Chapter 5

Comparison of marketing practices between public sector banks & private sector banks.

1) Marketing practices related to Consumers

2) Marketing practices related to Business sector

3) Marketing practices related to Government sector

4) Marketing practices related to Agricultural sector

5) Marketing practices related to Small Medium Enterprises
Chapter 5

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Marketing practices in Banking Sector

It is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. A marketing strategy should be centered around the key concept that customer satisfaction is the main goal.

Marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche. A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe. Marketing strategy determines the choice of target market segments, positioning, marketing mix, and allocation of resources. It is most effective when it is an integral component of overall firm strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena. Corporate strategies, corporate missions, and corporate goals. As the customer constitutes the source of a company's revenue, marketing strategy is closely linked with sales. A key component of marketing strategy is often to keep marketing in line with a company's overarching mission statement.
Performance of new private sector banks vis-à-vis the public sector banks of India during the period 2009-11 on many key aspects such as the banks network, banks growth, productivity, capital adequacy, asset quality, management quality, earnings quality and liquidity. The above period is chosen since it is very important to know how different banks fared after sub-prime mortgage crisis of 2008. Further it also helps us to understand if another recession hits the corner who will be in a better position to survive it. For this Data Envelopment Analysis (DEA) has been done for a pool of 12 banks which comprises of 5 new private sector banks and 7 public sector banks of India to better understand the above argument.
Introduction:
The private sector banks of India have made significant progress in the last few years. It was in mid 90's when some new private sector banks entered into the foray and in the period between 2002 -2007 these banks have grown by leaps and bounds. They have increased their incomes, margins, asset sizes and outperformed their public sector counterparts in many areas. The new private sector banks include Axis, Development Credit, HDFC, ICICI, IndusInd, Kotak Mahindra and Yes Bank whereas the public sector banks consists of 19 nationalized banks, IDBI bank and State Bank group. The performance of the two sectors is being judged on eight key parameters that enable banks to achieve better bottom line and remain competitive in a highly volatile and regulatory environment.

Parameter1: Banks Network
Today banks follow a willfull strategy of building a network of branches and ATMs with effective penetration so that they can continue to enlarge their geographical coverage of centres with potential for growth. The banks try to deeply entrench across the country with significant density in areas conducive to the growth of their businesses.
The private sector banks are spreading its wings at a much faster rate than public sector banks. The customer base of these banks has grown manifold since they are able to provide innovative services to the customers at a much faster pace. This is leading them to capture more market share and eating up some of the share of their public sector counterparts.

Parameter 2: Banks Growth

Every bank aspires to grow and its growth can be judged by various parameters like growth in balance sheet size i.e. asset base, improvement in the bottom line and many others.

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<th>% Growth in Balance Sheet Size</th>
<th>% Growth in Total Income</th>
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<td>2010</td>
<td>2011</td>
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<td>Public Sector Banks</td>
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<td>17.93%</td>
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Table 5.1

Growth in banks’ Balance Sheet & Income (Source: RBI)
The public sector banks’ asset base and income grew at a decent rate in the last 2 years whereas there was a great fluctuation in case of new private sector banks mainly due to recession. But the growth of these banks was phenomenal during 2010-11 that shows their ability to recover fast after such a catastrophe.

Parameter 3: Productivity

Productivity can be considered as one measure of efficiency of banks. Productivity growth is important to the banks because it means that the firm can meet its obligations to employees, shareholders, and governments (taxes and regulation), and still remain competitive in the market place. It is a ratio of what is produced to what is required to produce. In the banking scenario productivity can be measured by profit per employee, business per employee.

These ratios can be misleading since banks can improve these ratios by trimming their employees during recessionary environment. This is evident since asset base and profit levels declined during 2009-10 for new private sector banks but still the above ratios showing a continuous increasing trend. This was only possible when there is large lay-off of employees which is actually what had happened with these banks during the period 2008-10. It was only in 2010 when the business started to pick up back again they started to hire. Overall public sector banks scores higher when it comes to employee retention which is also evident from the graph.

Parameter 4: Capital Adequacy

Capital Adequacy signals the banks’ ability to maintain capital commensurate with the nature and extent of all types of risk and the ability of management to identify, measure, monitor and control these risks. It also tells about the ability of bank to
absorb a reasonable amount of loss and still complies with statutory Capital requirements. Currently Reserve Bank of India (RBI) prescribes banks to maintain Capital Adequacy Ratio (CAR) of 9% with regard to credit risk, market risk and operational risk on an ongoing basis, as against 8% prescribed in BASEL framework.

The Capital Adequacy ratio (BASEL-II) of new private sector banks is way above RBI’s minimum requirement of 9%. This shows that these banks are in comfortable position to absorb losses since they have more capital to cover for their risk weighted assets. Or on the other hand they have less risky assets in their portfolio for a fixed capital base.

Parameter 5: Asset Quality

Asset Quality reflects the amount of existing credit risk associated with the loan and investment portfolio as well as off-balance sheet activities.

Loan & Investment Portfolio: The asset quality of banks can be judged by the non-performing assets (NPA) ratio. Non-performing assets (NPA) are assets which fail to make either interest or principal payments for more than 90 days. RBI has set guidelines to classify NPA into different categories like sub-standard, doubtful or loss assets.

There are two effects of NPA on bank financial statements:
1) Loss incurred due to non-payment of principal and interest by borrowers
2) Reduction of capital base due to its allocation to provision for doubtful assets
It is mandatory for all banks to have their asset base well diversified so that risk can be mitigated. It has been seen that this practice has been followed by both private and public sector banks meticulously.

![Figure 5.6](image1)

**Figure 5.6**

Asset Quality (Source: RBI)

However there is huge difference in asset qualities of public & new private sector banks. The main reason being that public sector banks have higher NPAs in services sector. The NPAs in other sectors like Agriculture, Industry and Personal Loans are almost similar for these banks. The asset quality of a bank directly affects its credit rating for example recently Moody downgraded State Bank of India (SBI) credit rating due to its low asset quality.

Off-Balance Sheet (BS) activities: These are activities of banks which are not recorded on its balance sheet. It is very important to consider the effect of these items since it can have disastrous effect on banks business.

![Figure 5.7](image2)

**Figure 5.7**

Off- Balance Sheet Exposure (Source: RBI)
The Off-Balance Sheet (BS) activities under the purview of Private Sector banks are astoundingly large as compared to public sector banks. The main reason being the liability of these banks on outstanding derivative contracts like Interest rate swaps, currency options and interest rate futures. This makes their business highly susceptible to market risk but these banks generally get involved in these activities because it gives them huge opportunity to earn commission, exchange, brokerage fees and also to make profit on exchange transactions.

Parameter 6: Management Efficiency

Sound management is a key element to bank performance but is very difficult to measure since it is primarily a qualitative factor. However several indicators can be used to measure the efficiency for example ratio of non-interest exp. to total assets which explains the management controls on operating expenses. Similarly efficiency ratios like Asset Turnover ratio can be used to assess how efficiently company is using its assets to earn the revenue.

![Management Efficiency](Source: RBI)
Figure 5.8
Management Efficiency (Source: RBI)

The efficiency ratios of new private sector banks are better than public sector banks which eventually lead to enhanced bottom line. The asset turnover of both sectors banks is decreasing over the last 3 years which is mainly due to a combination of decrease in non-interest income and increase in asset base.

Parameter 7: Earnings Quality

This parameter reflects not only the quantity and trend in earnings but also the factors that may affect the sustainability or quality or earnings.
5.1 **Marketing practices related to Consumers:**

The Indian banking sector has seen unprecedented growth along with remarkable improvement in its quality of assets and efficiency since economic liberalisation began in the early 1990s.

From providing plain vanilla banking services, banks have gradually transformed themselves into universal banks. ATMs, Internet banking, mobile banking and social banking have made "anytime anywhere banking" the norm now.

5.1(i) **Deposits scheme:**

1. Savings Bank Accounts: These accounts are opened for savings, liquidity and safety of funds and convenience in making day to day expenses and also earning some interest income. These accounts inculcate the habit of thrift in account holders. View salient features of Savings Bank accounts.
2. **Current Accounts:** These accounts are opened for liquidity and safety of funds and for meeting day to day expenses. Current accounts are opened and maintained primarily by business and commercial organizations. No income is earned on these deposits. Individuals usually open these accounts for availing overdraft facility as overdraft facility is not available in Savings Bank accounts. View salient features of Current Accounts.

3. **Recurring Deposit Accounts:** These accounts are opened for saving purpose only. Some fixed amount is deposited at monthly intervals for a pre-fixed term. These accounts generally earn higher interest than Savings Bank Accounts. View salient features of Recurring Deposit accounts in banks.

4. **Fixed Deposit or Term Deposit Accounts:** These accounts are opened for investing funds for fixed terms to earn higher interests. Usually deposit for a longer period of time earns higher Interest Rate. The account holders have option of getting periodic payment of interest at monthly/quarterly intervals or re-investing the interest to be paid on maturity with the principal. View salient features of Term / Fixed Deposit Accounts in banks.

5. **Special Bank Term Deposit Scheme - Bank Deposit Scheme under section 80C:** This is the only Tax Saving Scheme available with banks. The accounts opened under this scheme are eligible for relief under Section 80C of the Income Tax, Act. View salient features of Bank Deposit Scheme for tax saving.

**5.1(ii) Personal Finance:**

Personal finance refers to the financial management of which an individual or a family unit is required to make to obtain, budget, save, and spend monetary resources over time, taking into account various financial risks and future life events.[1] When planning personal finances the individual would consider the suitability to his or her needs of a range of banking products (checking, savings accounts, credit cards and consumer loans) or investment (stock market, bonds, mutual funds) and insurance (life insurance, health
insurance, disability insurance) products or participation and monitoring of individual- or employer-sponsored retirement plans, social security benefits, and income tax management.

5.1(iii) Services:

Consumers use banks to keep financial resources safe and readily available for use. Deposits made by customers of the bank are insured by the Federal Deposit Insurance Corporation (FDIC). Customers of the bank rely upon its ability to liquidate financial resources held on account when they request the bank to do so. Banks provide customers with specially printed cheque books. Customers pay creditors and other financial obligations by writing a check on the bank account. The bank pays the check written by its customer. Overdrafts and other fees are charged in accordance with the bank’s customer policy. If a customer withdraws more money than he has in account with the bank, the bank charges the customer a fee. Customers may arrange for overdraft protection with the bank. Overdraft protection is a loan that is accessed when the customer’s available fund balance is negative. Banks lend money to private and business customers. These loans take the form of personal loans, commercial/business loans, and home/property loans (mortgages). Banks also issue credit cards to customers. A credit card is a form of demand loan available to the customer. The bank also supports its credit card business by processing payments to settle customer credit card bills. To support merchants accepting customers’ credit cards, banks may offer a merchant network service. Merchant network services include card terminals or credit card machines. Banks provide debit cards to their customers. Sometimes called check cards, debit cards provide ready access for customer use without the need to make a physical check or cash withdrawal. Customers may use debit or credit cards in the bank’s automatic teller machine (ATM).

Banks facilitate fund transfers for customers via wire transfer and electronic transfer of funds. Banks utilize an interbank network to transfer funds for clients. Banks also provide certified or cashiers’ checks for customers. The bank guarantees the check so that the customer may offer it as certified available funds to a payee. In order to create a certified check, the bank usually withdraws client funds.
Private banks: The financial needs of high net worth individuals, families, and their businesses differ from those of most consumers. Private bank clients must usually present a certain minimum net worth to obtain private banking services. Private bank services include tax and estate planning, tax planning, and philanthropic gift planning.

5.1(iv) **Rtgs/Neft:**

Real time gross settlement systems (RTGS) are funds transfer systems where transfer of money or securities takes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable.

An efficient national payment system reduces the cost of exchanging goods and services, and is indispensable to the functioning of the interbank, money, and capital markets. A weak payment system may severely drag on the stability and developmental capacity of a national economy; its failures can result in inefficient use of financial resources, inequitable risk-sharing among agents, actual losses for participants, and loss of confidence in the financial system and in the very use of money. Technical efficiency of the payment system is important for development of an economy.

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.

Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account.
The difference between RTGS and NEFT is that RTGS is done for more than 2 lakhs while NEFT is done below 2 lakhs.

5.1(v) **Foreign Travel Card:**

A travel card is a ticket usable on more than one journey, route or mode of public transport within a specific area using bulk or discounted payment; some systems only cover travel by disabled or elderly people. Their validity is generally for a fixed period from the time of issue, such as to the end of the day or for longer periods up to one year.

State Bank Foreign Travel Card' is a prepaid Foreign Currency Card which travellers going abroad are guaranteed to find useful. It is a Chip based Card which stores encrypted and confidential information. It offers you a convenient and secure way to carry cash anywhere in the world (valid worldwide except in India, Nepal and Bhutan). You can now shop, dine or visit places abroad without any worries of carrying or losing cash. It takes away the hassles of going around Money changers for en-cashing your traveller’s cheques and losing valuable foreign currency by way of high exchange margins. It also relieves the customer of the Annual fees, joining fees, credit limits, etc. usually associated with International Debit / Credit Cards. All you have to do is produce your 'State Bank Foreign Travel Card' and you will find making payments overseas extremely easy.

State Bank Foreign Travel Card is available in Eight Foreign Currencies viz. US Dollars (USD), Pound Sterling (GBP), Euro (EUR), Japanese Yen (YEN), Canadian Dollar (CAD), Australian Dollar (AUD), Saudi Riyal (SAR) and Singapore Dollar (SGD).

ICICI Bank Travel Card on VISA network provides you the option of 9 currencies to choose from, namely US Dollars, Australian Dollars, Canadian Dollars, Swiss Francs, Euros, Pound Sterling, Singapore Dollars, Arab Emirates Dirham and Japanese Yen. You can enjoy the convenience of the wide network of more than 1 million VISA ATM’s and 27 million merchant establishments. ICICI Bank Travel Card on VISA network also makes available to the customers a more secure and safe card with the **ICICI Bank Chip Travel Card** on VISA Platform. This also called EMV (Europay Master Visa) card. The chip inside the Travel Card will change the way customers make payments while overseas. The chip inside the Travel Card makes payment at merchant even more secure. This
makes the chip card more secure against card fraud than cards that rely only on data encoded in a magnetic stripe on the back of the card.

5.1(vi) **Internet Banking:**

Internet banking (Online banking or E-banking) allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution, which can be a retail bank, virtual bank, credit union or building society.

To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for [telephone banking]. Financial institutions now routinely allocate customers numbers (also under various names), whether or not customers intend to access their online banking facility. Customer numbers are normally not the same as account numbers, because number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

To access online banking, the customer would go to the financial institution's website, and enter the online banking facility using the customer number and password. Some financial institutions have set up additional security steps for access, but there is no consistency to the approach adopted.

Internet banking facilities offered by various financial institutions have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories

- A bank customer can perform non-transactional tasks through online banking, including -
  - viewing account balances
  - viewing recent transactions
  - downloading bank statements, for example in PDF format
  - viewing images of paid cheques
- ordering cheque books
- download periodic account statements
- Downloading applications for M-banking, E-banking etc.
- Bank customers can transact banking tasks through online banking, including:
  - Funds transfers between the customer's linked accounts
  - Paying third parties, including bill payments (see, e.g., BPAY) and telegraphic/wire transfers
  - Investment purchase or sale
  - Loan applications and transactions, such as repayments of enrolments
  - Register utility billers and make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process
- the process of banking has become much faster

Some financial institutions offer unique Internet banking services,
For example: Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

5.1(vii) ATM services:

An automated teller machine (ATM) also known as an automated banking machine(ABM), cash machine, cashpoint, cash line or whole in the wall is an electronic telecommunications device that enables the clients of a financial institution to perform financial transactions without the need for a cashier, human clerk or bank teller. ATMs are known by various other names including ATM machine, automated banking machine and various regional variants derived from trademarks on ATM systems held by particular banks.

On most modern ATMs, the customer is identified by inserting a plastic ATM card with a magnetic stripe or a plastic smart card with a chip that contains a unique card number and some security information such as an expiration date
or CVVC (CVV). Authentication is provided by the customer entering a personal identification number (PIN).

Using an ATM, customers can access their bank accounts in order to make cash withdrawals, debit card cash advances, and check their account balances as well as purchase pre-paid mobile phone credit. If the currency being withdrawn from the ATM is different from that which the bank account is denominated in (e.g.: Withdrawing Japanese Yen from a bank account containing US Dollars), the money will be converted at an official whole sale exchange rate. Thus, ATMs often provide one of the best possible official exchange rates for foreign travellers, and are also widely used for this purpose.

5.1(viii) Safe Deposit Locker:

A safe deposit locker, sometimes called a safety deposit box, is an individually secured container, usually held within a larger safe or bank vault. Safe deposit lockers are generally located in every branch of every bank. Safe deposit lockers are used to store valuable possessions, such as gem stones, precious metals, currency, marketable securities, important documents such as wills, property deeds, and birth certificates, or computer data storage that need protection from theft, fire, flood, tampering or other reasons. In the typical arrangement, a renter pays the bank a fee for the use of the locker, which can be opened only with production of an assigned key, the bank's own guard key, the proper signature, and perhaps a code of some sort. Some banks additionally use biometric dual-control security to complement the conventional security procedures.

5.1(ix) Mobile Banking:

Mobile banking is a way for the customer to perform banking actions on his or her cell phone or other mobile device. It is a quite popular method of banking that fits in well with a busy, technologically oriented lifestyle. It might also be referred to as M-banking or SMS banking.

