Chapter 2

Overview of Banking Industry

2.1 Introduction of Banking Industry

Banks in India can be categorized into non-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. There are about 67,000 branches of Scheduled banks spread across India. During the first phase of financial reforms, there was a nationalization of 14 major banks in 1969. This crucial step led to a shift from Class banking to Mass banking. Since then the growth of the banking industry in India has been a continuous process.

As far as the present scenario is concerned the banking industry is in a transition phase. The Public Sector Banks (PSBs), which are the foundation of the Indian Banking system account for more than 78 per cent of total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology.¹

2.2 Meaning of Bank & Banking:

For laymen, A Bank is a financial organization which accepts deposits and lends money in the form of loan to individuals and business units as per their need.

A bank is a financial institution licensed by a government. Its primary activity is to lend money. Many other financial activities were allowed over time. For example banks are important players in financial markets and offer financial services such as investment funds. In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as the United
States banks are prohibited from owning non-financial companies. In Japan, banks are usually the nexus of a cross-share holding entity known as the zaibatsu. In France, banc assurance is prevalent, as most banks offer insurance services (and now real estate services) to their clients.

The level of government regulation of the banking industry varies widely, with counties such as Iceland, the United Kingdom and the United States having relatively light regulation of the banking sector, and countries such as China having relatively heavier regulation.

2.3 Definition of bank under British law:

General Klein of university of London explains ‘bank’ as “a body, corporate or not, that has been recognized by bank of England under banking Act, 1987, to accept deposits as defined by that act. In UK there is no statutory definition of ‘bank’ or ‘banker’. These concepts have been defined by the jurists and subject experts based on decisions of courts of England, as follows:

“A banker is one who in the ordinary course of his business, honors cheque drawn upon him by persons from and for whom he receives money on current accounts.”

“A banker is an individual, partnership or corporation, whose sole pre-dominant business is banking, that is the receipt of money on current or deposit account; and the payment of cheque drawn by and the collection of cheque paid in by a customer.”

2.4 Definition of bank under Indian law:

In India ‘banking’ has been defined by a statute, viz, the Banking Regulation Act, 1949 as follows:

“Accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, and order or otherwise”
2.5 Types of Banks:

A. Reserve bank of India:-

The reserve bank of India is the apex banking institutions of our country. It was established on February 16th 1934 to set up the central bank in the country known as The Reserve Bank of India (R.B.I.). RBI was established to regulate the functioning of banks. The act enabled in bank to issue bank note & central credit with a view to maintain monetary stability in the country before its establishment the issue of notes was regulated by govt. of India & credit was regulated by imperial bank, but this dual system was defective & for this purpose R.B.I was established R.B.I. was nationalized on 1st Jan. 1949.
B. **Commercial Banks:-**

Commercial banks in India are those banks which are registered under Indian banking regulation Act 1949 & are under the control & supervision of R.B.I. These banks perform of the general banking function. They are the main source of providing institutional credit in the country. These are also known as joint stock banks. Commercial banks are scheduled & non-scheduled & they are private sector & public sector bank.

- **Public sector:-**

Public sector in Indian banking in present position is arrived from three stages.

- The first stage was nationalization of imperial bank in to state bank of India in 1955, followed by 7 subsidiaries.
- The second stage was the nationalization of fourteen (14) major banks on July 19\textsuperscript{th} 1969.
- In the last stage nationalization of more 6 banks on April 15\textsuperscript{th} 1980.

Thus, 27 banks constitute the public sector in Indian commercial banking. The public sector banks consist of SBI and its subsidiary banks and the 20 nationalized banks. SBI is the largest commercial banks in India which was set-up in 1955. In July 1969, 14 largest private owned commercial banks with deposits exceeding Rs. 50 corer were nationalized and subsequently 1980 6 other banks whose demand and time
liabilities exceed Rs. 200 corer were nationalized in order to fulfill the social objectives of the nation. Today we have 28 nationalized banks in all which are virtually dominating the commercial banking scene in the country. The changes in the structure and control of commercial banks have paved the way for wider geographical expansion, deeper penetration in rural areas and reallocation of bank credit to priority sectors.

