque and global ATM services life has become simpler and easier for populace. Credit cards, often termed as plastic money can be utilized for almost all transactions in the place of money. We can use internationally approved credit cards and debit cards even in foreign territories. Traveler’s cheque, another utility product of the bank, though not popular among the common man, becomes handy while traveling abroad. These are special kinds of cheques used instead of foreign currency and are issued by the banks upon the request of the customer. Likewise, ATM centres are coming up in every nook and corner of the metropolis now. ATM or Automatic Trailer Machines are at times called “Any Time Money” because of the fact that money can be obtained from them without any intricacy, anytime, anywhere provided that you are an ATM card holder. The scheme of Global ATM cards is a relatively new idea that has gained great impetus soon after its instigation.

Though accepting deposits and advancing loans are the primary functions of a bank, they also carry out some other miscellaneous services for their customers. The customers can deposit outstation cheques, bills of exchange and bank drafts of his/her clients into the bank. As an agency service, bank takes up the responsibility to collect the money with respect to the date and condition specified in these vouchers and transfers the so-received amount into the bank account of the customer. From the customers point of view this saves a lot of his money and time. Dividends from shares and debentures, interest from certain investments will also be collected by the banks if asked to do so. In the same way, banks can also be entitled to make certain payments on behalf of the customer. Certain payments like salary - in the case of a businessman, insurance premium - in the case of an insured person etc. can be paid through one’s bank. This reduces a lot of errands and hassle for the customer. Prior to this system, the customers were supposed to remember the due dates for all their payments, which was a very niggling issue in a busy schedule.

Our banks also endow us with a lot of custodial services also. Customers can keep their valuable documents and other expensive material goods in the lockers provided by the banks. Lockers are high security vaults in the banks and as certain banks claim it is the safest place on earth!!! This service enables the customers to sleep in peace since they have entrusted banks to safeguard their belongings and the products of their toil and hard work.

Banking has become very sophisticated now. The prospect of E-Banking is becoming popular day by day. Even people who do not have an access to the Internet can perform banking transactions through the telephone. The latest trend in banking is M-banking or mobile banking, which is a venture now on the test run.
The year 2007-2008 is becoming a Banking Year. With the rates at the stock markets running high, customers believe that banks will remain as their “Sentinel of Wealth”. In other words the demands of the people are still on the increase and banks are now thinking of new schemes and policies to protect and promote the interests of their customers.

In almost all banks of today we can find a customer care executive who looks after the grievances of the customers. A person with the minimum knowledge to read and write becomes eligible to carry out banking transactions with the help of these officials. Pre-requisite knowledge about banking is not at all necessary. Hence anyone can approach a bank without any hesitancy because they are there to help us, the common man.

The Reserve Bank of India, the apex of all banks in India, holding hands with The Ministry of Finance strives to remove the lingering gap between the rich and the poor. All the policies adopted by our banks should be considered as foundation stones for achieving a great goal. Loans granted to poor once at a depreciated rate of interest is one such methodology. We can also be a part of this venture. For granting loans, banks need our deposits. We should do our little bit as a tribute towards all the services offered by banks to us.

Banks act upon the constitutional words of “for the people, by the people, of the people”. They serve the privileged classes, work for the Up-liftment of the underprivileged, bring about economic growth and prosperity in the country and secure the interests of the nation as a whole. They also bestow upon their customer financial advices during a crisis. In other words the role played by banks in our country is highly noteworthy. Consequently, they hold up the widely recognized principle of “Come, Lets Work Together For The Progress Of Our Country”.

3.5 Modern Trends In Public Sector Banks:

3.5(i) Liberalization of Banks

In the early 1990s, the then Narsimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank ),ICICI Bank and HDFC Bank . This move, along with the rapid growth in the economy of India,
revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks. The next stage for the Indian banking has been setup with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 49% with some restrictions. The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more. Currently, 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. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true. With the growth in the Indian economy expected to be strong for quite sometime-especially in its services sector the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&A’s, takeovers, and asset sales.

3.5(ii) Privatization of Banks:

In many ways, India provides an excellent testing ground for hypotheses about privatization and its impact, except that so far privatization has not been attempted on a scale that researchers would like to see. The country has a large, well-diversified public sector. Unlike many of the transition economies, it also has a long tradition of private enterprise, including big companies in the private sector, although there are certain sectors in which private sector participation is quite new, these sectors having been reserved until recently for the public sector. Privatization in India generally goes by the name of ‘disinvestment’ or ‘divestment’ of equity. This is because privatization has thus far not meant transfer of control or even of controlling interest from government to anybody else. The government has sold
stakes ranging from one per cent to 40% in 40PSUs, but in no company has its stake fallen below the magic figure of 51% which is seen as conferring controlling interest. The privatization program is itself relatively new to the country. It is part of an ambitious process of economic reforms covering industry, trade, the financial sector and agriculture and also involving a program of macroeconomic stabilization focused on the federal budget, which commenced in 1991. Privatization is seen necessary in order to enable firms in the public sector to compete and survive in the new environment.