The amount of banking you are able to do on your cell phone varies depending on the banking institution you use. Some banks offer only the option of text alerts, which are messages sent to your cell phone that alert you to activity on your account such as deposits, withdrawals, and ATM or credit card use. This is the most basic type of mobile banking.
A more involved type of mobile banking allows the user to log into his or her account from a cell phone, and then use the phone to make payments, check balances, transfer money between accounts, notify the bank of a lost or stolen credit card, stop payment on a check, receive a new PIN, or view a monthly statement, among other transactions. This type of banking is meant to be more convenient for the consumer than having to physically go into a bank, log on from their home computer, or make a phone call. While all of this is true, some are concerned about the security of mobile banking.

Most experts advise against performing any large transactions over mobile banking, which is good advice. However, it is equally important to use an alphanumeric password and to keep your PIN safe. Change your password often, and do not use your pets' names, your child's name, or any birthdays. This advice applies to all passwords, not just those used for mobile banking. Though you are logging on to a secure server at the bank through your cell phone, you need to do your part to protect your information. For this reason, many banks are now sending one-time use passwords for an extra step in security.

A one-time use password might be sent to a cell phone or other device when you wish to log into your account. You will then usually need to enter both the password you have already set, along with the one-time use password, within a certain period of time. The one-time use password expires, naturally, after it is used once or after a time limit has passed. Using two passwords increases the security of the account, an important concern with mobile banking.

5.1 (x) E-Rail:

E-Ticket means the train ticket that booked online from house, information kiosks etc. without going at Railway counter. It has same validity as ticket issued from Railway Booking Counter. But an e-Rail ticket holder required Identity Card during their travel.

5.1(xi) Investments:

- Investment involves purchasing a financial product or other item of value with the expectation that the value of the item will increase over time. Simply put, investment means spending money in the hope of making more money.
• Investments can offer you a better return on your money in the longer-term compared to savings accounts. However, certain investments may carry a higher level of risk.

5.1(xii) **Insurance:**

Insurance is a form of risk management of set amount called a premium to an insurer and the insurer agrees to cover the costs associated with certain risks that could be financially devastating if they were to happen. There are a number of different types of insurance including:

**Car Insurance**

By law if you have a car you must, at the very least, have third party insurance. Third party insurance covers any injury or loss suffered by other people as a result of your driving. Comprehensive insurance is an “all inclusive” type of insurance that covers the cost of repair or replacement if your car is stolen, damaged or destroyed and includes any loss suffered by Third parties.

**Home Insurance**

Some of the risks your home may be subject to include damage by fire or flooding, burglary or someone injuring themselves on your property. Taking out insurance can cover you for some of these risks.

**Travel Insurance**

There are many risks associated with travel including damage or delay of luggage, cancelled flights, delayed or missed departure, loss or theft of money or passport and illness or injury. Travel insurance can help compensate you in the eventuality of these things happening.

**Health Insurance**

Private health insurance helps cover medical or hospital expenses if you get sick, have an accident or need an operation.

**Payment Protection insurance**

Payment Protection insurance is designed to cover your repayments on a loan if you suffer from an accident, illness, death or redundancy.
5.2 Marketing practices related to Business sector:

5.2(i) CORPORATE BANKING:

Corporate banking typically refers to financial services offered to large clients ('wholesale clients'). Although many wholesale clients are large corporations, they may also include other institutions like pension funds, governments and other (semi-) public entities. Corporate banking is a very profitable division for banks, far more profitable than retail banking, which is aimed towards households and small and medium enterprises (SME's).

The services offered

The services offered by corporate divisions of banks include:
(a) General commercial banking activities, and
(b) Services particularly tailored to large clients such as multinational companies.

(a): Commercial banking activities include traditional banking services like deposit taking, lending, lines of credit, and facilitation of various kinds of financial transactions (e-banking, credit cards, etc.). Households and small and medium enterprises (SME's) also rely on this range of services for their financial needs.

(b): For wholesale clients, however, many additional financial services are available, such as:

International transactions: International banking services include trade financing and foreign exchange transactions. Banks also offer services to protect firms against currency and price fluctuations.

Investment banking: Large corporations and public institutions are financed not only through loans, but through the sale of securities (stocks and bonds) to the public. The services related to the issuing of securities are called 'investment banking' a business that used to be completely separated from traditional commercial banking. In recent decades, the distinction between traditional commercial and investment banks has become blurred, and nowadays many banks offer both types of services. Investment banks perform underwriting, that is they
assist companies in issuing bonds or shares, and buy the initial offers at a fixed price. Investment banking also includes providing advice and financing for mergers and acquisitions (M&A's).

5.2(ii) Project finance:

For large infrastructure and other projects, banks offer specific loans which are repaid based on the revenue generated by that project. For some large and potentially risky projects, the bank can arrange a banking syndicate, wherein a group of banks each lend a client a portion of a large loan. Project finance can also include the sale of project-specific bonds.

Business Insurance: Banks may also sell insurance products, although insurance is traditionally not a banking activity. Again, consolidation in the financial services industry has brought together many different financial services. These services allow corporate clients to access many different services within a single financial institution. While banks may also offer retail insurance products to individuals, corporate insurance may cover company activities, staff and management.

Advisory services: Wholesale banking activities also include financial advising for all kinds of corporate and financial activities, such as mergers and acquisitions, asset management, and taxation (e.g. the use of tax havens)

Shareholding: Banks can participate in the management of, and own shares in companies. A bank can, for example, buy a company's shares to help to provide the company with some extra liquidity, if the company is in financial distress.

Speculative finance / “Ponzi finance”: Recently, there has been a trend towards more speculative methods of financing. Previously, clients used to pay back both the principal and the interest on loans through their cash flows; nowadays many companies' cash flows are only sufficient to service their debt -- that is, cover their interest payments. Adverse circumstances, like small rises in interest rates or declining company incomes, can result in the company not being able to service their debt at all. This situation can lead to “Ponzi finance,” where an company constantly raises new funds, often through hidden or innovative systems, in order to pay other creditors. This practice is often facilitated by banks and other financial firms that seek to make profits from increasingly complex finance mechanisms. Obviously, an economy dominated by such speculative 'Ponzi finance' may be fragile and susceptible to crisis, as it becomes dependent on continuing asset price inflation and larger amounts of debt. Increasingly, there are cases of companies that get into trouble as a result of using Ponzi finance, and may go bankrupt.
Authorities can intervene, but such intervention may only encourage more 'Ponzi finance' to a point where the excessive amount of debt is beyond salvation.

**Conflict of interests:** As mentioned above, banks offer an increasingly broad scope of financial services to their corporate clients. One could argue this leads to a more comprehensive provision of financial services. On the other hand, however, the danger for conflicts of interest to occur also increases, as banks and companies become more and more intertwined. For instance, if banks underwrite bonds for a certain company at a specific price, they may be tempted to sell these bonds to investors who seek the bank's advice in their asset management decisions. Another risk that became apparent in recent years stems from the use of the above-mentioned Ponzi schemes. When a company is accumulating debt, and is not able to meet its interest obligations, financial firms may help develop all kinds of 'creative' mechanisms to channel funds to the company, and hide the company's debt. Banks may become increasingly involved in fraudulent practices, especially if bank representatives also have a seat in the company's board or own its shares. This occurred in the collapse of Parmalat, the Italian dairy producer.

**Products and Services:**

The corporate banking segment of banks typically serves a diverse range of clients, ranging from small to mid-sized local businesses with a few millions in revenues to large conglomerates with billions in sales and offices across the country. Commercial banks offer the following products and services to corporations and other financial institutions:

- Loans and other credit products – this is typically the biggest area of business within corporate banking, and as noted earlier, one of the biggest sources of profit and risk for a bank.
- Treasury and cash management services – used by companies for managing their working capital and currency conversion requirements.
- Equipment lending – commercial banks structure customized loans and leases for a range of equipment used by companies in diverse sectors such as manufacturing, transportation and information technology.
- Commercial real estate – services offered by banks in this area include real asset analysis, portfolio evaluation, debt and equity structuring.
➢ Trade finance – involves letters of credit, bill collection, and factoring.

➢ Employer services – services such as payroll and group retirement plans are typically offered by specialized affiliates of a bank.

From cash management to corporate finance, from forex to acquisition financing, we provide you with end-to-end services for all your banking needs. The result is an overall financial solution for your company that helps you accomplish your objectives.

➢ ICICI Bank can guide you through the universe of strategic alternatives - from identifying potential merger or acquisition targets to realigning your business' capital structure.

➢ ICICI Bank has been the foremost arrangers of acquisition finance for cross border transactions and is the preferred financer for acquisitions by Indian companies in overseas markets.

➢ The Bank has also developed Forex risk hedging products for clients after comprehensive research of the risks a corporate body is exposed to, e.g., Interest Rate, Forex, Commodity, Credit Risk, etc.

➢ We offer you global services through our correspondent banking relationship with 950 foreign banks and maintain a NOSTRO account in 19 currencies to service you better and have strong ties with our neighbouring countries.

➢ ICICI Bank is the leading collecting bankers to Public & Private Placement/ Mutual Funds/ Capital Gains Bonds issues. Besides, we have products specially designed for the financial intermediaries to meet their unique requirements.

➢ We support your international business by meeting working capital requirements of export and import financing. We also have a host of non-funded services for our clients.

➢ Whatever your industry, size or financial requirements, ICICI Bank has the expertise and the solutions to partner you all the way.

**Project Finance:**

Project Finance can be characterised in a variety of ways and there is no universally adopted definition but as a financing technique, the author’s definition is:

“The raising of finance on a Limited Recourse basis, for the purposes of developing a large capital-intensive infrastructure project, where the borrower is a
special purpose vehicle and repayment of the financing by the borrower will be dependent on the internally generated cash flows of the project.”

This definition in itself raises a number of interesting questions, including:

- What do we mean by ‘Limited Recourse’ financing – recourse to whom or what?
- Why is Project Finance typically used to finance large capital intensive infrastructure projects?
- Why is the borrower a special purpose vehicle (SPV) under a project financing?
- What happens if the internally generated cash flows of the project are not sufficient to repay the financiers of the project?

The terms ‘Project Finance’ and ‘Limited Recourse Finance’ are typically used interchangeably and should be viewed as one in the same. Indeed, it is debatable the extent to which a financing where the Lenders have significant collateral with (or other form of contractual remedy against) the project shareholders of the borrower can be truly regarded as a project financing. The ‘limited’ recourse that financiers have to a project’s shareholders in a true project financing is a major motivation for corporate adopting this approach to infrastructure investment.

Project financing is largely an exercise in the equitable allocation of a project’s risks between the various stakeholders of the project. Indeed, the genesis of the financing technique can be traced back to this principle. Roman and Greek merchants used project financing techniques in order to share the risks inherent to maritime trading. A loan would be advanced to a shipping merchant on the agreement that such loan would be repaid only through the sale of cargo brought back by the voyage (i.e. the financing would be repaid by the ‘internally generated cash flows of the project’, to use modern project financing terminology).
Pre-requisites to Project Finance

There are clear advantages to using Project Finance as a tool for financing large infrastructure projects. Nevertheless, there are a number of practical pre-conditions to financing a project on a Limited Recourse basis:

1. Sustainable economics: Whilst comfort can be gained from (a) undertaking detailed financial due diligence and modelling to stress-test the projected cash flows of the asset and (b) contractually mitigating revenue risk, experienced investors and bankers will ultimately look for a clearly identifiable demand for the project’s goods or services in order to ‘rationalise the credit’.

2. Identifiable risks: An unidentified and unmitigated risk could potentially jeopardise the stability of a project.

3. Accessible financing: From both Sponsor and (if applicable) Procurer perspectives, high leverage and long-tenor financing is a de facto requirement to achieving attractive economics for large infrastructure financings.

4. Political stability: Even if political ‘force majeure’ risk is contractually born by the government (as is common practise in many PPP programs), the efficacy of that remedy to Lenders/investors would be negated by a strategic sovereign default – expropriation/nationalisation of assets being one potential example. Whilst such risks cannot be mitigated against in the insurance markets, varying degrees of political risk insurance can be obtained through the use of financing products available from multilateral and export credit agencies.

5.2(iii) Cash Management and Payment Developments in India: Bank Offerings and New Corporate Best Practices:

Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. It encompasses a company’s level of liquidity, its management of cash balance, and its short-term investment strategies. In some ways, managing cash flow is the most important job of business managers.

Having a traditional paper-based clearing system involving not only high processing cost but also security risk, cash management in India has certainly undergone a paradigm change. From a product-centric approach, the focus for
almost all banks today has shifted emphatically towards the customer. And, success is all about bringing the maximum possible delivery channels to the prospect’s doorstep.

In the rapidly transforming world of business, banking faces its biggest challenge yet - constant change. With every bank seeming to offer all services possible, efficiency, coupled with innovative value added solutions, have emerged as the key business differentiators that affect a bank’s bottom line. Confronted with shrinking deposits/margins, rising customer expectations, and intensifying competition, banks must at all times strive to be a step ahead of industry standards. At the same time, they cannot lose sight of credit risk, a natural by-product of the increasingly complex relationships in today’s dynamic markets.

For some time now, technology has been the key driving force behind every successful bank. In such an environment, the ability to recognize and capture market share depends entirely on the bank’s competence to evolve technically and offer the customer a seamless process flow. The objective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.

Today a corporate treasurer’s dilemma is multifaceted. With more movement towards the regional/central liquidity management in the complex structure of rules and regulations, further complication is caused by taxation issues.

What a corporate treasurer needs as ‘VOC’ - Visibility of funds, optimised returns on funds, and Control over receivables and payables. Treasury can face a number of issues related to the slow movement of funds, locked working capital, loss of float income, high cost of funds, time consuming reconciliation and manual processes. In India, the cash management business primarily involves collections and payments services.

**Products Offered by Banks Under Collections (Paper and Electronic):**

- Local cheque collections
- High value (0 Day clearing)
- Magnetic ink character recognition (MICR) (three day clearing of cheques)
- Outstation cheque collections
- Cheques drawn on branch locations
- Cheques drawn on correspondant bank locations
Cheques drawn on coordinator locations
House cheque collections
Outside network cheque collections
Cash collections
ECS-Debit
Post-dated cheque collections
Invoice collections
Capital market collections

**Products Offered by Banks Under Payments (Paper and Electronic):**

- Demand drafts/banker’s cheques
- Customer cheques
- Locally payable
- Payable at par
- RTGS/NEFT/ECS
- Cash disbursement
- Payments within bank
- Capital market payments

The Reserve Bank of India (RBI) has placed emphasis on upgrading technological infrastructure. Electronic banking cheque imaging, and real time gross settlement (RTGS) are just a few of the new initiatives. The evolution of payment systems such as RTGS, has posed some tough challenges for cash management providers. It is important that banks now look towards a shift to fees from float although all those cash management providers who have factored in float money in their product pricing might take a hit. Of course there are opportunities also attached like collection and disbursal of payments on-line across the banks.

**Cash Management Solutions Offered in India:**

Account reconciliation services: Balancing a cheque book for a very large business can be quite a difficult process. Banks have developed a system to overcome this issue. They allow companies to upload a list of all the cheques whereby at the end of the month, the bank statement will show not only the cleared cheques but also uncleared ones.
Positive pay: An effective anti-fraud measure for cheque disbursements. Using the cheque issuance data, updated regularly with cheque issuance and payment, the bank balances all cheques offered for payment. In the case of any discrepancies, the cheque is reported as an exception and is returned.

Balance reporting services: Balance reporting provides help in procuring a company’s current banking information from its accounts. With this service, the banks can offer almost all types of transaction-specific details.

**Best Cash Management Practices:**

Best cash management practices are the need of the hour with the corporate world focused on expanding its existing businesses and in many cases diversifying. Efficient cash management is a must to support an institution’s growth, and therefore, adopting the best cash management practices is necessary.

Some of the new corporate best practices include:

Bulk payments and vendors payments: Now corporates are insisting on a solution which can work.

Cheque writing: In order to execute the payments faster, banks are providing cheque writing facility to the corporate customers wherein customer can print the cheques locally at their own office with the facility of digital signatures and company logos.

Bin management of PDC: Corporates are outsourcing the activity of post-dated cheque (PDC) management to the banks for further reducing the cost of operations, administration, and data maintenance.

Liquidity management: In order to have efficient utilization of excess funds corporate today avail the facility of liquidity management. Liquidity management system prudently manages various assets and liabilities (on-and off-balance sheet) and ensures that cash inflows have an appropriate relationship to the approaching size of cash outflows. The system ensures that necessary funds are available to entertain all cash outflows as they fall due. Adequate cash management mechanisms ensure efficient collection systems, systematic disbursements, and ideal deployment of idle funds, tiding over immediate cash needs, and compensating the banks that support these activities of
the company. An advanced cash management system enhances the possibilities of earning high net interest income, creates efficient balance sheets, minimizes expenses on resources, and reduces the company’s exposures to potential risks related to seasonality of business and debt repayments.

5.2(iv) **International banking:**

International banking relates to financial intermediaries that bid for time deposits and make loans in the offshore market. It is an unregulated market involving greater risk it is a wholesale segment of lending and deposit activity.

International banking brings together borrowers and lenders from same country or different countries they are substitutes for the domestic banking system.

International banks can be characterised by the type of services they provide that distinguish them from domestic banks. Foremost, international banks facilitate the imports and exports of their clients by arranging trade financing. Additionally, they serve their clients by arranging for foreign exchange necessary to conduct cross-border transactions and make foreign investments and by assisting in hedging exchange rate risk in foreign currency receivables and payables through forward and options contracts. Since international banks have established trading facilities, they generally trade foreign exchange products for their own account.