- **Private Sector:-**

The "private-sector banks" are banks where more parts of stake or equity are held by the private shareholders and not by government. The R.B.I. has issued guidelines for the formation of new private sector banks in India. They have to follow R.B.I. Act 1934 & Bank Regulation Act 1949. 

Private banking in India was practiced since the beginning of banking system in India. The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector banks in India as part of the RBI's liberalization of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as Scheduled Commercial Bank in January 1995. ING Vysya, yet another Private Bank of India was incorporated in the year 1930. Bangalore has a pride of place for having the first branch inception in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya Bank has many credits to its account.

- **Co-operative Bank:-**

In spite of the fact that the Indian commercial banks have grown leaps and bounds in the urban and semi-urban areas, their attention to rural credit is insignificant although 70% of our country's population depends on agriculture for their livelihood. In the absence of adequate financial help, the farmers and agricultural laborers are victims of money-lenders and indigenous bankers who charge exorbitant rates of interest. In order to protect them from this economic exploitation and moral degeneration, the co-operative movement in India was encouraged. The co-operative banks were set-up to
relieve them from the clutches of money-lenders by providing them agricultural loans comprising of short, medium and long-term loans.

The co-operative banks are institutions established with principles of co-operation. The objective of such organizations is to facilitate rural credit and to promote thrift and self-help among the economically weaker sections of the society. Like commercial banks the co-operative banks also receive deposits and lend money. But they lend to their members and make incidental profits, although, their sole objective is not profit earning.

The co-operative banking in India has grown in size and volume. A special feature of agriculture co-operative bank is its three-tier structure. At the primary/village level, the primary or village co-operative credit societies have been set-up to cater to the needs of the local population. At the District level, the Central co-operative banks function as a federation and at the State level, the State co-operative banks act as the apex bank.

**Advanced Classification of Banks:**

The focus of banking is varied, the needs diverse and methods different. Thus, we need distinctive kinds of banks to cater to the above-mentioned complexities. Deposit-taking institutions take the form of commercial banks, which accept deposits and make commercial, real estate, and other loans. There are also mutual savings banks, which accept deposits and make mortgage and other types of loans. Another type is credit unions, which are cooperative organizations that issue share certificates and make member (consumer) and other loans.

The banking industry can be divided into following sectors, based on the clientele served and products and services offered:

1. Retail Banks
2. Investment Banks
3. Specialized banks
4. Central banks
Retail Banks:

Retail banks provide basic banking services to individual consumers. Examples include savings banks, savings and loan associations, and recurring and fixed deposits. Products and services include safe deposit boxes, checking and savings accounting, certificates of deposit (CDs), mortgages, personal, consumer and car loans.

Investment Banks:

An investment bank is a financial institution that assists individuals, corporations and governments in raising capital by underwriting and/or acting as the client's agent in the issuance of securities. An investment bank may also assist companies involved in mergers and acquisitions, and provide ancillary services such as market making, trading of derivatives, fixed income instruments, foreign exchange, commodities, and equity securities.

Investment banks aid companies in acquiring funds and they provide advice for a wide range of transactions. These banks also offer financial consulting services to companies and give advice on mergers and acquisitions and management of public assets.

Specialized Banks:

Specialized banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities. These banks provide financial aid to industries, heavy turnkey projects and foreign trade.

Central Banks:

Central banks are bankers’ banks, and these banks trace their history from the Bank of England. They guarantee stable monetary and financial policy from country to country and play an important role in the economy of the country. Typical functions
include implementing monetary policy, managing foreign exchange and gold reserves, making decisions regarding official interest rates, acting as banker to the government and other banks, and regulating and supervising the banking industry. These banks buy government debt, have a monopoly on the issuance of paper money, and often act as a lender of last resort to commercial banks. The term bank nowadays refers to these commercial banks. The Central bank of any country supervises controls and regulates the activities of all the commercial banks of that country. It also acts as a government banker. It controls and coordinates currency and credit policies of any country. The Reserve Bank of India is the central bank of India.