Disinvestment opens the gate for eventual privatization and this route must be opposed. Instead, the alternative of issuing of bonds and preference shares should be encouraged. No individual or institution should be permitted to hold beyond 5 percent of the shares. Already foreign institutional investors are holding sizeable shares in public sector banks as also in the major new private sector Indian banks. In order to finance the private industrial and business activity, a network of development banking and financial institutions has been organized by the Government which are as follows:

- Industrial Finance Corporation of India (IFCI)
- Industrial Credit and Investment Corporation of India (ICICI)
- Industrial Development Bank of India (IDBI)
- State Finance Corporation
- NABARD,
- EXIM (Export Import) Bank
- Small Industries Development Bank of India (SIDBI)
- Unit trust of India (UTI)
- Nationalized Banks
- LIC
- Co-operative banking institutions
3.5(iii) **Globalization of Banks:**

Publicly owned banks handle more than 80% of the banking business in India and the rest is in the hands of private sector banks. However, banking in both the government and private sector is being revolutionized by this latest phenomenon called globalization. Globalization has offered a number of advantages to the banking sector in India. Remarkable advancements in communication and information technology have facilitated the globalization of these domestic banks. Apart from the benefits, several Risks are also associated with the opportunities made available by globalization. In order to fortify the Indian banking sector against the risks involved inglobalization, appropriate regulatory, prudential and supervisory framework needed to be adopted. This will help in strengthening the domestic banking system in a global-environment.

3.6 **Marketing practices in Public sector banks:**

In the fierce competitive market, needs of customer keep changing. Hence, our marketing strategy must be dynamic and flexible to meet the changing scenario. Here are steps that form successful and effective marketing strategy for bank products.

**3.6(i) Emphasis on Deposits**

Emphasis, though in a discrete manner, should be given to mobilize more of term deposits as they are more profitable for the bank in comparison to demand. Introduction of products comparable to “Kisan Vikas Patra” of post office and product with the facility of tax rebate under section 88 of Income Tax Act will of much help in this regard.

**3.6(ii) Form a Saleable Product Scheme**

Bank should form a scheme that meets the needs of customers. A bunch of such schemes can also form a product. A bank product may include deposit scheme, an account offering more flexibilities, technically sound banking, tele/mobile/net banking, an innovative scheme targeted to special group of customers like children, females, old aged persons, businessman etc. In short, a bank product may consist of anything that you offer to customers.
3.6(iii) **Effective Branding**

Man is a bundle of sentiments and emotions. This can effectively be helpful in branding our products. Considering the features of products and target group of customers, the product can be effectively branded so as to sound it catchy and appealing. Some proven examples are Apna Ghar, Dhan Laxmi, Kuber, Flexi Deposit, Smart Kid, Sapney, Vidya etc. The branding should be done in such a way that the brand name must attract the attention of customers. It should be easy to remember. The target group and the silent feature of the product should resemble brand name. This will help a lot in making the brand successful. All employees and all our campaigns should refer the product by its brand name only so that to strike the same in the customer’s mind.

3.6(iv) **Products for Women**

The national perspective plan for women states that 94 pc of women workers are engaged in the unorganized sector and 83 pc of these in agriculture and allied activities like dairy, animal husbandry, sericulture, handloom, handicrafts and forestry. Banks should do something to improve their access to credit which they require.

3.6(v) **Customer Awareness**

There is a need to educate the customers on bank products. Efforts should be made to widen and deepen the process of information flow for the benefit and education of Indian customers. Today, the customers do not have any idea as to how much time is required for any type of banking service. The rural customers are not aware for what purpose the loans are available and how they can be availed. Customers do not know the complete rules, regulations and procedures of the bank and bankers preserve them for themselves and do not take interest in educating the customers. It is a need to educate the customers from the grassroots of banking. It is time that each bank branch takes steps to educate the customers on all banking function, which will facilitate growth of banking on healthy lines both qualitatively and quantitatively.
3.6(vi) Advertisement

Advertisement is an eminent part of marketing of bank products. Advertisement should be such that appeals to people. It should not follow the orthodox pattern of narrating a product. For effective advertisement, bank should understand people’s tastes and choices.

3.6(vii) Selling Products in Rural Areas

For enhancing the marketing of their product, bank should sell their products in rural areas. For it, there is a need to open branches in the rural areas.

3.6(viii) Informing Customers About Products

The bank should embark upon aggressive marketing of its products, particularly at the time of launching a new product, which will inform the perspective customers regarding product and at the same time relieve staff at branch level from explaining the product to all customers.

3.6(ix) Customer Convenience

In a service industry like banking where product differential is hard to maintain and quality of service depends upon the service provider, from whom it cannot be separated. So the bank employees have to render services to the satisfaction of the customer, not as per their own conveniences or whims.

3.6(x) Re-orient Staff

Sincerity of efforts in implementation of the measures is lacking among the bank staff. It is a fact that its employees are not able to rise up to the expectations of its customers. They lack in their behaviour, attitude and efficiency. The phenomenon is glaring at urban centres. Therefore, it calls for an immediate attention which is
missing link in the entire process of marketing, and the bank should undertake all such steps to motivate and reorient its staff.

3.6(xi) E-delivery Channels

After the Information Technology Act, many new e-delivery products have been introduced. These E-delivery channels are very helpful in enhancing the marketing of various products and services. Thus Indian banks should sale the products and services through e-delivery channels.

Internet is a network of network which connects the world. Thus, banks should sale their products through web-site. This will enhance the marketing of the products not only at the national but also at the international level.