**Major functions:**

- Facilitate imports and exports of their clients-trade financing.
- Arrange for foreign exchange- cross border transactions and foreign investments.
- Assist in hedging exchange rate risk.
- Trade foreign exchange products for their own accounts.
- Borrow and lend in the Eurocurrency market.
- Participate in international loan syndicate- lending to MNC’s-project financing and to sovereign governments-economic development.
- Participate in underwriting of Eurobonds and foreign bonds issues.
- Provide consultancy and advice on hedging strategies, interest rate and currency swap financing and international cash management services. Banks providing all the above are commonly known as universal banks or full service banks.
Types of International Banking Offices:

Correspondent Bank:

- Two banks maintain a correspondent bank account with one another
- Helps MNCs clients to conduct business worldwide through his local bank or its contacts

Representative Offices:

- A small service facility staffed by parent bank personnel to assist MNC clients
- They assist MNC clients with information about local business practices, economic information, credit evaluation of customers etc.

Foreign Branches:

- Operates like a local bank but legally is a part of the parent bank
- Subject to both the banking regulations of its home country and the country in which it operates

Subsidiary and Affiliated Banks:

- A subsidiary is a locally incorporated bank that is either wholly owned or owned in major part by a foreign parent
- An affiliate bank is one that is only partially owned but not controlled by its parent
- Both operate under the banking laws of the country in which they are incorporated

Country Risk is the primary factor that differentiates international lending from domestic lending. In broad terms, country risk encompasses an entire spectrum of risks arising from economic, social, legal, and political conditions of a foreign country that may result in favourable or unfavourable consequences for borrowers in that country. Specifically, country risk analysis includes assessment of the likelihood of political or social upheaval, nationalization or expropriation, and government repudiation of external debts. A discussion of country risk and country
risk management is provided elsewhere in this section.

**Forms of International Lending**

The most important single function of international banking departments is the financing of international trade. Several kinds of trade credit facilities are used, depending on circumstances, but the most prevalent are letters of credit and bankers’ acceptance financing. In view of its widespread use, this credit procedure is discussed in some detail. Letters of credit are issued in many forms for many different circumstances and types of transactions, but the two most common types are the commercial documentary letter of credit and the unsecured standby letter of credit.

Commercial documentary letters of credit are instruments in which a bank (issuing bank) undertakes to pay a party (the beneficiary/seller/exporter) named in the instrument a sum of money on behalf of the bank’s customer (account party/buyer/importer). The beneficiary will be paid when he submits to the issuing bank specific documents as required by the terms of the letter of credit.

Therefore, through a letter of credit, the bank substitutes its creditworthiness for that of the account party. Issuance and negotiation by banks of letters of credit are governed by the "Uniform Customs and Practice for Documentary Credits" of the International Chamber of Commerce presently in effect (currently version 500). All letters of credit must be issued in favor of a definite beneficiary; for a fixed or determinate amount; in a form clearly stating how payment to the beneficiary is to be made and under what conditions; and with a definite expiration date. The usual routing of a letter of credit is from the issuing bank, through its correspondent bank in the country of the exporter, to the exporter. The two basic forms in which the correspondent bank will receive the letter of credit are either the "revocable" or the "irrevocable" form.

The “revocable” form is, in principle, of little use to the exporter. As the term indicates, the importer's bank can revoke its credit if requested to do so by its principals (the buyers) or amend its terms, without the specific agreement of the beneficiary. Ordinarily an exporter would request an irrevocable letter of credit. In this case the buyer could not instruct his bank to rescind or change the letter of
credit without first securing the consent of the exporter. When the exporter presents his documents exactly as described in the letter of credit to the correspondent bank, the latter will be able to secure payment from the importer's bank.

The advantages of financing exports by way of an “irrevocable” letter of credit are obvious. The buyer arranges issuance of the credit with his bank and by the terms of the credit, lists the proof of shipment needed for the merchandise for which he is paying. The exporter, by presenting documents in accordance with the letter of credit terms, will receive payment from a bank. An irrevocable letter of credit constitutes a definite commitment by the issuing bank to pay upon presentation of the documents. The letter of credit may be sent directly to the exporter by the issuing bank or through a local bank that is a correspondent of the issuer. In the latter case, the correspondent may merely "advise" the letter of credit. This means that it is acting as an agent of the importer's bank without any commitment on its part. This is evidenced by a printed clause appearing in these credits reading, "This advice is not an engagement on our part, but is simply for your guidance in preparing and presenting drafts and documents."

5.2(v) Trade Finance:

Trade Finance is basically related to 'Domestic as well as International Trade Transaction'. The term "Trade Finance" means, finance for Trade. For a trade transaction there should be a Seller to sell the goods or services and a Buyer who will buy the goods or use the services. Various intermediaries such as (banks), (Financial Institutions) can facilitate this trade transaction by financing the trade.

While a seller (the exporter) can require the purchaser (an importer) to prepay for goods shipped, the purchaser (importer) may wish to reduce risk by requiring the seller to document the goods that have been shipped. Banks may assist by providing various forms of support. For example, the importer's bank may provide a letter of credit to the exporter (or the exporter's bank) providing for payment upon presentation of certain documents, such as a bill of lading. The exporter's bank may make a loan (by advancing funds) to the exporter on the basis of the export contract.

Other forms of trade finance can include Documentary Collection, Trade Credit Insurance, Factoring or Forfeiting. Some forms are specifically designed to supplement traditional financing.
Since secure trade finance depends on verifiable and secure tracking of physical risks and events in the chain between exporter and importer, the advent of new methodologies in the information systems world, has allowed the development of risk mitigation models which have developed into new advanced finance models. This allows very low risk of advance payment given to the Exporter, while preserving the Importer's normal payment credit terms and without burdening the Importer's Balance Sheet. As the world progresses towards more flexibility and growth in Trade Transactions, the demand for these new methodologies has increased amongst Exporters, Importers and Banks.

The following are the most famous products/services offered by various Banks and Financial Institutions in Trade Finance Segment.

1. **Letter of Credit:** It is an undertaking/promise given by a Bank/Financial Institute on behalf of the Buyer/Importer to the Seller/Exporter, that, if the Seller/Exporter presents the complying documents to the Buyer's designated Bank/Financial Institute as specified by the Buyer/Importer in the Purchase Agreement then the Buyer's Bank/Financial Institute will make payment to the Seller/Exporter.

2. **Bank Guarantee:** It is an undertaking/promise given by a Bank on behalf of the Applicant and in favour of the Beneficiary. Whereas, the Bank has agreed and undertakes that, if the Applicant failed to fulfill his obligations either Financial or Performance as per the Agreement made between the Applicant and the Beneficiary, then the Guarantor Bank on behalf of the Applicant will make payment of the guarantee amount to the Beneficiary upon receipt of a demand or claim from the Beneficiary.

3. **Collection and Discounting of Bills:** It is a major trade service offered by the Banks. The Seller's Bank collects the payment proceeds on behalf of the Seller, from the Buyer or Buyer's Bank, for the goods sold by the Seller to the Buyer as per the agreement made between the Seller and the Buyer.

5.2(vi) **Correspondent Banking:**

Correspondent banking and payments processing is an attractive business. But profit is under pressure as banks need to comply with more regulation and deal with increased competition, whilst we are bracing ourselves for another global financial crisis and economic slowdown.

Correspondent accounts are commonly used by banks internationally to undertake financial transactions for themselves and their customers in jurisdictions where
they generally have no physical presence. A wide range of services can be settled through a correspondent banking relationship, including:

- payments, including telegraphic or electronic transfers and drafts
- foreign exchange, including wholesale note clearances
- payable through and nested accounts
- cash letters and collections
- managed investments and mortgage schemes
- custodian account arrangements
- trade finance transactions
- Syndicated loans.

Correspondent banking relationships are vulnerable to money laundering and terrorism financing because they involve a bank carrying out financial transactions on behalf of another bank's customers. This indirect relationship means that the correspondent bank provides services in a situation where it is unlikely to have either verified the identities or obtained first-hand knowledge of the respondent's customers.

5.2(vii) **Merchant Banking:**

Merchant Banking is a combination of Banking and consultancy services. It provides consultancy to its clients for financial, marketing, managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a business. It helps to raise (collect) finance. It helps to expand and modernize the business. It helps in restructuring of a business. It helps to revive sick business units. It also helps companies to register, buy and sell shares at the stock exchange.
In short, merchant banking provides a wide range of services for starting until running a business. It acts as Financial Engineer for a business.

**Functions of Merchant Banking:**

The important functions of merchant banking are depicted below.

- **Raising finance for Clients:** Merchant Banking helps its clients to raise finance through issue of shares, debentures, bank loans, etc. It helps its clients to raise finance from the domestic and international market. This finance is used for starting a new business or project or for modernization or expansion of the business.

- **Broker in Stock Exchange:** Merchant bankers act as brokers in the stock exchange. They buy and sell shares on behalf of their clients. They conduct research on equity shares. They also advise their clients about which shares to buy, when to buy, how much to buy and when to sell. Large brokers, Mutual Funds, Venture capital companies and Investment Banks offer merchant banking services.

- **Project Management:** Merchant bankers help their clients in the many ways. For e.g. advising about location of a project, preparing a project report, conducting feasibility studies, making a plan for financing the project, finding out sources of finance, advising about concessions and incentives from the government.
• **Advice on Expansion and Modernisation:** Merchant bankers give advice for expansion and modernization of the business units. They give expert advice on mergers and amalgamations, acquisition and takeovers, diversification of business, foreign collaborations and joint-ventures, technology up-gradation, etc.

• **Managing Public Issue of Companies:** Merchant bank advice and manage the public issue of companies. They provide following services:
  ✓ Advise on the timing of the public issue.
  ✓ Advise on the size and price of the issue.
  ✓ Acting as manager to the issue, and helping in accepting applications and allotment of securities.
  ✓ Help in appointing underwriters and brokers to the issue.
  ✓ Listing of shares on the stock exchange, etc.

• **Handling Government Concern for Industrial Projects:** A businessman has to get government permission for starting of the project. Similarly, a company requires permission for expansion or modernization activities. For this, many formalities have to be completed. Merchant banks do all this work for their clients.

• **Special Assistance to Small Companies and Entrepreneurs:** Merchant banks advise small companies about business opportunities, government policies, incentives and concessions available. It also helps them to take advantage of these opportunities, concessions, etc.

• **Services to Public Sector Units:** Merchant banks offer many services to public sector units and public utilities. They help in raising long-term capital, marketing of securities, foreign collaborations and arranging long-term finance from term lending institutions.

• **Revival of Sick Industrial Units:** Merchant banks help to revive (cure) sick industrial units. It negotiates with different agencies like banks, term lending institutions, and BIFR (Board for Industrial and Financial Reconstruction). It also plans and executes the full revival package.

• **Portfolio Management:** A merchant bank manages the portfolios (investments) of its clients. This makes investments safe, liquid and
profitable for the client. It offers expert guidance to its clients for taking investment decisions.

- **Corporate Restructuring**: It includes mergers or acquisitions of existing business units, sale of existing unit or disinvestment. This requires proper negotiations, preparation of documents and completion of legal formalities. Merchant bankers offer all these services to their clients.

Money Market Operation: Merchant bankers deal with and underwrite short-term money market instruments, such as:

- Government Bonds.
- Certificate of deposit issued by banks and financial institutions.
- Commercial paper issued by large corporate firms.
- Treasury bills issued by the Government (Here in India by RBI).

- **Leasing Services**: Merchant bankers also help in leasing services. Lease is a contract between the lessor and lessee, whereby the lessor allows the use of his specific asset such as equipment by the lessee for a certain period. The lessor charges a fee called rentals.

- **Management of Interest and Dividend**: Merchant bankers help their clients in the management of interest on debentures / loans, and dividend on shares. They also advise their client about the timing (interim / yearly) and rate of dividend.

5.2(vii) **Offshore Banking**:

Offshore banking unit (OBU) is the branch of an Indian bank located in a special economic zone (SEZ), with a special set of rules aimed at facilitating exports from the region. As laws define it, it's a "deemed foreign branch" of the parent bank situated within India, and it undertakes international banking business involving foreign currency denominated assets and liabilities. The concept comes from the practice prevalent in several global financial centres. Here an OBU can accept foreign currency for business but not domestic deposits from local residents. This was conceived to prevent competition between local and offshore banking sectors.

What was the need for OBUs?

In addition to providing power, tax and other incentives to SEZs, policymakers felt a need to provide SEZ developers access to global money markets at international
rates. So in 2002, RBI instituted OBUs, which would be virtually foreign branches of Indian banks. These would be exempt from CRR, SLR and few other regulatory requirements. RBI regulations make it mandatory for OBUs to deal in foreign exchange, source their foreign currency funds externally, follow all prudential norms applicable to overseas branches and are entitled for IT exemptions. Thus in many respects, they are free from the monetary controls of the country.

What price, freedom from regulations?
In the eight years that they have been operational, concerns have been raised that, funding by OBUs to SEZs would lead to increase in external debt of India. Also, some have suggested that OBUs as vehicles for extending dollar loans have no use as long as they are restricted to doing business only in the zones in which are they located. This would create an unnecessary regulatory arbitrage like booking business because there is some arbitrage advantage on offer. Anyways, ground realities could not be more different. Hardly a handful of banks have set up their OBUs, so the argument looks very far fetched. SEZ, itself as a concept has been struggling, given the issues that SEZ developers have faced over acquiring land from farmers.

What is the future of OBUs?
Most international financial centres still house OBUs, so saying they are not required may be incorrect. However, some analysts have said OBUs are losing relevance at a time of increasing globalisation. They say OBUs will be of no use after the economy opens up fully and the rupee is fully convertible. These experts argue for one or two OBUs, instead of having several of them spread across the country.

Offshore banking refers to the international banking business involving non-resident foreign currency denominated assets and liabilities. It refers to the banking operations that cover only non-residents and do not mix with the domestic banking.

An offshore banking centre is a place where deliberate attempt is made to attract international banking by offering many concessions in the form of taxes and levies being imposed at lower rates or not being charged, moderate or light financial regulation, secrecy in banking etc.

Offshore banking units in the centre can carry on their activities of deposit taking from and lending to international enterprises or investors without conflict with the d
omestic fiscal and monetary policy. Offshore banking units are branches of international banks or subsidiaries. They do not carry retail business, but generally provide wholesale banking services, namely project financing, syndicated loans, merchant banking activities in foreign currency denominated bonds and equity shares. MNC mostly prefer transacting in offshore financial centres because of tax benefits, freedom from exchange control regulations, maintenance of secrecy of deals etc.

**Presence of OBU worldwide:** Offshore banking is carried out in about 20 centres throughout the world which offer the following benefits:

1. Exemption from minimum reserve requirements i.e. CRR, SLR.

2. Freedom from control on interest rates

3. Low or non-existent taxes and levies

4. Entry is relatively easy

5. Licence fees are generally low

**Features of OBUs:**

I. Involves non-resident foreign currency-denominated assets and liabilities

II. Enjoy many concessions in taxations, exchange control regulations and other banking regulations

III. The markets operate 24 hours a day

IV. Offshore banking is an extension of the concept of Eurocurrency to East. These centres exist in almost all Asian countries like Singapore, Hongkong, Korea, Philippines, Colombo and Bahamas.

V. Provide Wholesale banking services

VI. MNCs prefer banking with OBUs due to tax advantages, secrecy of transactions, freedom from exchange control etc.

VII. Provides better access to international capital markets
Participation of the Indian banks

Few Indian banks, such as State Bank of India, Indian Overseas Bank, Bank of India, and Bank of Baroda, have set up offshore banking units for deposit taking and final lending at Bahrain, Hong Kong, Colombo, Cayman Islands, and so on. Indian Bank, Bank of Baroda and Union Bank of India jointly floated a deposit taking company, IBU International Finance, in Hong Kong for both offshore and onshore banking.

The benefits for the Indian banks from these ventures are:

I. Sizeable profits — as these ventures involve relatively low operating costs.
II. With multicurrency deposit bases, the banks would be able to serve better the needs of their customers who have set up joint ventures abroad in the form of foreign currency finance.
III. The banks would strengthen the country's balance of payments through repatriation of profits from the venture.

Offshore banking centre in India:

Financial experts have been pleading to establish an offshore banking centre in India. Geographically, India provides distinct advantages in attracting offshore banking units, because it has a stable economic and political performance, a vast market, technical manpower that could find employment in these centres. Another advantage is that the Indian market would open a little before the Tokyo market closes, and close before New York opens, thus providing a vital time link for international money market dealers. In an era where many Indian corporations are functioning abroad and many corporations are granted permissions to seek overseas finance, establishing an offshore unit will help tap the resources.

The benefits of Offshore Banking:

- Exporters would benefit in terms of finer margins on loans and better foreign exchange rates available via an offshore banking unit.
- The benefits of multicurrency operations which, to an extent, minimise currency fluctuation risk, will be an added advantage.

- Salaries paid by offshore banks and local expenditure incurred by them contribute to the economy's welfare. For smaller countries, the benefit would be greater. For a larger country such as India, however, this may not form a significant portion of the total income.

- India may earn revenue in the form of licence fees, profit taxes imposed on the banks operating in the area. It may also get the benefit of banks' funds in the form of capital and liquidity requirements.

  - The country can gain improved access to the international capital markets.
  - The domestic financial system may become more efficient through increased competition and exposure of the domestic banks to the practices of offshore banks.
  - The offshore banking centres will provide opportunities to train the local staff which will, in turn, contribute to faster economic growth.
  - The offshore banking units would help channelise non-resident Indian investments.
  - Setting up offshore banking centres would trigger enforced development of more advanced communication facilities — a must for their functioning.

**The Disadvantages of Offshore Banking:**

I. The supervision and regulation of offshore banks may involve substantial costs.

II. Encouraging offshore banking may result in the diminution in autonomy of domestic monetary policy, since it is difficult to draw a line always between the offshore and onshore operations, particularly in the absence of exchange control.

III. Offshore banking provides scope for tax evasion by residents. For instance, in Hong Kong, it was found that residents place deposits with offshore banks and take loans of the same amount. The interest on loan would be a deductible expenditure for taxation, while the income from interest on deposits is not taxed.