2.6 Banking sectors and its segment:

Banking sector has witnessed enormous growth in the past decades. The banks have transformed themselves from traditional deposit and borrowing institutes to large organizations offering a variety of services. Discussions about various classifications of banks are as under.

The banking industry can be divided into two categories commercial banking and investment banking.

Commercial Banking:

This category represents consumer and business banking and includes commercial and foreign banks, savings and loan associations, credit unions, thrifts, and other savings banks. Commercial banks in modern capitalist societies act as financial intermediaries, raising funds from depositors and lending the same funds to borrowers. The depositors’ claims against the bank, their deposits, are liquid, meaning banks are expected to redeem deposits on demand, instantly. Banks’ claims against their borrowers are much less liquid, giving borrowers a much longer span of time to repay money owed banks. Because a bank cannot immediately reclaim money lent to borrowers, it may face bankruptcy if all its depositors show up on a given day to withdraw all their money.
Products and services include consumer and commercial deposits, consumer loans, mortgage and real estate loans, overseas operations, investment in high-grade securities, and commercial and industrial loans.

**Investment Banking:**

The products and services of this category include managing portfolios of financial assets, trading in securities, fixed income, commodity and currency, corporate advisory services for mergers and acquisitions, corporate finance, and debt and equity underwriting. Trading activities include trading both on behalf of clients or on the banks own account.

**Other Classifications:**

Banking products can be further classified as Retail Banking, Corporate Banking and Risk and Capital Management. In modern world banks perform and manage all the following functions and different classifications exist based on the need:

- Retail Banking
- Corporate Banking
- Banking Operations
- Risk Management
- Asset Management
- Wealth Management
- Treasury Management
- Cards Issuance and Management

Trading Intermediary acting as Depository Participant, Registry, Exchanges, Trading or Broker Dealer
**Banking Functions:**

The banking industry is growing rapidly. It’s estimated that the assets of the 1,000 largest banks are worth almost $100 trillion USD. With the growth in the industry banks manages a diverse portfolio of functions. Apart from the segments discussed above banks also need to manage following functions and can also be classified based on functions:

- Banking Technology
- Internal and External Reconciliations
- Internal and External Clearing
- Surveillance
- Human Resources
- Finance
- Legal and Compliance
- Sales and Trading
- Transaction Banking

Banking sector in India has witnessed unparalled growth in the last decade.
**Difference between private sector bank & public sector bank**

**Key Difference:**
A public sector bank is a bank in which the major part of stake or equity is held by the government. Private sector banks are banks in which greater part of stake or equity lies in the hands of private shareholders.

A public sector bank is a bank that is operated through institutions owned by the people through their representative governments. In these banks, the government controls the bank. A well-run public sector bank can help state and local governments in getting through cash crunches. The public banking model has been devised in order to work for the benefit of the people. It also includes nationalized banks.

A nationalized bank is formed by taking a bank and its assets into the public ownership. The national government of the country holds the ownership of nationalized banks. In nationalized banks the government controls the bank. This could refer to taking control of the public shares, change in management and new corporate strategy. This is a common practice in the countries of the west, where it is used as an emergency method to help the banks during rough times.

However, a success cannot be guaranteed with the act of nationalization of banks. France had nationalized its banking sector and later the government sold it to private hands. State Bank of India was nationalized in 1955 under the SBI Act. Later in 1960, seven state banks were also nationalized. The second phase in India took place is 1980, when seven more banks were nationalized.

Private sector banks are owned by the private lenders. The private banks are also managed and controlled by private promoters and these promoters are free to operate according to the market forces. The interest rates of private banks are generally slight costly as compared to public sector banks. Banking has been originated in the form of private banking. Generally, the private banks are looked as a large organization with global operations. A private bank may have retail banking facilities for their clients. They are known for better customer services and investment opportunities.
Shareholders of the private banks generally seek short-term profits as their highest priority. The private banks are known for being well equipped with all kinds of contemporary tools and techniques.