IV. Offshore banks may prove to be harmful competitors to the local banks and may inhibit their growth. In India Offshore banking units are permitted to be set up in SEZs. These branches would be virtually foreign branches of
Indian banks but located in India. These OBUs are exempt from CRR, SLR and they provide international finance to SEZ units and SEZ developers.

5.3 Marketing practices related to Government sector:

The government-owned corporations are termed as Public Sector Undertakings (PSUs) in India. In a PSU majority (51% or more) of the paid up share capital is held by central government or by any state government or partly by the central governments and partly by one or more state governments.

5.3(i) Evolusion of Public Sector Undertakings:

Post-Independence, India was grappling with grave socio-economic problems, such as inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower, weak industrial base, inadequate investments and infrastructure facilities, etc.

Hence, the roadmap for Public Sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development polices, which envisaged the development of PSUs.

Initially, the public sector was confined to core and strategic industries. The second phase witnessed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into new fields like manufacturing consumer goods, consultancy, contracting and transportation etc.

The Industrial Policy Resolution 1948 outlined the importance of the economy and its continuous growth in production and equitable distribution. In this process, the policy envisaged active engagement of the State in development of industries.

The Industrial Policy Resolution 1956 classified industries into three categories with respect to the role played by the State -

- The first category (Schedule A) included industries whose future development would be the exclusive responsibility of the State
- The second (Schedule B) category included Enterprises whose initiatives of development would principally be driven by the State but private participation would also be allowed to supplement the efforts of the State
- And, the third category included the remaining industries, which were left to the private sector.
In 1969, the government nationalized 14 major banks.

Classification of Public Sector Undertaking:

Public Sector Undertakings (PSUs) can be classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

The Central Public Sector Enterprises (CPSEs) are also classified into 'strategic' and 'non-strategic'. Areas of strategic CPSEs are:

- Arms & Ammunition and the allied items of defence equipments, defence aircrafts and warships
- Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries)
- Railways transport.

Public Sector Enterprises having objects to promote commerce, art, science, religion, charity or any other useful purpose and not having any profit motive can be registered as non-profit company under section 25 of the Companies Act, 1956.

This section empowers the Central Government to grant a licence directing that such an association may be registered as a company with limited liability, without the addition of the words `Limited' or `Private Limited' to its name.

Such companies are also called as the Non-profit or 'No Profit - No Loss' companies.

ROLE OF PUBLIC SECTOR UNDERTAKINGS:

Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction. PSUs provide leverage to the Government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socio-economic objectives and maximize long-term goals.
As agriculture is the backbone of Indian economy, Public Sector Banks (PSBs) play a crucial role in pushing the agricultural economy on to the progressive pathway and helping develop rural India. Moreover, PSUs play a substantial role in the rural development by providing basic infrastructural services to citizens.

**Empowerment of Public Sector Undertakings**

The Government provides Public Sector Enterprises (PSEs/PSUs) the necessary flexibility and autonomy to operate effectively in a competitive environment. The Boards of Navratna and Miniratna companies- are entrusted with more powers in order to facilitate further improvement in their performance.

The government has also implemented revised salaries for executives of PSEs/PSUs. Moreover, some innovative measures such as Performance Related Pay have been introduced to make them more efficient. These incentives for the employees have been linked to individual, group as well as company performance.

For further strengthening, the government is also encouraging the listing of Public Sector Enterprises on the stock markets.

**5.3(ii) Corporate Governance**

Good corporate governance practices are essential for sustainable business. It generates long term value to all its shareholders and other stakeholders. The Ministry of Corporate Affairs has been working towards strengthening of the corporate governance.

The ministry encourages the use of better practices through voluntary adoption. For this purpose, a set of voluntary guidelines has been drafted. The Corporate Governance Voluntary Guidelines serve as a benchmark for the corporate sector and also help them in achieving the highest standard of corporate governance.

Governance of Public Sector Undertaking

The Department of Public Enterprises acts as a nodal agency for all Public Sector Enterprises (PSEs). The important roles and tasks of the Department are:

- General policy relating to Public Sector.
- Matters relating to issue of Presidential Directives and guidelines to Public Sector Enterprises.
Formulation of policy guidelines pertaining to Public Sector Enterprises in areas like performance improvement and evaluation, financial management, personnel management, board structures, wage settlement, training, industrial relation, vigilance, performance appraisal, etc.

Matters relating to reservation of posts in the public sector enterprises for certain classes of citizens.

All matters relating to Memorandum of Understanding between the Public Sector Enterprises and the administrative Ministries/Departments.

Matters relating to delegation of powers to Board of Directors.

To undertake in depth studies in respect of significant areas of functioning of Central PSEs

Matters relating to International Centre for Public Enterprises (ICPE)

Matters relating to Standing Conference of Public Enterprises (SCOPE)

To monitor and evaluate the performance of PSEs and to act as a repository of data and to bring out an Annual Survey for the Parliament.

Permanent Machinery of Arbitrators for settlement of disputes among public sector enterprises and Government Departments except disputes relating to tax matters.

Appraisal of proposal from different administrative Ministries/Deptt. pertaining to restructuring, revival, joint venture etc.

5.3(iii) Corporate Social Responsibility

Social Obligations of Central Public Enterprises

PSUs serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

The Government has issued the guidelines on Corporate Social Responsibility for Central Public Sector Enterprises (CPSEs) following the Committee on Public Undertakings (1993-94) recommended a number of measures in its 24th Report on 'Social Responsibilities and Public Accountability of Public Undertakings'.

Although the Government believes in making PSEs growth oriented and technically dynamic, its policy is to give greater powers to the boards so that PSEs
could function professionally. While the focus is on generating surpluses for self-sustaining growth, the PSEs generally undertake certain amount of non-commercial responsibilities, in furtherance of their commercial objectives. All PSEs cannot be treated on an equal footing for undertaking various types of social activities. It is for the individual PSE to identify and implement social responsibilities keeping in view its financial ability to sustain such activities, operating environment and provisions in its MOA/Statute.

It is likely that some social responsibilities may be assigned to PSEs through the issuance of Presidential Directives/guidelines by the concerned administrative Ministries/Departments. While implementation of Presidential Directives is mandatory; the guidelines are also generally to be followed except when the boards of directors of PSEs decide not to adopt them for reasons to be recorded in writing. It is desirable that boards of PSEs have full flexibility in identification and implementation of social responsibilities because as per the Articles of Association they enjoy full autonomy in this regard. PSEs are free to avail the help of State Governments, District Administration and peoples' representatives, wherever necessary.

**Schemes that are launch by banks for Government sector:**

**5.3(iv) Centralized Pension Processing Center (Cppc):**

In the present scenario of the competitive banking, excellence in customer service is the most important tool for sustained business growth. Customer complaints are part of the business life of any corporate entity.

Payment of pension is a very significant segment in the competitive banking. A pensioner is a person who after completing his tenure of employment undergoes a change in activity one of which is generally known as Retirement. Majority of the pensioners are senior citizens to whom bank has an obligation to fulfill.

It was felt necessary to address the issue of complaints from the pensioners so that a time bound redressal may be effected to the satisfaction of the complaint.

This policy document aims at minimizing instances of complaints from the pensioners and grievances through proper service delivery and review mechanism and to ensure prompt redressal of pensioner’s grievances.
**Basic Principles:**

- Pensioners are to be treated fairly at all times;
- Complaints raised by pensioners are to be dealt with courtesy and with a minimum loss of time;
- Pensioners should be fully informed of avenues available for registering their complaints/grievances within the bank and all their rights to alternative remedy, if they are not fully satisfied with the response of the bank;
- Bank would treat all complaints efficiently and fairly;
- Bank employees should work in good faith and without prejudice to the interest of the pensioner;
- Awareness of staff members in respect of the need to minimize pensioners’ grievances.

**Objectives of The Policy**

- Correcting mistakes as early as possible and ensuring non-recurrence of such mistakes;
- Addressing the complaints promptly;
- Letting the pensioner know to take his complaint forward in case he is not satisfied with the primary response from the bank;
- Providing suitable alternative avenues to mitigate problems arising out of technological failure;
- Prioritized service to Pensioners, physically handicapped persons by effective crowd/people management available at all branches;
- Provision of SMS alerts service about balance in the account at periodic intervals and about due dates for submission of important documents
- Pensioners to be allowed to submit the annual life certificate at any of the (linked) branches and not necessarily at the home branch. All the life certificates may be maintained in a centralized database;
- The data relating to individual pensioners, the monthly certificates etc, that pensioners would desire shall be available in a secure domain for immediate retrieval and usage.
o Hassle-free settlement of amount dues to the nominee/legal heirs, as and when required in line with RBI Guidelines and Board approved policies

o Cent Swabhiman and Cent Swabhiman plus Scheme (Reverse Mortgage Scheme) of the Bank, which could be a steady source of income for pensioners/senior citizens, will be adequately popularized by the Bank for creating awareness among Pensioners/Senior Citizens.

o Bank shall have uniformity as to the age for consideration of the longevity based on which pensioner’s loan is calculated. We have a scheme for personal loan to Pensioners/Family Pensioners irrespective of their age, drawing pension from our Bank.

o On demise of the pensioner, the existing “Either or Survivor” pension account shall become a single account in the name of the “Survivor” and the family pension shall automatically be credited to such accounts. Similarly, all joint accounts with “Either or Survivor” clause shall become single accounts of the “Survivor” after the demise of the other joint account holder.

o Bank shall streamline and fine-tune the functioning of its Centralized Pension Processing Centres to ensure timely disbursal of pension, commencement of family pension on time and error-free calculation of pension.

o Bank shall endeavour to disburse pension to sick and disabled pensioners preferably above the age of 80 years in rural and semi urban areas at their doorstep. Bank may make use of Business Correspondents for this purpose.

Payment of Pension:

➢ Bank, under arrangement, makes pension payments on behalf of the Government to the retired employees of Central & State Govt/Defence/Railways, etc...All pension payments are subject to rules and procedures prescribed by the Govt. RBI and the concerned Departments/Organizations from time to time.

➢ A pensioner can open an account with cheque book facility and also with nomination in his pension account.
Pensioner shall submit Life Certificate in prescribed format once every year in the month of November. Pension payment may be withheld by the bank if Life certificates are not submitted on time.

Pensioners shall submit non employment certificate once in six month in May & November.

If the family pension is a widow, at the time of first payment of pension, a certificate to the effect that she has not remarried and an undertaking to the effect that if she remarries, she will intimate the fact promptly to the Pension Paying Branch of the Bank.

If the family pensioner is a widower/unmarried daughter, the remarriage / non marriage certificate shall be submitted by the pensioner once in six months in May & in November.

Pensioner shall submit an unstamped letter of undertaking authorizing the Bank for the recovery of any excess payment made in pension in error.

The Bank shall credit the pensioner’s saving / Current Account during the last 4 working days of the month. The pension for the month of March will be credited on / after 1st working day of April. Bank will not pay the pension in cash.

Bank will deduct income tax at prescribed rate from the pension amount and net amount is payable to the pensioner’s account.

Redressal Mechanism

This policy provides for receipt of complaints and acknowledgement there against to the pensioner in a structured manner as under:-

Complaints Registration

A pensioner may lodge complaint either in writing or through electronic means if he/ she is not satisfied with the services provided by the Bank. All complaints will be recorded by the Bank in a database. The database, along with the
acknowledgement letter and other correspondence will be preserved at least 3 years for future reference.

Arrangements for receiving complaints and suggestions are given hereunder,

**Written Complaints**

Complaint book is available at all the branches. A pensioner can obtain it from the Branch Manager, record his/ her grievances therein and obtain acknowledgement. A pensioner may use complaint cum suggestion box kept at branch for any feedback/ suggestions for improvement of our products and services.

* The complaints can also be filed through the website of the Bank.

**Complaints over Telephone**

The minor complaint may be lodged with the Regional Office of the concerned branch or to the Branch Manager. The name and telephone numbers of Regional Office of the concerned branch are available in the branch and in our website.

**Complaints through e- mail**

The pensioner can submit complaint through e-mail of the concerned bank under Centralized Pension Processing Centres.

**Internal Machinery to handle Pensioners’ Complaints/ Grievances**

A pensioner can lodge a complaint in writing to CPPC, A branch, Regional Office or Central Office of the Bank under this policy. Complaints can also be lodged with the Toll Free Helpline Number of the Bank, CPPC, over telephone with CPPC, through e- mail or with any other modes as mentioned above.

Complaints received through Central Government/ State Governments, Ministries Government Departments, Reserve Bank of India, Member of Parliaments and Legislative Councils shall be recorded separately with intent to resolve within a time period of 30 days from the date of receipt. Bank, however would not take cognizance of anonymous and unsigned complaints.
Time Frame

Centralized Pension Processing Centre (CPPC), as a nodal point for the Bank, will resolve the complaints within a period of 15 days from the date of receipt. If unable, CPPC will escalate complaint to the next higher authority i.e. Nodal Officer, Central Office of the Bank, which will endeavor to resolve the matter within next fifteen days. The time frame for resolution of the complaint shall be thirty days from the date of receipt of the complaint at any level or taking together all the tiers. CPPC will take all necessary steps to redress the complaint within the time frame. If unable to resolve due to reasons beyond its control, CPPC shall refer it to the concerned Pension Sanctioning Authority with full intimation to the complainant.

5. Resolution / Escalation of Complaints:

- CPPC/Branch Manager shall be responsible for resolution of the complaints/grievances in respect of pension matters. He/ She will be responsible for ensuring closure of the complaints received at the branch. It shall be his/ her foremost duty to get the complaints resolved completely to the satisfaction of the pensioners. If the pensioner is not satisfied, he/ she will suggest remedial measures, alternative avenues to escalate the complaints.

- If the CPPC/Branch Manager feels that it shall not be possible to resolve the complaint at his/ her level, he/ she would immediately refer it to the concerned Regional Office for the resolution of the complaints/ grievances. If the CPPC/ Regional Office also finds that they shall not be able to resolve the complaint, they shall escalate such complaints to its next higher authority i.e. Nodal Officer at Central Office without any delay.

- For strengthening the Pensioners confidence in the internal redressal mechanism, there shall be proper monitoring of internal redressal mechanism so that a minimum number of complaints are escalated to Banking Ombudsman’s Office.
Bank shall appoint a Chief Customer Service Officer (CCSO), an official in the form of an Internal Ombudsman. After the appointment of the CCSO, the role of Banking Ombudsman shall be that of an Appellate Authority.

A pensioner aggrieved with a banking service as hitherto will first complain to the bank and if within a month does not receive a reply or is unsatisfied with the reply, will appeal to the CCSO of the Bank. On failure to get a reply within a further 30 days from the CCSO or if unsatisfied with the reply of the CCSO, the complainant can appeal to the Banking Ombudsman of the relevant jurisdiction.

Bank may consider for a provision of incentive for resolving the complaints at lower level and disincentive for escalating it to a higher level.

The Banking Ombudsman Scheme

The Scheme of Banking Ombudsman (BO) was introduced with the object of enabling resolution of complaints relating to provision of banking services and resolving disputes between a bank and its constituent through the process of conciliation, mediation and arbitration in respect of deficiencies in customer service. After detailed examination of the complaints/ grievances of customers of banks and after perusal of the comments of banks, the Banking Ombudsman issues their awards in respect of individual complaints to redress the grievances.

Bank shall ensure that the Awards of the Banking Ombudsman are implemented expeditiously and with active involvement of its Top Management.

A pensioner aggrieved with the decision of BO can go the formal fora like Consumer Courts, Civil Court etc. The Bank aggrieved with a BO decision shall seek the advice of the Customer Service Department of Reserve Bank of India before approaching the courts.

Moreover, before challenging any such Award or decision in higher court, our bank shall examine the cost implications of such a decision from the bank’s perspective. Further, any decision or Award given by Redressal
Forum shall be internally examined by the bank for initiating possible Class Action at the branch/ concerned offices.

CPPC/ Branch Level Pensioners Committee :-

- In order to encourage communication between pensioners and the Bank at branch level, branch will initiate necessary steps for setting up of such Committee. Such committee would meet at least once in a month to open channel of communication, receive suggestions, and discuss cases of delays and difficulties faced by the pensioners as well as complaints, if any. The Meet must discuss ways and means of improving developing service level to the pensioners, keeping in mind the level of comfort needed by senior citizens.
- Alternatively or till the formation of Branch level Pensioners Committee, Branch will invite pensioners including Senior Citizen Pensioners in the branch level Customers Service Committee Meet.
- CPPC shall constitute Pensioner’s Committee consisting of local pensioners, Senior Citizens, Senior Govt. officials dealing with pension matters including from Defence Department and senior officials from Central Office. CPPC will conduct one meeting every month and shall forward valuable suggestions to Customer Service Department at Central Office.

5.3(v) Payment of Income Tax:

A tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. Taxes are also imposed by many administrative divisions. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent.

According to Black's Law Dictionary, a tax is a "pecuniary burden laid upon individuals or property owners to support the government a payment exacted by legislative authority." It "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name."
The legal definition and the economic definition of taxes differ in that economists do not consider many transfers to governments to be taxes. For example, some transfers to the public sector are comparable to prices. Examples include tuition at public universities and fees for utilities provided by local governments. Governments also obtain resources by creating money (e.g., printing bills and minting coins), through voluntary gifts (e.g., contributions to public universities and museums), by imposing penalties (e.g., traffic fines), by borrowing, and by confiscating wealth. From the view of economists, a tax is a non-penal, yet compulsory transfer of resources from the private to the public sector levied on a basis of predetermined criteria and without reference to specific benefit received.

**Purpose and effects:**

Money provided by taxation has been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, subsidies, and the operation of government itself. Governments also use taxes to fund welfare and public services. A portion of taxes also go to pay off the state's debt and the interest this debt accumulates. These services can include education systems, health care systems, pensions for the elderly, unemployment benefits, and public transportation. Energy, water and waste management systems are also common public utilities. Colonial and modernizing states have also used cash taxes to draw or force reluctant subsistence producers into cash economies.

Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. Historically, the nobility were supported by taxes on the poor; modern social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macro economic performance of the economy (the government's strategy for doing this is called its fiscal policy; see also tax exemption), or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive.

A nation's tax system is often a reflection of its communal values and/or the values of those in power. To create a system of taxation, a nation must make choices
regarding the distribution of the tax burden—who will pay taxes and how much they will pay—and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system, these choices reflect the type of community that the public wishes to create. In countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection on the values of those in power.

Payment of Tax facility offer by banks to Government sector:

Payment of INCOME-TAX through banks to Government:

The Central Board of Direct Taxes has amended the Income-tax Rules, 1962 vide Income-tax (Fourth Amendment) Rules, 2008 made mandatory electronic payment of taxes for all Corporate Assessees and all other assesses to whom the provisions of section 44AB of the Income-tax are applicable. The scheme of mandatory electronic payment of taxes is made applicable from 1st April, 2008. Pay tax electronically shall mean, payment of tax by way of internet banking facility or use of credit/debit card. However, the use of credit/debit card facility is yet to be in operation. All Direct Taxes e.g. Income-tax, Corporate Tax, FBT, BCTT (TDS, Advance-tax, self-assessment tax), interest, penalty to be paid online using net banking facility.

Procedure for payment of Income tax electronically:

- Open a net-banking facility with any authorized banks.
- Obtain User Name and Password and change password immediately.
- Go to website www.incometaxindia.gov.in click on “pay taxes online” Fill in the required challan online and take print out.
- Choose your bank name and submit to the bank.
- Login to the bank website using your user name and password.
  - Ensure sufficient funds are available in the bank account
  - Enter the amount of payment to be made and validate.
  - Authorise the payment using your transaction password.
  - A challan counterfoil will be available instantaneously on the screen with CIN (Challan Identification Number). The CIN on this counterfoil should be quoted in Return of Income.
  - Print the counterfoil and also save it in the computer if possible.
• Immediately check your account statement online whether the payment is debited to your account.

• Check whether your payment has reached the Income-tax Department at https://tin.tin.nsdl.com/oltas/servlet/QueryTaxpayer.

**Internal Control**

In order to have better internal control on payment taxes electronically, the following points should be kept in mind:

Change your password immediately on receipt of login name and password from your bank.

Login Password and Transaction Password should be different.

Maintain confidentiality in password and don’t disclose to anybody.

Transaction Password should be used by assesses himself and it should not disclosed to any of your employees.

**Payment of Service Tax through banks to Government:**

Service tax is, as the name suggests, a tax on Services. It is a tax levied on the transaction of certain services specified by the Central Government under the Finance Act, 1994. It is an indirect tax (akin to Excise Duty or Sales Tax) which means that normally, the service provider pays the tax and recovers the amount from the recipient of taxable service.

Normally, the ‘person’ who provides the taxable service on receipt of service charges is responsible for paying the Service Tax to the Government (Sec.68 (1) of the Act). However, in the following situations, the receiver of the Services is responsible for the payment of Service tax:

(i) Where taxable services are provided by foreign service providers with no establishment in India, the recipient of such services in India is liable to pay Service Tax.;

(ii) For the services in relation to Insurance Auxiliary Service by an Insurance Agent, the Service Tax is to be paid by the Insurance Company.
(iii) For the taxable services provided by a Goods Transport Agency for transport of goods by road, the person who pays or is liable to pay freight is liable to pay Service Tax, if the consignor or consignee falls under any of the seven categories viz. (a) a factory (b) a company (c) a corporation (d) a society (e) a co-operative society (f) a registered dealer of excisable goods (g) a body corporate or a partnership firm.

(iv.) For the taxable services provided by Mutual Fund Distributors in relation to distribution of Mutual Fund the Service Tax is to be paid by the Mutual Fund or the Asset Management Company receiving such service.

5.3(vi) e-payment of Central Excise and Service Tax

E-payment is a mode of payment in addition to the conventional methods of payment offered by the banks under specific security norms of Reserve Bank of India. This scheme facilitates anytime, anywhere payment and an instant cyber receipt is generated once the transaction is complete. It provides the convenience of making online payment of Central Excise and Service Tax through Bank’s Internet banking service.

**Facility is available to:**

- Registered Central Excise/Service Tax Assessee who possesses the 15 digit PAN based Assessee Code.
- Customer of any authorized bank which provide e-Payment solution.
- Customers having Banks’ Internet banking ID.
- Customers who have given the option for effecting Central Excise/Service Tax payment through the Internet with the authorized bank.

**Time of Payment:**

- This is a 24x7 facility.
- All payments effected up to 8 p.m. will be accounted for the day as that day’s receipt.
- Payments effected after 8 p.m. will be accounted as the next working day’s receipt.
Procedure for Payment:-

- Customer should log-on to the bank’s Internet site after entering the user Id and password provided to them by the bank.
- They should fill the on-line Challan.
- The customer should select the appropriate tax type from the pop up menu and enter the tax amount.
- Thereafter the challan should be submitted electronically.
- The customer has to thereafter enter his User Id and Password to enter in the secured e-banking area.
- Customer should select an account for debiting the total tax amount.
- Authorize the payment.

Challans are Receipts:-

- Cyber receipt with transaction number of the bank becomes available immediately.
- On the next working day, copies of the challans duly signed and stamped are made available to the taxpayer at the given address by the bank.

Advantages to the customers:-

- Ease of operation and convenience.
- Facility is available 24x7.
- No queue and waiting.
- On line filling of single challan.
- Minimum fields of the challan need to be filled. Most of the fields are populated automatically.
- Selection of tax type is from drop-down menu.
- Instant Cyber receipt with banks transaction number becomes available.
- Receipted copy of the challans gets delivered at the customer’s address.

5.3(vii) Payment of Customs duty through banks to Government:

An option is available to the assessee for e-payment of Customs Duty. Those who wish to pay customs duty electronically they are required to register in https://www.icegate.gov.in/. A registered user with ICEGATE can use the facility
of online payment in addition the existing facility. The registered users will be able to make the duty payment for all the documents filed through the ICEGATE. An unregistered user with ICEGATE and not regular importer or exporter is also make customs duty for import assignment who has an Internet Bank Account in the designated bank.

5.3(viii) **R.O.C PAYMENTS**

All payment made to Registrar of Companies can be made using the internet banking facility (only specified branches) or with the use of Credit Card.

**Track Payment Status**

This facility enables you to check the status of payment made by you.

- Click on Track payment status on left hand side of the homepage of My MCA portal.
- Enter SRN of the transaction in the SRN field. Click on the Submit button.
- The payment status will be shown in the lower side of the same screen. The payment status is Paid and Not Paid. If you click on Paid, you are shown date of payment.

5.3(ix) **Value Added Tax:**

A value added tax (VAT) is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material, or service, from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs.

The purpose of VAT is to generate tax revenues to the government similar to the corporate income tax or the personal income tax.
Advantages of e-payment of taxes through banks

- Ease of operation and convenience.
- Availability of the facility is on 24x7 basis
- On-line filing of challans and payment of taxes (No more queues and waiting).
- Instant Cyber Receipts for payment made.
- Challans delivered at doorstep.
- Service is normally free of charge.

5.4 Marketing practices related to Agricultural sector:

5.4(i) Evolution of NABARD

The National Bank for Agriculture and Rural Development (NABARD) is the apex organization with respect to all matters relating to policy, planning and operational aspects in the field of credit for the promotion of agriculture and allied activities in rural areas. The bank provides refinance to various banks for their term lending operations for the purposes of agriculture and rural development. The National Bank of Agriculture and Rural Development (NABARD) has emerged as an apex refinancing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural Banks. It has also taken over the ARDC (Agricultural Refinance and Development Corporation), Developing a strong and efficient credit delivery system which is capable of taking care of the expanding and diverse credit needs for agriculture and rural development was a task that received the attention of NABARD. NABARD, is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). There are some other International Aid Agencies which provide assistance to NABARD in respect of various projects. NABARD has been associated with the implementation of 42 projects with external credit out of which 38 projects are assisted by World Bank and its affiliate, i.e. IDA and International Bank for Reconstruction and Development (IBRD).
Agricultural credit is considered as one of the most basic input for conducting all agricultural development programmes. In India there is an immense need for proper agricultural credit as the economic condition of Indian farmers are very poor. From the very beginning the prime source of agricultural credit in India was money lenders. After independence the Govt. adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover with growing modernization of agriculture during post-green revolution period the requirement of agricultural credit has increased further in recent years.

Now a days the long term and short term credit needs of these institutions are also being met by National Bank for Agricultural and Rural Development (NABARD). It is the evolution of agricultural finance. It was established in the year 1982, with head office at Mumbai and 16 regional offices throughout the country. It has the objective of promoting the health and the strength of the credit institutions which are in the forefront of the delivery system namely, cooperatives, commercial banks and regional rural bank. It is, in brief, an institution for the purpose of refinance; with the complementary work of directing, inspecting and supervising the credit-flows for agricultural and rural development.

The scope of the operations of NABARD is large indeed. Besides providing finance to credit institutions, it is providing innovations in regard to formulation of schemes, monitoring of implementation, evaluation of results and evolution of suitable supporting structures of all kinds of agricultural activities. It is performing the various functions assumed by it smoothly and efficiently. A rural infrastructural development fund (RIDF) was established under NABARD in 1995-96. Every year the resources of RIDF have been augmented to finance rural infrastructure development project by States. The outstanding refinance from NABARD by State Co-operative Banks, RRBs and State Governments was Rs. 7,075 crore as at end June 2002, which was a little higher than Rs. 6,857 crore as at end June 2001. Farm mechanisation got the highest amount of assistance and the second place went to minor irrigation. The rest of the amount was distributed for forestation/Plantations, Land Development, sheep-rearing, poultry farming, dairy farming etc. The National Bank has vigorously continued its efforts for promoting investments in the agricultural sector in the less developed/under banked states.
U.P., Bihar, M.P., Rajasthan and Orissa in that order, have been the biggest beneficiaries.

Thus NABARD is taking the necessary steps to revitalise and rejuvenate the rural economy of India by developing agriculture, small scale and cottage industries and trading activities in all possible ways.

In earlier years, sums aggregating Rs.1500 cr. was received from RBI and Government of India as advance towards capital. But in 2001-02 by a notification of GOI, these amounts were credited to capital account of NABARD. It was proposed to increase it further to Rs. 2000 crore in future. It performs the various functions.

I. It provides refinance facilities for agriculture, small scale industries, artisans; cottage and village industries, handicrafts and other allied economic activities so that production may be increased.

II. It can borrow from RBI and the Government of India. It can arrange funds from the World Bank and other multilateral and bilateral financial agencies.

III. It can advance loans up to a period of 20 years to State Governments so that they may participate in the share capital of cooperative credit societies. It can provide credit facilities for the short, medium and long term to State Co-operative Banks, Commercial Banks, Regional Rural Banks and other financial institutions.

IV. It coordinates the work of the Government of India, Planning Commission and State Governments for Village and small scale industries.

V. It finances research on agriculture and rural development.

VI. It supervisor the work of Regional Rural Banks, Commercial Banks and other Cooperative Bank.

In this way NABARD acts as an apex body for the development of agriculture and other activities related to agriculture sector.

The role of Commercial Banks in financing the agricultural sector has been very small. Of the total agricultural credit their share was as low as 0.9% in 1951-52 and 28% in 1981-82. Since the nationalisation of Banks, this share has been increasing. There has also seen a phenomenal increase in the number of branches of
commercial banks in rural areas. The proportion of new rural branches to the total number of new bank offices has increased. The percentage of rural branches on 30th June, 2003 was 49% of the total branches of all commercial banks in the country. The public sector banks have increased their lending under priority sector advances since June 1969. The amount outstanding under this head has increased from Rs. 441 crore at the end of June 1969 to Rs. 2,57,916 crore at the end of March 2002. The share of priority sector lending in total banks credit was 34.6% as an end March 2002.

The Reserve Bank of India being the Central Bank of the country does not provide finance directly to the farmer, but it provides the facility of agricultural credit through State Cooperative Banks.

The Reserve Bank of India provides two types of short-term financial assistance to the State Cooperative banks: -

a. Short-Term credit, and

b. Rediscounting Facilities

Both these facilities are provided at a concessional rate of two per cent below the bank rate. Loans are made against specified Government Securities, approved debentures of recognised Rural Development Banks, (formerly Land Development Banks) promissory notes of Approved Cooperative Marketing Societies endorsed by the State Cooperative Banks, etc.

Short-term loans are granted by the Reserve bank of India to the State Cooperative banks for seasonal agricultural operations and marketing of crops. Besides this, Reserve bank of India also gives medium-term loans to the State Cooperative Banks for being advanced to the farmers for such purposes as construction of wells, minor irrigation schemes, purchase of machinery and agricultural tools.

The Reserve Bank of India has also started undertaking long-term financing for agricultural purposes, though indirectly, by subscribing to debentures of the Rural Development Banks, which are guaranteed by the State Governments.

The Reserve bank of India also undertakes research investigations and surveys relating to rural finance. The bank has been giving very valuable advice to the Central and State Governments and to the State Cooperative Banks on matters
relating to rural finance. With this aim in view, the Reserve Bank of India has set up a separate Agricultural Credit Department whose functions are as follows:

1. To maintain the expert staff for studying all the problems of agricultural credit and to provide expert advice to the Central and State Governments, State Cooperative Banks and other banking organizations.

2. To finance the movement of agricultural crops and other agricultural operations through the medium of State Cooperative Banks and other agencies of rural credit.

In addition to financial assistance, the RBI has also played an important role in conducting research on rural credit problems.

Thus, we may conclude that the Reserve Bank of India has been playing an important role in meeting the country's need in respect of rural credit and in making the position of State Cooperative Banks and Rural Development Banks strong. In order to benefit fully from the services of the Reserve Bank of India, the government must have a properly organized rural banking system. The State Governments have assigned due place to these institutions in the planning process.

Commercial banking system is expected to play an important role in forecasting the future framework of institutional finance in agriculture. Before nationalization in 1969, the commercial banks in India had confined their banking operations mainly in urban areas by receiving deposits and financing trade and industry. One of the long standing complaints against commercial banks was their failure in financing agriculture. Before their nationalization in 1969, they were hesitant to provide short term, medium and long term credit for agricultural purposes. The uncertain character of Indian agriculture, small amounts of individual loans, inadequate security for loans, difficulty in recovery of loans' from farmers and lack of business experience of working with rural sector, were some of the factors which discouraged the commercial banks from taking interest in agricultural finance.

Farmers’ needs for funds were mainly met by the private money lender and cooperative credit institutions. The co-operative credit societies, Land Mortgage Banks, Land Development Banks and the Government Taccavi loans were the main sources of institutional credit available to the farmers. These agencies,
however, did not have enough resources to meet all the requirements of the farmers which had increased with introduction of new farm technology.

Recognising that capital was one of the most limiting factors hindering the adoption of new farm technology, fourteen commercial banks in India were nationalised in July, 1969. These banks included, Bank of India, Central Bank of India, Bank of Baroda, Punjab National Bank, United Bank of India, Canara Bank, United Commercial Bank, Union Bank of India, Indian Overseas Bank, Indian Bank, Dena Bank, Bank of Maharashtra, Syndicate Bank and Allahabad Bank. Six more commercial banks viz. Punjab and Sind Bank; New Bank of Commerce, Andhra Bank, Corporation Bank, Vijaya Bank, Oriental Bank of Commerce were nationalised in 1980.

The broad objectives of bank nationalisation were:

1) To ensure a wider spread of bank credit,

2) To prevent misuse of bank credit by big business houses,

3) To direct a large volume of bank credit to flow to priority sectors and to make it more effective instrument of economic development,

4) To make continuing efforts to stimulate savings and attract them into the banking system through a co-ordinated branch expansion programme in all parts of the country and all sectors of the society,

5) To have a purposeful" and equitable distribution of bank credit, and

6) To create fresh opportunities for backward areas in different parts of the country and all sections of the society.

The achievement of these objectives is a long term and continuing process. However, there is a general feeling that the nationalised commercial banks are still lagging behind in the achievement of objectives enjoined upon them through their nationalisation.

Regional disparity in the distribution of commercial bank credit to agriculture cannot possibly be studied without reference to the level of agricultural
productivity, and divergence in agricultural development potential and socio-economic structure of different regions of the country. The growth rate of agriculture production for the period 1995-96 to 2009-06 has shown that the progress of agriculture during recent years has been quite impressive. The growth rate of agricultural production are higher than the growth rate of population (2.14) during the same period. The cumulative effect of the higher growth rate of production had led to create a feeling that we had made satisfactory progress in agricultural, at least in production of food grains. A detailed examination of this growth in output of agriculture needs to be done to see if all the states have experienced a uniform Pattern of growth in agricultural production. It is a fact that the uneven growth of crops had led to the regional imbalances in the rural prosperity.

In India whatever industrial development has taken place, it has had varied degrees of impact on the agriculture sector of different regions. The recipient classes of economic surplus from agriculture have variations in character in different regions depending on the nature and degree of technological transformation of agriculture in any region. An increase in regional disparities in the wake of technological change is, of course, a-common feature of agriculture growth in many parts of the world. These disparities, however, are derived partly from the character of technological change which is dependent on the nature of change in the mechanism of surplus capital germination and partly from regional differences in resources endowment - physical and institutional infrastructure and entrepreneurship.