Government holds a major share in public sector banks and thus, important decisions are made by the government. The decisions are generally in the interest of the public. Their main aim is to carry out the banking activities that cater to all the sections of the society. On the other hand, a private bank mainly focuses on short term interest. These banks do not have much interference of the government but at the same time these banks lack the administrative support of the government. To sustain in the competitive banking sector, the private sector banks have been using the best and latest software.iii

2.7 Evolution of Banking Industry

Without a sound and effective banking system in India it cannot have healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

For the past three decades India’s banking system has several outstanding achievements to its credit. The most striking is its extensive reach; it is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even the remote corners of the country. This is one of the main reasons of India’s growth process. The government’s regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice, Gone are days when the most efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dial a pizza. Money have become the order of the day. The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases.
They are as mentioned below:
i. Early phase from 1786 to 1969 of Indian banks.
ii. Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
iii. New phase of Indian Banking System with the advent of Indian Financial and Banking Sector Reforms after 1991.

To make this write-up more explanatory, I prefix the scenario as Phase I, Phase II and Phase III.

**Phase I:**

The Genera; Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called them Presidency Banks. These three banks were amalgamated in 1921 and imperial Bank of India was established which started as private shareholders banks, mostly Europeans shareholders.

In 1865, Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1885 and 1913, Bank of India Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up Reserve Bank of India came in 1935.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive power for the supervision of banking in India as the Central Banking Authority.

During those, day’s public has lesser confidence in the banks. As an aftermath, deposit mobilization was slow. Abreast of it the savings bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.
Phase II:

Government took major steps in the Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India were nationalized on 19th July 1959. In 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi 14 major commercial banks in the country was nationalized.

Second phase of nationalization in Indian Banking Sector Reform was carried out in 1980 with six more banks. This step brought 80% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the country.

i. 1949: Enactment of Banking Regulation Act.
ii. 1955: Nationalization of State Bank of India.
iii. 1959: Nationalizations of SBI subsidiaries.
iv. 1961: Insurance cover extended to deposits.
vi. 1971: Creation of credit guarantee corporation.
vii. 1975: Creation of regional rural banks.

After the nationalization, the branches of the public sector banks in India rose to approximately 800% and deposits and advances took a huge jump by 11,000%.

Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.
Phase III:

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was setup by his name, which worked for the liberalization of banking practices.

The country is flooded with foreign banks and their ATM stations. Efforts are being made to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

2.8 Current Banking Scenario:

There will be a technological shift in Indian banking scenario since few years. Technological system is going to be change in near future by both the banks public and private. A set of new banks will get the regulator’s approval, some foreign banks operating in India may decide in favour of local incorporation to get near-national treatment, and new norms for early recognition of financial distress and faster resolution and recovery will help curb rising bad assets and improve the health of the banking system. The Indian firms those are working in the infrastructure are adding bad loans to banks, and will be more aggressive in selling their assets to shrink the debts. In 2013, close to a dozen Indian companies either sold or made their intention clear to sell assets, to pare at least Rs.3.5 trillion worth of debt, as rising interest costs and diminishing margins took their toll on growth. These trends will intensify in 2014. Reserve Bank of India (RBI) governor Raghuram Rajan, a former chief economist with the International Monetary Fund (IMF), has been talking about offering banking licenses on tap. This might happen in the future, but, until now, this
has been a once-in-a-decade phenomenon. Following the nationalization of 14 large banks in 1969 and six in 1980, RBI has so far given licenses to only 12 banks in two phases, including the conversion of a cooperative bank into a commercial bank. In the first round, the banking regulator issued licenses to 10 private sector banks in 1994, shortly after the nation embraced economic liberalization under the P.V. Narasimha Rao-led Congress government. In the second round, licenses were issued to two banks—Yes Bank Ltd and Kotak Mahindra Bank Ltd—in 2004.