Institutional credit has to go along .way in bridging the regional imbalances in the flow of credit. The policies initiated so far in this direction have at best arrested the widening of the gap. Unless the structural defects in agriculture and the risk factors are cushioned off, coupled with credit guarantee scheme to the less developed areas susceptible to natural credit guarantee scheme to the less developed areas susceptible to natural calamities, the regional gaps are likely to be continued, irrespective of the measures initiated to rectify the defects on the institutional front. Furthermore, earmarking of a certain percentage of credit to the less developed regions within the country or a State or district, might help to augment the flow of credit to these regions.
One of the most intriguing features of India's agrarian economy in recent years is the persistence of agrarian distress in many regions, even while agricultural credit flow has risen sharply. Rising flow of credit to agriculture is normally associated with buoyancy in the farm sector. A closer look at the data on agricultural credit reveals that what is termed agricultural credit may have very little to do with agriculture, the way we know it. It is well known that the 1990s were a period of sharp fall in the growth of agricultural credit flow in India. Numerous studies and reports have argued that one of the major factors associated with the agrarian distress in the late-1990s and 2000s was an increase in rural indebtedness, especially to moneylenders. According to the All India Debt and Investment Survey (AIDIS), the share of total debt of cultivator-households taken from formal sources fell from 64 per cent in 1992 to 57 per cent in 2003. In the same period, the share of total debt taken from moneylenders almost doubled from 10.5 per cent to 19.6 per cent. In the 2000s, however, there was a reversal of the slide in agricultural credit flow. From the early-2000s, growth of credit to agriculture began to pick up. Commercial banks and Regional Rural Banks (RRBs) played a major role in the revival of agricultural credit.

5.4(ii) The Revival Story

The growth of agricultural credit from commercial banks and RRBs, which was 1.8 per cent between 1990 and 2000, increased to 19.1 per cent between 2000 and 2007. The share of credit supplied by commercial banks and RRBs in total agricultural credit increased from 30.1 per cent in 2000 to 52 per cent in 2007. In part, the revival of agricultural credit was inspired by the announcement by the central government in 2004 that the flow of agricultural credit would be doubled between 2004-05 and 2007-08. First, a significant proportion of the increase in agricultural credit from commercial banks was accounted for by indirect finance to agriculture. Indirect finance refers to loans given to institutions that support agricultural production, such as input dealers, irrigation equipment suppliers and Non-Banking Financial Companies (NBFCs) that on-lend to agriculture. Second, a number of changes were made in the definition of agricultural credit under the priority sector. The definitional
changes broadly involved (a) the addition of new forms of financing commercial, export-oriented and capital-intensive agriculture; and (b) raising the credit limit of many existing forms of agricultural financing. To cite an instance, loans given to corporates and partnership firms for agriculture and allied activities in excess of Rs 1 crore in aggregate per borrower was considered as priority sector lending under agriculture, from 2007 onwards. Third, much of the increase in the total advances to agriculture in the 2000s was on account of a sharp increase in the number of loans with a credit limit of Rs.10 crore and above, and especially Rs.25 crore and above. Even within direct agricultural finance, which goes directly to farmers, there was a sharp rise in the number of loans with a credit limit above Rs.1 crore. It seems likely that these large loans were advanced towards financing the new activities added to the definition of agricultural credit. Recent data on banking has brought out a fourth disturbing feature of the revival in agricultural credit. There has been a sharp growth of agricultural finance that is urban in nature. Between 1995 and 2005, the share of agricultural credit supplied by urban and metropolitan bank branches in India increased from 16.3 per cent to 30.7 per cent. The share of agricultural credit supplied by metropolitan branches alone increased from 7.3 per cent in 1995 to 19 per cent in 2005. While there was a moderate decrease in these shares between 2006 and 2008, urban and metropolitan branches continued to supply about one-third of the total agricultural credit in 2008. Concurrently, there was a sharp fall in the share of agricultural credit supplied by rural and semi-urban branches from 83.7 per cent in 1995 to 69.3 per cent in 2005. In 2008, the share of rural and semi-urban branches in total agricultural credit was 66 per cent.

The period of substantial change: 1960S to the 1980S

The inadequacy of rural credit continued to engage the attention of the Reserve Bank and the Government throughout the 1950s and 1960s. The Agricultural Refinance Corporation (ARC) was set up by the Reserve Bank in 1963 to provide funds by way of refinance, but credit cooperatives still did not function too well. Consequently, the All India Rural Credit Review Committee (Chairman: Shri B. Venkatappiah) was set up in July 1966 to, inter alia, review the supply of rural credit in the context of the Fourth Five Year Plan in general, and the requirements of the intensive programmes of agricultural production in different parts of the country, in particular, and to make recommendations for improving the flow of agricultural credit. After a comprehensive review, the Committee recommended
that the commercial banks should play a complementary role, along with co-operatives, in extending rural credit. The social control and the subsequent nationalisation of major commercial banks in 1969 (and in 1980) acted as a catalyst in providing momentum to the efforts of leveraging the commercial banking system for extending agricultural credit. The outreach of banks was enlarged considerably within a relatively short period of time. The concept of priority sector was introduced in 1969 to underscore the imperative of financing certain neglected sectors like agriculture. The channelling of credit to the priority sectors was sought to be achieved through the stipulation that a certain proportion of the total net bank credit be deployed in these sectors by specific target dates*.

Decentralised credit planning through the Lead Bank Scheme was also introduced, under which, each district was placed with one of the commercial banks (called the district Lead Bank) to spearhead the credit allocation for, inter alia, agricultural lending. In order to emphasise the developmental and promotional role assigned to the ARC in addition to refinancing, the Corporation was renamed as the Agricultural Refinance and Development Corporation (ARDC) by an amendment to the Act in 1975. It was also the case that the 1950s and 1960s had been characterised by a big industrial push with inadequate attention being given to agriculture. It was the 1965-1967 drought that brought matters to a head and focussed concentrated attention to agriculture. The Green Revolution then followed in the late 1960s and 1970s necessitating adequate availability of credit that could enable the purchase of inputs such as fertilizer, high yielding varieties of seeds, pump sets for irrigation, and the like. Despite all these efforts, the flow of credit to the agricultural sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of the small and marginal farmers, while the co-operatives, on the other hand, lacked resources to meet the expected demand.

The solution that was found involved the establishment of a separate banking structure, capable of combining the local feel and familiarity of rural problems characteristic of co-operatives and the professionalism and large resource base of commercial banks. Following the recommendations of the Narasimham Working Group (1975), Regional Rural Banks (RRBs) were set up. Thus, by the end of 1977, there emerged three separate institutions for providing rural credit, which is often described as the „multi-agency approach”.

Following the recommendations of the “Committee to Review Arrangements for Institutional Credit for Agriculture
and Rural Development”, the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for providing credit for promotion of, among others things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state cooperatives and RRBs. NABARD is the Apex institution which has been entrusted with a pivotal role in the sphere of policy planning and providing refinance facilities to rural financial institutions to augment their resource base.

Since its inception, the NABARD has played a central role in providing financial assistance, facilitating institutional development and encouraging promotional efforts in the area of rural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF), which was set up in 1995-96; the corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets. NABARD has been playing a catalytic role in micro-credit through the conduit of Self-Help Groups (SHGs).

The period of introspection and reforms: 1991 to the present

Notwithstanding the impressive geographical spread, functional reach and consequent decline in the influence of informal sources of credit, rural financial institutions were characterised by several weaknesses, viz., decline in productivity and efficiency; erosion of repayment ethics and profitability. On the eve of the 1991 reforms, the rural credit delivery system was again found to be in a poor shape (R.V. Gupta Committee, 1998). The Report of the Committee on the Financial System provided the blueprint for carrying out overall financial sector reforms during the 1990s. Furthermore, weaknesses in the performance of rural financial institutions since 1991 resulted in setting up of various committees/working groups/task forces to look into their operations such as: “The High-level Committee on Agricultural Credit through Commercial Banks” (R. V. Gupta, 1998), “Task Force to Study the Functions of Cooperative Credit System and to Suggest Measures for its Strengthening” (Jagdish Kapoor, 1999), “Expert Committee on Rural Credit” (V.S. Vyas, 2001), and “The Working Group to Suggest Amendments in the Regional Rural Banks Act, 1976” (M.V.S. Chalapathi Rao, 2002). These committees/working groups/task forces made farreaching
recommendations having a bearing on agricultural credit. While the Capoor Task Force suggested adoption of a Model Co-operative Act, setting up of a Co-operative Rehabilitation and Development Fund at NABARD and Mutual Assistance Fund at the state level, the Vyas Committee (2001) recommended restoration of health of Primary Agricultural Credit Societies (PACs) by scrapping the cadre system, selective delayering of cooperatives credit structure and integration of short and long-term structures. The Chalapathi Rao Working Group (2002) had, in addition to suggesting diversification of the business of RRBs, recommended introduction of capital adequacy norms for RRBs in a phased manner, along with the RRB-specific amount of equity based on the risk-weighted assets ratio. The financial sector reforms formed an integral part of the overall structural reforms initiated in 1991 and included various measures in the area of agricultural credit such as deregulation of interest rates of co-operatives, and RRBs; deregulation of lending rates of commercial banks for loans above Rs. 2 lakh; recapitalisation of select RRBs; introduction of prudential accounting norms and provisioning requirements for all rural credit agencies; increased refinance support from RBI and capital contribution to NABARD; constitution of the Rural Infrastructure Development Fund (RIDF) in NABARD for infrastructure projects; introduction of Kissan Credit Card (KCC) and stipulation of interest rate not exceeding 9 per cent for crop loans up to Rs.50,000 extended by the public sector banks.

The present work has, therefore, been undertaken to study pattern of regional distribution of institutional agricultural credit by commercial banks and growth of agriculture. This study attempts to find how far the commercial banks have succeeded in reducing the regional gaps in the supply of farm finance.

Most private banks in India have not been able to meet the needs of farmers although they are expanding their rural and semi-urban branch network. This is why the Reserve Bank of India (RBI) is insisting that at least one-fourth of the branches of the new banks that will be given a licence must be located in rural India.

In the past three years, even when RBI was increasingly forcing banks to spread services to the unbanked rural markets, there has not been much progress in money flow to rural customers. In fact, growth in lending to a significant chunk of the so-
called priority sector, which includes economically weaker sections, has come down. Under priority sector norms, banks need to lend 40% of their loans to agriculture, education and other economically weaker sections.

The agriculture loan books of India’s large private lenders—ICICI Bank Ltd, HDFC Bank Ltd and Axis Bank Ltd—three among the 10 private banks that were given licences in 1994-95, have not made any significant growth. Most of the rural lending continues to be done by state-run banks.

ICICI Bank’s rural loan book, in fact, declined by a little over Rs.2,000 crore in the last three years to Rs.19,789.2 crore in December 2012, whereas the farm loan book of HDFC Bank, the second largest private bank, was Rs.4,622.83 crore in March 2012, compared with Rs.3,263 crore in March 2009. Axis Bank’s farm loan book grew by Rs.3,344 crore to Rs.11,561 crore in three years to Rs.11,561 crore in December 2012.

The nation’s largest lender, State Bank of India (SBI), more than doubled its farm loan book to Rs.1.15 trillion in December 2012 from Rs.54,678 crore in March 2009. Punjab National Bank (PNB), too, has almost doubled its farm exposure. PNB’s agricultural credit grew to Rs.41,750 crore from Rs.24,057 crore in three years.

The private banks have by and large stayed away from directly lending to small farmers and weaker sections in India’s far-flung areas. They achieve their priority lending obligations by buying out loans from non-banking institutions or by investing in rural infrastructure development fund (RIDF) of the National Bank for Agriculture and Rural Development (Nabard).

Since the launch of RIDF in 1995, Nabard has loaned around Rs.1.2 trillion from RIDF to state governments. This simply means that commercial banks have not disbursed this amount to farmers and other economically weaker sections since 1995.

“When new generation private sector banks were given licences in 1992, none of them went to small places for at least the next 10 years. They did not even go to their state headquarters of backward states and confined themselves to urban centres. They didn’t have their heart in this business.

RBI gave permits to 10 private banks in 1994-95 and another two in 2003-04.
“They didn’t have their heart in this business as they thought rural branches are less remunerative and employees hired in the urban centres were unwilling to serve in rural sectors. But for the regulatory compulsion and permission to avail new branch licences, no single bank would have gone to the rural areas.

RBI, which released guidelines for the entry of new private banks on 22 February 2013, wants new banks to have at least 25% of their branches in the rural areas and have a business plan that will “address how the bank proposes to achieve financial inclusion”.

Innovative financial inclusion plans of banking licence aspirants will be an important criterion to decide on granting new bank licences, RBI governor D. Subbarao said on 4 March 2013 at a conference in Delhi. Experts are sceptical on how RBI could promote financial inclusion through new banks, after failing to do so through the existing infrastructure of large private banks in the last two decades. “The new banks should be asked to operate mostly in these districts, where the banking services are not available yet adequately, instead of focusing on the already crowded urban markets.

No priority for priority sector

RBI norms stipulate that 40% of bank loans should be made to the priority sector to increase the fund flow to segments such as agriculture, micro credit and economically weaker sections. Most private sector banks and some public sector banks have been seeking to meet this target indirectly by buying securitized portfolios of non-banking finance companies (NBFCs) that qualify for priority sector lending and investing in RIDF to meet the regulatory obligations. Total securitization deals in 2011-12 stood at Rs.26,000 crore, of which those involving microfinance firms stood at around Rs.3,000 crore, according to rating agency, Icra Ltd.

Also, mounting bad loans from the priority sector loans have discouraged banks from going to the rural markets, “Non-performing assets (NPAs) are disproportionately high in the priority sector for many banks. Banks ultimately consider the asset quality and rely more on RIDF investments and securitization (to meet the priority sector target). On lending side, rural business is a pain for banks even now.

While about 40% of loans of the industry form the priority sector, the segment contributes about 60% of the NPAs. State Bank of India is the worst hit. In the December quarter, over 8% of SBI’s farm loan book turned bad, accounting for
18.5% of total NPAs. Indian banks’ priority sector lending had grown 12.84% in fiscal 2012, and 5.4% in the nine months of fiscal 2013 till December. Traditionally, banks rush to lend to this sector to achieve their target in the last quarter of any fiscal year. Banks’ lack of enthusiasm for farm loans, among other factors, has contributed to the shrinkage of agriculture’s share in the gross domestic product (GDP) of the nation, which fell to 16.75% in December 2012 from 37.5% in March 1980, according to official data. According to experts, RBI’s agenda to promote financial inclusion by using only the commercial banks and excluding NBFCs from the mainstream, will not help in spreading banking services to unbanked villages. Nearly 40% of India’s population does not have access to banking services.

“Banks have never really prioritized the so-called priority sectors willingly or approached them with a wholehearted mind, had it not been for the regulatory obligations. The original idea of priority sector lending was making loans available to small and marginal farmers and landless labourers, village artisans at lower rate of interest, “But most of the banks did not do direct lending to these farmers and economically weaker sections. This never actually served the purpose of priority sector lending to the extent it was required.”

The Government of India and Reserve Bank of India [RBI], acknowledging the significance of the role of formal credit for agricultural development and growth, initiated policy to progressively institutionalize agricultural credit system and expand it beyond cooperative credit structure by nationalizing private banks in 1969, establishing regional rural banks in 1975 and subsequently licensing private sector banks [PBs] since January 1993 and 2001 during post-reform period. Policy makers have realized that banking system in India should grow in size and sophistication to meet the challenges of an emerging economy and extend the geographic coverage of banks to improve rural households’ access to banking services.

Accordingly, as of March 31, 2011, the Indian banking system purveying agricultural credit comprised 31 state co-operative banks, 370 district central co-operative banks, 94,647 Primary Agricultural Credit Societies, 20 State Cooperative Agricultural and Rural Development Banks, 697 Primary Cooperative Agricultural and Rural Development Banks, 26 public sector banks [PSBs], 82 Regional Rural Banks, four Local Area Banks, 13 old private sector banks and eight new private sector banks.
With the induction of private banks in the dispensation of rural credit, the average population coverage by a commercial bank branch in rural and semi urban areas declined from 17,200 as on end-June, 2005 to 15,900 as on end-June, 2010. The Indian financial system has made impressive strides in resource mobilization, geographical and functional reach, financial viability, profitability and competitiveness. However, vast segments of the rural population, especially the underprivileged sections of the agrarian economy, have still no or grossly inadequate access to formal banking services.

The RBI has considered licensing a limited number of new private banks since a larger number of banks would foster greater competition, and thereby reduce costs, and improve the quality of services. More importantly, it would promote financial inclusion, and ultimately support inclusive economic growth, which is a key focus of public policy.

[i] Aggregate performance of existing 21 private banks as a group in respect of share of rural and semi-urban branches in the total, credit per branch, aggregate credit to agriculture and its share in net bank credit, credit to small farmers, non-performing assets.
[ii] Performance of individual private banks in respect of direct and indirect credit to agriculture and their share in net bank credit, and non-performing assets. It, also, suggests strategy to improve the performance and contain the non-performing assets.

5.4(iii) Branch Network:

PBs during 1993 to 2011 established 8,613 rural, semi-urban and urban branches to provide agriculture credit in particular and rural credit in general. This accounted for 71.8% of their total 12,001 branches of which 10.9 % are rural and 32% semi-urban branches as against mandated requirement of 25% rural and semi-urban branches.

5.4(iv) Agricultural Credit:

Between 2002 and 2011 [i] share of PBs in the total outstanding agricultural credit [of PSBs and PBs together] progressively increased from 10.2% to 18.2% and in direct agricultural credit from 5.64% to 16.67% [ii] compound annual growth rate [CAGR] of total and direct agricultural credit of PBs was 34.07% and 42.15% respectively. As on end-march 2011, share of total and direct outstanding agricultural credit among 21 PBs in Adjusted Net Bank Credit[ANBC] varied
significantly from 8.5% to 15.9% and from 4.3% to 11.4% respectively as against mandated 18% and 13.5% respectively.

Though PBs doubled agricultural credit disbursement between 2004-05 and 2006-07 as stipulated by the Government, the increase in the outstanding level of agricultural credit could not reflect in increasing its share in ANBC of individual bank as also banks as a group of PBs. Of course, some gains in increasing outstanding up to 2008-09 might have been partially wiped out by the implementation of Agricultural Debt Waiver and Debt Relief scheme announced by the Government. Total and direct outstanding credit per branch of PBs was Rs.106.971 million and Rs.69.712 million respectively.

**Special Agricultural Credit Plans:** The RBI advised PBs in 2005-06 to formulate and implement Special Agricultural Credit Plan [SACP] annually to increase credit flow to agriculture. Under the SACP PBs are required to fix self-set targets during the year, which are generally 20% to 25% higher than the previous year’s credit disbursement. This helped PBs increase credit disbursement during 2005-06 to 2009-10, accounting for 108.5% of target in 2006-07 and 128.8% in 2005-06. The CAGR of targets during 2005-06 to 2009-10 was marginally higher at 26.67% than that of achievements at 25.93%. PBs fixed targets higher by 30.3% in 2006-07 and 19.8% in 2008-09 and less by 6.1% and 2.2% in 2007-08 and 2009-10 than previous year’s disbursements reflecting low priority on business planning.

5.4 (v) **Credit to Small & Marginal Farmers:**

During 2007 to 2011 outstanding credit to small and marginal farmers marginally increased from 0.64% to 2.82% of ANBC whereas share of outstanding credit to small and marginal farmers in total direct credit progressively increased from 7.64% to 25.03% . As on end-March 2011, 11 PBs out of 20 had this percentage below 4% of ANBC whereas five PBs had 9% of ANBC and above. The CAGR of outstanding credit to small and marginal farmers was 62.79%.

**Individual Banks:** Due to merger of one bank number of PBs declined from 23 in 2008 to 22 in 2009. Data on agricultural credit among individual banks during 2008 to 2011 revealed that aggregate direct credit of all PBs was 64.7% of total credit in 2008, which significantly declined to 58.1% in 2010 and then rose to 65.2% in 2011. Percentage of direct credit to total credit among individual PBs
exhibited wide variation from 6.1% to 91.0% [2008], from 10.0% to 87.1% [2009], from 11.8% to 93.5%[2010] and between 55.6% and 96.2%[2011]. Numbers of banks accounting for 75% and more direct credit to the total were only seven in 2008, declining to six and four in 2009 and 2010 and rising to 10 in 2011. In 2008 only six PBs achieved total agricultural credit targets of stipulated 18% which increased to eight each in 2009, 2010 and 2011.

Only five banks [Catholic Syrian bank, Dhanlakshmi bank, Yes bank, Nainital bank and Tamilnadu Merchantile bank] achieved total agricultural credit targets of 18% and with Lakshmi Vilas Bank they achieved direct agricultural credit targets of 13.5% in all four years as stipulated. Seven banks [Axis bank, Development Credit Bank, Yes Bank, HDFC Bank, ICICI Bank, Karnataka bank, and Ratnakar bank] achieved 4.5% indirect agriculture targets in all four years as mandated. Only two banks [namely Yes Bank, and Dhanlakshmi bank] achieved targets of direct, indirect & total agricultural credit as stipulated in all four years.

Non-Performing Assets [NPAs] in Agriculture: Data on NPAs in various segments of financing by PBs and all Scheduled Commercial Banks [SCBs] in 2010 and 2011 revealed that NPAs of PBs in agriculture accounted for 11.6% in 2010 and 12.1% in 2011 in total NPAs and were significantly higher than that in small scale industries [SSI] and others within priority sector credit, whereas NPAs in non-priority sectors were as high as 72.4% and 73.2% in respective years. NPAs of PBs in agriculture in 2010 and 2011 were significantly lower than that for all Scheduled Commercial Banks [SCBs] at 13.9% and 18.7% in respective years. NPAs in agriculture in 2011 increased by 7.4% over 2010, which were significantly lower than that in SSI but significantly higher than in sectors viz. others, non-priority and public sector.

NPAs in agriculture of PBs recorded insignificant growth in 2011 over 2010 as compared to 60.9% for all SCBs. NPAs in agriculture of PBs accounted for 19.54% of all SCBs in 2010 which significantly declined to 13.04% in 2011. However, they were significantly higher than NPAs in priority sectors, SSIs and others but were significantly lower than NPAs in non-priority sectors, public sector and total in both the years. Three banks together in 2010 and four banks in 2011 contributed to 82.5% and 83.5% of NPAs.

NPA in Agriculture of Individual Banks: Data on NPAs in agriculture of individual banks during 2008 to 2011 revealed that aggregate NPAs of all PBs in agriculture in 2008 were Rs.1467 crore which declined marginally to Rs.1441
croc [98.2%] in 2009 but then increased significantly to Rs.2023 crore [140.4%] in 2010 and to Rs.2171 crore [107.4%] in 2011 over the previous year. The share of aggregate NPAs in agriculture in the total NPAs declined significantly from 11.3% in 2008 to 8.5% in 2009. However, it significantly rose to 11.6% in 2010 and to 12.1% in 2011. The aggregate NPAs in agriculture accounted for 2.5% of outstanding agricultural credit in 2008 which declined to 1.9% in 2009. However, it rose marginally to 2.2% in 2010 and 2.4% in 2011. The share of agricultural NPAs in total NPAs of individual banks ranged widely from 1.89% to 17.5% in 2008, from 2.3% to 21.6% in 2009, from 2.5% to 34.9% in 2010 and from 4.5% to 28% in 2011. NPAs in agriculture of individual banks varied from 0.1% to 5.5% of outstanding agricultural credit in 2008, from 0.4% to 2.8% in 2009, from 0.4% to 4.2% in 2010 and from 0.3% to 7.2% in 2011.

Two banks in 2008 and three banks in 2009 [each with NPAs more than Rs.100 crore] accounted for as high as 74.3% and 76.2% NPA respectively in total NPAs in agriculture whereas three banks in 2010 and four banks in 2011 [each with NPAs more than Rs.100 crore] had a shared as high as 82.1% and 83.6% NPA respectively in total NPA in agriculture. Two banks, namely SBI C& I and Yes bank did not report any amount of NPAs in agriculture in any of the four years.

Efficiency Parameters: Despite late entry of PBs in the field of financing agriculture and limited presence in rural and semi-urban centers, their performance compares favorably well with that of public sector banks in most parameters and PBs have relatively low level of NPAs in agriculture. Incidentally, data on the efficiency parameters of 26 PSBs and seven new PBs for 2010-11 reveal that PBs have significantly performed better than PSBs, viz. PBs had profit/employee [Rs.8,93,000], wages as percentage of total expenses[13.83%], return on assets[1.51%] and net NPA ratio[0.67%] as against Rs.5,93,000; 17.27%; 0.96% and 1.09% respectively for PSBs. Business/employee of PSBs was Rs.10.1363 crore as against Rs.8.2607 crore of PBs reflecting quality rather than quantity.

Strategy: Strategy to improve performance and contain NPA needs to focus on following initiatives by banks and Government.

**Banks:** As on end-March 2012, all PSBs, PBs and RRBs together have provided banking connectivity to 1,47,534 villages out of 6,38,387 as against 54,258 villages in March 2010. Almost all 74,000 villages with more than 2000 persons
have been connected with banks. In April 2011, banks have been mandated to allocate at least 25% of all new branches to unbanked rural areas and open intermediary brick and mortar structure between the base branch and customer locations, which can bring efficiency in cash management, documentation, supervising Business Correspondents’ operations and redressing customers’ grievances.

- Now banks have to reach to villages with persons between 1000 and 2000 through a combination of brick and mortar structure with technology application in geographically dispersed areas. Currently, PBs have branches in 8613 centres only. They can establish additional branches at strategic locations and make effective use of technology to provide banking services in four-five villages around existing branch and in remote areas through Business Correspondent model.

- They should continue their efforts systematically in villages already connected to widen and deepen clientele outreach by putting in place rural-friendly human resource development and training policy, formulating five-year perspective business plan, developing new financial products and marketing strategy.

- PBs can benefit much from the field experiences of PSBs, RRBs and cooperatives for financing farm mechanization, irrigation development, vegetable cultivation, horticulture and plantation, aquaculture, floriculture, sericulture, agro-processing, dairy, livestock and fish farming, among others.

- Products and approaches viz. Kisan Credit Cards, value chain, contract farming, warehouse financing and finance lease can substantially enhance agricultural financing, covering small and marginal farmers.

- Formation and nurturing of self-help-groups and Joint Liability Groups of landless labourers, tenant farmers, small and marginal farmers, share croppers and oral lessees can facilitate efficient use of farm credit for productive purpose.

- Financial sustainability of PBs can be enhanced through providing full range of financial services, viz. savings, remittances, insurance and credit to farm and non-farm sectors in rural areas through business planning. They should focus on farmer-friendly lending procedure, system & methods, evaluate periodically and redesign to meet clients’ needs.

Farmers’ inability to withstand against unfavourable climate, drought, floods, adopt yield-maximizing technology and secure remunerative prices jeopardized their capacity to larger an extent rather than their unwillingness to repay loan. This
created NPAs in agriculture. In order to contain and efficiently manage NPAs in agriculture strategic actions need to focus.

- Effective inter-institutional coordination and supervision over end-use of credit, accompanied by timely restructuring loans, rescheduling repayments, interest waiver and write off, as the case may be, as advised by RBI would help minimize incidence of NPAs.
- Analysis of data on NPAs [absolute amount, its percentage in outstanding agricultural credit, its share in total NPAs, etc.] by individual banks operating within a district each year can help assess comparative performance among banks. This would help Bank managers identify the factors responsible for building up NPAs in agriculture in the district, discuss at District Level Coordination Committee [DLCC] meeting and seek cooperation of village Panchayats, Block& District Authorities to reduce NPAs. These institutes need to appreciate that bank credit is a catalyst for rural development and they need to help banks in mobilizing loan recovery on time.
- Each Bank’s controlling office should analyze data on NPAs district-wise within the State and data on NPAs must be incorporated district-wise and bank-wise in the Annual State Focus document prepared by NABARD for discussion in the State Level Bankers Committee meeting and devising appropriate policy and strategy to contain the growth of NPAs.
- PBs must train farmers for their capacity building rigorously under the program of financial literacy and debt counseling developed by RBI. PBs should also train their staff in rural branches for capacity building and enhancing rural credit management skills.

Government: Union and State Governments have a pivotal role in creating enabling environment that can sustain the flow of credit to agriculture and borrowers repay loan on time. These include following, among others.

- Swiftly passing the bill “Women Farmers’ Entitlement Bill, 2011” proposed by Dr. M.S. Swaminathan that seeks, inter alia, access to water, credit and inputs, legalizing pattas [land rights] for women and tenant farmers.
- Investing adequately in creating infrastructure to connect progressively all villages by roads, transport and communication network; strengthen agricultural research and extension services; establish State-of-Art agricultural meteorology in all agro-ecological regions and introduce weather-based crop insurance; develop floods and drought codes, harness irrigation potential and maximize utilization; create agro-processing, storage and marketing facilities.
Government must refrain from announcing wholesale loan waiver and write off and, in any case, it should not vitiate repayment climate and culture. Instead, it should create conducive climate that can motivate borrowers to repay loan timely.

Disassociating from regulating commercial banks and leaving it exclusively to the Reserve Bank of India, which can devise regulatory policies in line with international best practices including, inter alia, demand driven credit rather than supply-led subsidized credit.

Government departments and agencies, in close coordination with banks, should help beneficiaries prepare quality proposal under Government schemes for availing bank credit along with capital subsidy and help banks in recovery of loans.

DLCC should monitor and review all credit-based development schemes and help create infrastructure that can enhance credit absorption capacity of the geographical area and clients.

5.5 Marketing practices related to Small Medium Enterprises:

5.5(i) Evolution of SIDBI

SMEs form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. It is estimated that SMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. This paper closely analyses the growth and development of the Indian mall scale sector from opening of the economy in 1991. Third part looks into the present scenario of SMEs and the problems they phases like lending, marketing, license raj issues in detail. The Micro, Small and Medium Enterprises Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The final part provides some future policy framework for the sustainability of the sector.

Small industry has been one of the major planks of India's economic development strategy since Independence. India accorded high priority to small and medium enterprises (SMEs) from the very beginning and pursued support policies to make these enterprises viable and vibrant and over time, these have become major contributors to the GDP.
Despite numerous protection and policy measures for the past so many years, SMEs have remained mostly small, technologically backward and lacking in competitiveness. The opening of the Indian economy in 1991 added problems to the SMEs. At the beginning, small scale enterprises found it difficult to survive. In the last decade, the economic environment has changed in favour of SMEs.

Presently, the SMEs in India are at a crossroad and intense debate is centred around questions like what would be the future of the small enterprises? How these enterprises can survive in the international trade arena?

What role can the government play in making these SMEs more competitive? In this context, it is important to re-look into the basic issues of SMEs, past, present and future prospects, especially in the policy framework.

The prominence of SME sector in today’s world is amply recognised, considering their remarkable contributions in achieving various objectives such as employment generation, generation of new entrepreneurships, contribution to national outputs and exports, and the depth they provide to the industrial base of a country’s economy.

India’s SME sector is so vibrant today that they play a major role in sustaining the country’s economic growth. The General Finance Market of the country today identifies their major function as to fund the small and medium enterprises of the country. This section explores various options of business financing for all financial institutions. The relationship between the banker and the customer also has become most competitive today.

The World Bank has approved a $400 million additional financing loan to the Small Industries Development Bank of India (SIDBI) this year to improve the financial assistance to the small and medium enterprises of the country and to assist them in the global financial crisis and the subsequent liquidity constraints. This also addresses the slowdown in the credit growth of the Indian financial sector.

This credit facility focuses long-term working capital loans for SMEs in the country and the expansion of credit facilities to new geographical areas, possibly to India's lesser-developed states, thereby promoting inclusive growth of SME’s across the country.
About SIDBI

According to Indian government, the companies which fall under the domain of SME are those in which the unit in the investment for plant and machinery does not exceed Rs.10 million. Small Industries Development Bank of India (SIDBI) which was established in 1990 runs with the objective of promoting and financing SME’s in the country, in co-ordination with the functions of the institutions engaged in financing the small scale sectors.

SIDBI’s schemes can be broadly divided into four categories:

• Refinance Schemes

• Bills Finance Schemes

• Project Related Direct Finance Schemes

• Promotional and Development Schemes

SIDBI's financial assistance for small scale sector have three major dimensions- an indirect assistance to primary lending institutions (PLIs), a direct assistance to small units and overall development activities and support services.

SIDBI extends its operation through the primary lending institutions such as State Financial Corporations, Scheduled Commercial Banks, State Industrial Development Corporations. SIDBI provides financial assistance to SSIs both directly through its branches and indirectly through the Primary Lending Institutions.

SIDBI provides Indirect Finance (refinance and rediscounting of bills) through, Small Scale Industries and Primary Lending Institutions (PLIs). In respect of some institutions, the line of credit is granted in lieu of refinance.

They offer Direct Finance through several tailor-made schemes targeting specific groups or activities benefiting SSIs. Their Direct Finance Services include different types of Loans, Promotional and Developmental Services, Grants and Corpus Support provided to non-governmental organisations, technology and management institutions etc, to act as implementing agencies for SIDBI's developmental programmes.

SIDBI looks forward to a partnership with NGOs, associate financial institutions, corporate bodies, marketing agencies, etc., for national level programmes.
Small and Medium Enterprises (SMEs) are critical to the nation's economy: they contribute approximately 40 per cent of India's domestic production, almost 50 per cent of total exports and 45 per cent of industrial employment. More importantly, they are the second largest employers of manpower, after agriculture. SMEs in India operate mostly in the unorganised sector and are the source of livelihood for millions of people.

The social contribution made by SMEs is even more significant than its economic contribution. Within the SME sector, the small sector serves as a seed-bed for nurturing entrepreneurial talent and originating units to eventually grow into medium and large enterprises. The promotion of SMEs, therefore, becomes a major area for policy focus. The regeneration of SMEs must receive public support particularly for village, cottage and micro level enterprises. Despite their economic significance, SMEs face a number of bottlenecks that prevent them from achieving their full potential. Some of the major obstacles in the path of business development for SMEs relate to a wide range of issues:

**Financing:** Lack of access to finance and timely credit as well as escalating cost are cited as the primary reasons for under-utilisation of the manufacturing capabilities of SMEs.

**Infrastructure:** The infrastructural facilities in India have not reached to the desired level. This restricts private initiatives in this sector. Therefore, creation of better infrastructural facilities for SMEs must receive greater priority.

**Taxes And Regulations:** A multiplicity of regulating agencies lead to harassment and inspections with greater impact on operations of SMEs than on larger units.

**Marketing:** With growing access to modern means of communication, particularly revolution in the information technology, the sheltered market for the SMEs product is no longer so. SMEs should join hands globally to create a global commodity chain. In this regard, SME mother units in marketing, similar to mother units in production, may be promoted.

**Technology:** It becomes difficult for SMEs to access cutting-edge technology due to the high initial costs, thus leaving them behind in the race for competitiveness.
A major impediment in SME development is their inability to access timely and adequate finance.

There are several reasons for low SME credit penetration, key among them being insufficient credit information on SMEs, low market credibility of SMEs (despite their intrinsic strengths) and constraints in analysis. This leads to sub-optimal delivery of credit and services to the sector. As the access of SMEs to capital markets is very limited, they largely depend on borrowed funds from banks and financial institutions. While investment credit to SMEs is provided by financial institutions, commercial banks extend working capital. In the recent past, with growing demand for universal banking services, term loans and working capital are becoming available from the same source. Besides the traditional needs of finance for asset creation and working capital, the changing global environment has generated demand for introduction of new financial and support services by SMEs. There is an urgent need to regenerate SME financing.