In the past, RBI's stated objective behind giving licenses to new banks was to introduce competition in the sector, largely dominated by government-owned banks. This time, the prime focus is to promote so-called financial inclusion, or increasing the reach of financial services to the unbanked population. Then finance minister Pranab Mukherjee, in his February 2010 budget speech, had announced that RBI would open up the sector and issue fresh licenses with the objective of spreading banking services wider in a nation where roughly 50% of the adult population does not have access to them. After issuing a discussion paper and receiving public feedback on it, RBI issued the guidelines on new banking licence in February 2013 and set a 1 July deadline for applications. The panel member has been scrutinized the applications.

IMF’s financial access survey of 2011 gives us a fair idea about how critical financial inclusion is in India. In every 1,000km stretch, India has 30.43 bank branches and 25.43 automated teller machines (ATMs). In contrast, China has 1,428.98 branches and 2,975.05 ATMs. Similarly, there are 10.64 bank branches and 8.9 ATMs for every 100,000 of the population in India. The comparable figures for China are 23.81 and 49.56. Finally, bank deposits in India constitute 68.43% of the nation’s gross domestic product (GDP) and credit 51.75% against China’s 433.96% and 287.89%, respectively. To expand banking services in a nation of 1.2 billion people, one needs deep-pocketed promoters, and this is why corporations have been allowed to apply for banking licences, but not too many of them seem to be interested. The Tata group withdrew its application for a banking licence, leaving 25 applicants in the race and only three of them belong to the corporate sector—the Aditya Birla Group, the Bajaj Group and Anil Ambani’s Reliance Group. Tata is not the first business house to have a change of heart. The Mahindra and Mahindra Group, too, decided not to apply for a
banking licence, saying RBI’s norms were not conducive for large and successful non-banking financial companies to turn into banks.

According to the licensing norms, the new bank will have to be listed within three years, bringing down the promoters’ shareholding to 40%. Within 10 years, this holding must be further pared to 20%, and by the 12th year to 15%. This is a big deterrent as the promoters will not be able to reap the benefits of the value they create. How many licenses will be given is anybody’s guess at this point, but one thing is for sure: armed with technology, the new banks will shift the playing field from the cities to rural India and add a new dimension to the rural consumption story.

Foreign banks with “complex structures” and banks that do not provide “adequate disclosure” in their home jurisdiction as well as “systemically important” ones will have to convert their local units into subsidiaries. Systemically important banks are those whose assets account for at least 0.25% of the total assets of all commercial banks. At least 12 foreign banks, including Bank of America Corp., Barclays Plc, Citibank NA, Deutsche Bank AG, Hong and Shanghai Banking Corp. Ltd, DBS Bank Ltd and Standard Chartered Plc, fall into this category. Those banks that started operations in India before August 2010, however, have the option to continue their business through the branch mode, but they will be “incentivized” to follow the local incorporation route. One of the incentives is allowing foreign banks to buy private sector banks in India. If indeed that happens, banking will never be the same in India.

While new banks and locally incorporated foreign banks will rewrite the rules of the game, RBI’s main intentions to collect bad loans and it will add strength to the banking system. The combination of bad and restructured loans is at least 10% of total banking assets in India. The new norms will give incentives to banks to detect the first sign of a loan turning bad and take remedial steps and, at the same time, they will make life difficult for rogue borrowers. At the next stage, RBI will probably focus on reforming state-run banks that account for about 70% of banking assets, but lack the skill to manage them and aren’t smart enough to say no when it comes to taking exposure to some sectors. Overall, 2014 will be action-packed; banks cannot ask for a more exciting time.
2.9 Modernization in Banking

The Indian banking sector starts in 1770 when the Bank of Hindustan was established in Calcutta and subsequently in its various avatars—when the General Bank of India, which came into existence in 1886 again in Calcutta; and then Bank of Calcutta (later Bank of Bengal - 1806 ), Bank of Bombay and Bank of Madras merging in 1921 to become the Imperial Bank of India which became the State Bank of India (SBI) in 1955. In banking systems there are so many phases come but with some changes in it.