As SMEs have been the green-field for nurturing entrepreneurial talent, first generation entrepreneurs should be facilitated in accessing desired finance through the creation of guarantee funds. Finance should not only be timely but also cost effective. Among instruments of SME Financing, SIBDI, is the principal financial institution for the promotion, financing and development of industry in the SME sector in the country. SIDBI also provides appropriate support in the form of promotional and developmental services. In order to improve the credit flow to the SME sector, it has tied-up with eight public sector banks in the country. With these tie-ups, it has covered 150 SME clusters, out of the total 388 clusters identified across the country. In spite of the various initiatives taken by the government, banks and financial institutions, SMEs face certain challenges which are universal in nature. These problems relate to the issue of collaterals, cost of loans, delay in receivables, obsolete technology, marketing, etc. In order to address the above problems in the Indian context, some innovative instruments of financing have been introduced and institutional set ups have been created. Some of the major initiatives include:

**Credit Guarantee Fund Trust for Small Industries:** Government of India, in association with SIDBI, has set up a Credit Guarantee Fund Trust for Small Industries (CGTSI) to implement the guarantee scheme.
5.5(ii) **Risk Sharing Facility:**

While the CGTSI extends guarantee cover for the loans up to Rs.2.5 million, there is a need for offering guarantees for loans extended by banks beyond the above limit. Under a World Bank led Project on Financing and Development of SMEs, a possibility of introducing a risk sharing facility for the SME sector is being examined, wherein the risk in lending by banks to SMEs could be shared on pari passu basis between the originating banks and the suggested entity.

5.5(iii) **Venture Capital Funding:**

With regard to, many countries are considering liberalising the rules regarding venture capital investments. In India also, various measures have been taken in this direction. SIDBI, along with some other institutions, has taken a lead in promoting venture capital funding in the country.

5.5(iv) **Micro Credit:**

Realising the potential of micro finance in stimulating economic growth, SIDBI, has laid emphasis on increasing the capacity of the sector to handle credit and growth in the disbursements of micro finance. SIDBI Foundation for Micro Credit has been established.

5.5(v) **Small and Medium Enterprises Fund:**

The most important amongst the sectoral initiatives taken by the GOI and SIDBI is an SME Fund, with a view to giving impetus to the fund flow to the SME sector. Under the Fund, assistance is being provided to SMEs at an interest rate of 200 basis points below the Bank's PLR. Direct assistance is being extended to SMEs through SIDBI's own offices at 9.5 per cent rate of interest as also by way of providing refinance to the primary lending institutions.

There are a number of issues in lending to the SME sector, which banks generally face. The key issues among them are outlined below:

5.5(vi) **Information Asymmetry:**

Accurate information about the borrower is a critical input for decision-making by banks in the lending process. Where information asymmetry (a situation where
business owners or managers know more about the prospects for, and risks facing their business than their lenders) exists, lenders may respond by increasing lending margins to levels in excess of that which the inherent risks would require. However, the sheer ticket size of SME lending makes it inviable for banks to invest in development of information systems about SME borrowers. In such situations, banks may also curtail the extent of lending even when SMEs are willing to pay a fair risk adjusted cost of capital. The implication of raising interest rates and/or curtailing lending is that banks will not be able to finance as many projects as otherwise would have been the case.

5.5(vii) **Granularity:**

This refers to a situation where the risk grading system at banks does not have the requisite capability to discriminate between good and bad risks. The consequence is tightening of credit terms, or an increase in prices, or both. From the borrower's perspective, this leads to an outcome where the bank is over-pricing good risks and under-pricing bad risks. The fact that most banks in India have not developed adequate expertise in SME lending risk assessment exercises leads to the problem of granularity when it comes to SME lending.

5.5(viii) **Pecking Order Theory:**

Pecking order theory shows from the above two issues, which makes SME lending highly difficult for banks. Under this hypothesis, SMEs, which face a cost of lending that is above the true risk-adjusted cost, will have incentives to seek out alternative sources of funding. Evidence suggests that in such situations, SMEs prefer to utilise retained earnings instead of raising loans from banks.

5.5(ix) **Moral Hazard:**

Even when loans are made to SMEs, it may so happen that the owners of these SMEs take higher risks than they otherwise would without lending support from the banks. One reason for this situation is that the owner of the firm benefits fully from any additional returns but does not suffer disproportionately if the firm is liquidated. This is referred to as the moral hazard problem, which can be viewed as creating a situation of over-investment. The moral hazard problem may, thus,
result in SME lending turning bad in a short period of time, a situation that all banks would like to avoid.

5.5(x) **Switching Costs:**

SMEs may find it harder to switch banks, when countered with any issue. It is a known fact that the smaller the business, the more significant the switching costs are likely to be and, therefore, it is less likely that the benefits of switching outweigh the costs involved. This situation results in SME lending becoming a seller's market, which may not be attractive to SME borrowers. Steps for Smooth SME Lending In order to ensure that the Small and Medium Enterprises (SMEs) play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing. With the opening up of the Indian economy, it has become necessary to consider measures for smoothing the flow of credit to this sector. The article provides a cross country perspective in this regard and highlights the Indian scenario with reference to SME lending.

**What our Public Sector and Private Banks Offer?**

India's largest lender, State Bank of India had announced a cut in interest rates for their new SME loans and announced a few other measures to improve credit flow to this segment. SBI has slashed lending rates for loans up to Rs 5 lakh to eight per cent and those for loans ranging from Rs 5-25 lakhs to 10 per cent in April 2009. The rate reduction will be available for the next two years and will be applicable for working capital and term loans provided they are covered under CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises).

After two years, the bank will review and rework the rates according to the prevailing market conditions. SBI has also extended the SME help and SME care schemes, under which they offer loans at eight per cent to SMEs from April to September 30, 2009.

ICICI Bank, the country's leading private sector bank, expects a 10-12 per cent growth in loans to Small and Medium Enterprises (SMEs) by this year as per the an official announcement made by their officials this month.
ICICI Bank's vendor and dealer financing services ensure timely availability of finances at reasonable costs allowing healthy and continuous growth of SME business. ICICI Bank’s Unsecured Small Business Loan provides easy loan approvals without mortgages and collateral securities. Loans are provided in the form of overdrafts, letter of credit or bank guarantee and you can borrow up to a maximum of Rs. 25 lakhs in this scheme.

ICICI Bank has several tailor made SME loan packages for different sectors, prepared according to the requirements of various sectors. They also offer tailor made services in cash credit, working capital, bill discounting, cash management services, roaming current accounts.

The Bank of Baroda has separate loan schemes for different segments like Vidyasthali loan for the education sector, Arogyadham for the health sector, Laghudhyami credit card, technology up gradation fund scheme for textile industry, composite loans, short and medium term loans, gold cards, schemes for financing energy efficiency projects, and OD facilities against land and building.

All SMEs and other entities including service sector with an annual sales turnover upto Rs. 100 crores, are eligible for this with a security of an exclusive charge for the bank on the assets of the enterprises and a personal guarantee of all promoter directors.

Standard Chartered Bank has drawn up plans to make a determined entry into providing business equipment loans to SME’s. The bank scales up plans to provide long term loans to SME’s and also to launch a ‘One Money Card’, which is a credit card and a debit card rolled into one. This is a fee-based product (like a platinum card) and will be sold by the bank on an invitation basis to select customers.

With the different ventures SIDBI and schemes of public and private sector banks, adequate strength is gained by the SME in the country against the crash occurred during the economic crisis and is looking ahead for a bright growth in the following years.

The Government announced a ‘Policy Package for Stepping up Credit to Small and Medium Enterprises (SMEs)’on 10 August 2005. The measures in the Policy Package to increase the quantum of credit to SMEs (including micro and small enterprises – MSEs) include:

- Public sector banks to fix their own targets for funding SMEs in order to achieve a minimum 20 per cent year-on-year growth in credit to the SME sector.
• Public sector banks to follow a transparent rating system with cost of credit linked to the credit rating of the enterprise.
• Commercial banks to make concerted efforts to provide credit cover on an average to at least 5 new tiny, small and medium enterprises at each of their semi-urban / urban branches per year.
• The Reserve Bank of India (RBI) to issue detailed guidelines relating to debt restructuring mechanism so as to ensure restructuring of debt of all eligible small and medium enterprises.
• Introduction of a one-time settlement scheme to apply to small scale Non-Performing Asset (NPA) accounts in the books of the banks as on March 31, 2004.
• Taking the existing RBI guidelines as indicative minimum, banks to formulate a comprehensive and more liberal policy relating to advances to the SME sector.
• Banks to adopt cluster based approach for SME financing.
• The RBI to constitute empowered committees with the Regional Director of RBI as the Chairman to review the progress in SME financing and rehabilitation of sick small (SSI) and medium units.
• Boards of banks to review the progress in achieving the self-set targets as also rehabilitation and restructuring of SME accounts on a quarterly basis.

Private sector banks turn focus on SMEs:

In the face of the economic slowdown since the last one year, the small and medium enterprises sector has emerged a favourite for private banks to do business with.

Such enterprises constitute 80 per cent of the registered companies in India. An SME size varies from one with a turnover of Rs 25 crore to Rs 1,000 crore a year. In early 1980s, Infosys Technologies was also an SME, and today it's an IT giant in India.

The contribution of SMEs to India's GDP is projected to touch 22 per cent by 2012, according to Assocham.

IndusInd Bank, ICICI Bank and Development Credit Bank are focusing on the banking needs of SMEs with extra vigour. DCB and IndusInd have reduced the time of credit approval (for disbursing loans) from 15-30 days to 7-15 days.
In fact, IndusInd is planning to launch 'factoring' service to help export oriented SMEs for trade finance by June-July.

"Factoring will help SMEs, who are exporting their products abroad, to shorten their payment cycle and thereby carry on with their expansion plans. For this, IndusInd will tie up with a bank in the importing country to get an upfront payment (almost 90-95%) against the products exported. Therefore, the exporting Indian SME will get its payment immediately, instead of waiting as long as 90 days.

IndusInd Bank is also in the process of creating a 'scoring model' for SME clients, wherein there are certain parameters (corporate governance, credit worthiness, credential etc.) to determine a status of an SME customer to business with. While IndusInd Bank has extended the "loan against rent receivable" and warehouse financing to SMEs, DCB has made cash management tools available to SME players.

"Usage of cash management tool will help bring down the turnaround time for collection of payments. Consequently, SMEs can encash their outstation cheques in only 3 days, which is in the process of devising more relaxed credit routes for smaller players."
Table: 5.2

<table>
<thead>
<tr>
<th>Promotional strategies by public and private sector banks Promotional Tool</th>
<th>Public Sector Bank</th>
<th>Private Sector Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising on Television</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Advertising in Newspapers</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Personal Selling/Personal Contact</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>In Journals and Magazines</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Tele Calling by Sales Persons</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Outdoor Advertising</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Hoardings etc</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schemes/Gifts/Prizes for Customers</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Public Relations/Events/Programmes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Online Marketing/E-Mail</td>
<td><strong>Yes But Few</strong></td>
<td>Yes</td>
</tr>
<tr>
<td>Pamphlets/Propaganda</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Letter/Mail/ with Relevant Material</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Publishing <strong>News</strong> in Newspapers</td>
<td><strong>Yes But Few</strong></td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Source:** Interview of Bank Employees
Table: 5.3 Demographic factors of respondents

<table>
<thead>
<tr>
<th>Variables</th>
<th>No of Respondents</th>
<th>Percentage</th>
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<tbody>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below 20</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>20-30</td>
<td>126</td>
<td>42</td>
</tr>
<tr>
<td>30-45</td>
<td>63</td>
<td>21</td>
</tr>
<tr>
<td>Above 45</td>
<td>90</td>
<td>30</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>213</td>
<td>71</td>
</tr>
<tr>
<td>Females</td>
<td>87</td>
<td>29</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below 10000 PM</td>
<td>81</td>
<td>27</td>
</tr>
<tr>
<td>10000-15000</td>
<td>97</td>
<td>32.33</td>
</tr>
<tr>
<td>15000-20000</td>
<td>69</td>
<td>23</td>
</tr>
<tr>
<td>Above 20000</td>
<td>53</td>
<td>17.67</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below Metric</td>
<td>77</td>
<td>25.67</td>
</tr>
<tr>
<td>Higher</td>
<td>58</td>
<td>19.33</td>
</tr>
<tr>
<td>Secondary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduation</td>
<td>95</td>
<td>31.67</td>
</tr>
<tr>
<td>Post-Graduation</td>
<td>70</td>
<td>23.33</td>
</tr>
<tr>
<td><strong>Occupation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers</td>
<td>56</td>
<td>18.67</td>
</tr>
<tr>
<td>Shopkeepers</td>
<td>95</td>
<td>31.33</td>
</tr>
<tr>
<td>Salaried</td>
<td>81</td>
<td>27</td>
</tr>
<tr>
<td>Professionals</td>
<td>26</td>
<td>8.66</td>
</tr>
<tr>
<td>Students and</td>
<td>42</td>
<td>14</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Primary Data
Table: 5.4 Types of services availed by the customers.

<table>
<thead>
<tr>
<th>Types of Services</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving Account</td>
<td>145</td>
<td>48.33</td>
</tr>
<tr>
<td>Current Account/Overdrafts</td>
<td>85</td>
<td>28.33</td>
</tr>
<tr>
<td>Fixed Deposits</td>
<td>33</td>
<td>11</td>
</tr>
<tr>
<td>Loans</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
<td>5.34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data

Figure 5.10
Table: 5.5 Awareness about the difference between public and private sector banks

<table>
<thead>
<tr>
<th>Responses</th>
<th>No. of Respondents</th>
<th>% Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>255</td>
<td>85</td>
</tr>
<tr>
<td>No</td>
<td>45</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

Figure 5.11

Table: 5.6 Comparative analysis of public and private sector banks on the basis of volumes of advertising, truthfulness in advertising, and effectiveness of advertising.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Weighted Mean Score Out of (5)</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Banks do More Advertisement</td>
<td>3.81</td>
<td>1.15</td>
</tr>
<tr>
<td>Private Banks Ads are More Effective</td>
<td>3.51</td>
<td>1.18</td>
</tr>
<tr>
<td>Public Sector Banks Ad”s Information More True</td>
<td>3.62</td>
<td>0.97</td>
</tr>
</tbody>
</table>

Source: Primary Data
Table: 5.7 Comparative look on the exposure to promotional tools public Vs private.

Exposure (Those who were known to the difference between Public and Private Sector Bank)

<table>
<thead>
<tr>
<th>Promotional Tools</th>
<th>Public</th>
<th></th>
<th>Private</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Responses</td>
<td>% Age</td>
<td>Total Responses</td>
<td>% Age</td>
</tr>
<tr>
<td>Advertising on TV</td>
<td>169</td>
<td>66.27</td>
<td>175</td>
<td>68.63</td>
</tr>
<tr>
<td>Advertising in Newspapers</td>
<td>132</td>
<td>51.76</td>
<td>156</td>
<td>61.17</td>
</tr>
<tr>
<td>Outdoor Advertising Hoardings etc</td>
<td>53</td>
<td>20.78</td>
<td>71</td>
<td>27.84</td>
</tr>
<tr>
<td>Online Marketing</td>
<td>18</td>
<td>7</td>
<td>43</td>
<td>16.86</td>
</tr>
</tbody>
</table>

Source: Primary Data

Figure 5.12
Table 5.8 Exposure towards Personal selling and Tele calling (private sector banks) Private Sector Banks

<table>
<thead>
<tr>
<th>Promotional Tools</th>
<th>Exposure</th>
<th>No Exposure</th>
<th>Total</th>
<th>% Age Exposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tele Calling</td>
<td>77</td>
<td>223</td>
<td>300</td>
<td>25.67</td>
</tr>
<tr>
<td>Personal Selling</td>
<td>88</td>
<td>212</td>
<td>300</td>
<td>29.33</td>
</tr>
<tr>
<td>Total (Out of 600)</td>
<td>165</td>
<td>435</td>
<td>600</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Source: Primary Data

Figure 5.13
Table: 5.9 The most effective promotional tools for banking services.

<table>
<thead>
<tr>
<th>Ranks</th>
<th>Name of the Promotional Tool</th>
<th>Weighted Mean Score (Out of 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Advertising on Television</td>
<td>3.84</td>
</tr>
<tr>
<td>2</td>
<td>Advertising in Newspapers</td>
<td>3.59</td>
</tr>
<tr>
<td>3</td>
<td>Personal Selling/Personal Contact</td>
<td>3.43</td>
</tr>
<tr>
<td>4</td>
<td>In Journals and Magazines</td>
<td>3.26</td>
</tr>
<tr>
<td>5</td>
<td>Tele Calling by Sales Persons</td>
<td>2.89</td>
</tr>
<tr>
<td>6</td>
<td>Outdoor Advertising Hoardings etc</td>
<td>2.85</td>
</tr>
<tr>
<td>7</td>
<td>Schemes/Gifts/Prizes for Customers</td>
<td>2.85</td>
</tr>
<tr>
<td>8</td>
<td>Public Relations/Events/Programmes</td>
<td>2.66</td>
</tr>
<tr>
<td>9</td>
<td>Online Marketing</td>
<td>2.59</td>
</tr>
<tr>
<td>10</td>
<td>Pamphlets/Propaganda</td>
<td>2.32</td>
</tr>
<tr>
<td>11</td>
<td>Letter/Mail with Relevant Material</td>
<td>2.29</td>
</tr>
<tr>
<td>12</td>
<td>Publicity</td>
<td>2.25</td>
</tr>
</tbody>
</table>

Standard deviation 0.5274