Banks have changed in their operations and moved towards universal banking along with the increased usage of technology and technology-based services offering alternate channels such as smart cards, ATMs, usage of the internet, mobile and social banking. Banks have started deploying core banking, human resource management (HRM) and enterprise risk (ERP) management and process re-engineering etc to improve on their performance and productivity. Majority of banks are insisting on cashless and paperless payment modes.

According to a KPMG study, through analysis it has been found that payments are made easy with the technology and using of cheques are getting less. Indian banks get top billing globally. This has resulted in putting 20 Indian banks in their standing globally. In 2010, the UK-based Brand Finance's annual ranking put these banks in the top 500 banks by their brand value. In 2007, only six Indian banks had the top standing globally. To see further growth in the banking sector regulators and policy makers have been emphasizing on financial inclusion to cover all sections of the society. Half of India's population does not bank. The regulators and policy makers have started taking a serious view of this. As a result, the top regulator the Reserve Bank of India (RBI) is now encouraging various entities including non-banking finance companies (NBFCs), co-operative banks, regional rural banks (RRBs), self-help entities, business correspondents in rural areas and microfinance companies which have now given exposure to non-banked rural areas. This shows that at some point of time banking services would reach rural areas as much as they do in urban and semi-urban areas. The government and the regulator have taken several measures including mandatory opening of at least 25 per cent of new bank branches in
unbanked rural areas, giving impetus to opening of new branches in tier III-VI cities. The mandatory and simplified Know Your Customer (KYC) detailing for opening small accounts have made things easier for banks to extend their reach.

Banks have also become finance providers for community services development. Post-liberalization India has also been attracting banks from various foreign lands. These now number 40 - from 28 in FY in 2008 and have a 7 per cent share of the total assets management. Over 20 Indian banks have now opened over 240 offices overseas.

**Future outlook:**

The banking system has to implement Basel III guidelines as per the directive of the RBI to make it a stronger sector. Some of the key measures of this include creating firm measures to make it foolproof of systemic risks, stringent timelines, ongoing improvement of quality and quantity of capital, liquidity risk management, value-based practices, solid mechanism, disclosures for total transparency and reduction of systemic risk in derivative and other money-related markets.

The RBI has stipulated a time frame of five years to implement Basel III norms. But there are economy related hurdles as the government which holds majority stake in the public sector banks (PSBs) copes with the high fiscal deficit. Once the government decides to dilute its shares in the PSBs and brings it down to around 51 per cent, the Indian banking sector would see a sea change. Also, a large number of foreign players and big Indian corporate are awaiting government clearances for setting up new generation banks. Once there is clarity on this issue things would change drastically.

2.10 List of Public & Private sector banks:

Following are the main public and private sectors banks operating in India
Public-sector banks

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Bhartiya Mahila Bank
7. Canara Bank
8. Central Bank of India
9. Corporation Bank
10. Dena Bank
11. IDBI Bank
12. Indian Bank
13. Indian Overseas Bank
15. Punjab National Bank
16. Punjab & Sind Bank
17. Syndicate Bank
18. UCO Bank
19. Union Bank of India
20. United Bank of India
21. Vijaya Bank

SBI and associate banks

1. State Bank of India
2. State Bank of Bikaner & Jaipur
3. State Bank of Hyderabad
4. State Bank of Mysore
5. State Bank of Patiala
6. State Bank of Travancore
7. State Bank of Saurashtra (merged into SBI in 2008)
8. State Bank of Indore (merged into SBI in 2010)
**New private-sector banks**

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

1. The bank should have a minimum net worth of Rs. 200 crores.
2. The promoters holding should be a minimum of 25% of the paid-up capital.
3. Within 3 years of the starting of the operations, the bank should offer shares to public and their net worth must increased to 300 crores.

1. Axis Bank
2. Development credit bank ltd.
3. HDFC bank ltd.
4. ICICI bank ltd.
5. IndusInd bank ltd.
7. Yes bank ltd.
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