INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

AN OVERVIEW OF THE BANKING INDUSTRY IN INDIA

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ABSTRACT
The Banking Industry in India has splendid history, good present and brilliant future. This paper gives you the overview of Banking Industries' from World War I, their phases & establishment, progress and growth of banking industry in India. It also gives the aggregate performance of the banking industry, government policies, implications of policy measures, credit policy implication, and crystal gazing. This paper tries to highlight the progress of commercial and private banks, prospects & achievements of Indian Banks, the credit scenario and the need for proxy banking in India as the branch banking in rural area is loss making.

KEYWORDS
Banking, Commercial Banking, Phases & Establishment, Policy, Proxy Banking.

INTRODUCTION
A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also nonbanking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry.
Banking in India was defined under Section 5(A) as "any company which transacts banking, business" and the purpose of banking business defined under Section 5(B),"accepting deposits of money from public for the purpose of lending or investing, repayable on demand through cheque/draft or otherwise".
During Britishers' time, three Presidency Banks were opened in Bengal (1809), Bombay (1840) and Madras (1843) with powers to issue Notes. In the year 1921, due to banking crisis during First World War, the three Presidency Banks merged to form Imperial Bank of India. In the year 1955, after Independence, Imperial Bank of India was nationalized and renamed as State Bank of India (SBI) with a primary mandate to go to rural areas by opening at least 400 branches immediately. In the year 1957, the seven banks that were earlier catering to the rulers of different areas or States viz., Patiala, Bikaner, Jaipur, Indore, Saurashtra, Hyderabad, Mysore, Travancore, became subsidiaries of SBI. In 1969 and 1980, Government of India nationalized 14 and 6 major banks respectively. After the merger of New Bank of India with Punjab National Bank during the era of Financial Sector Reforms, the number of PSBs became 27, which are under present study.
The type and nature of businesses handled by the Public Sector Banks have not been merely confined to primary functions. The authorities were confident of delivering credit to the needy masses through the channel of Public Sector Banking in the name of "Priority Sector Advances" combining the subsidy or margin money supported schemes. All these were aimed at generating income or employment to large number of rural masses comprising weaker sections of society, artisans, agriculturists and self-employed persons including educated unemployed youth.

NEED OF THE BANKS
To provide the security to the savings of customers.
To control the supply of money and credit.
To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.
To avoid focus of financial powers in the hands of a few individuals and institutions.
To set equal norms and conditions (i.e. rate of interest, period of lending, etc.) to all types of customers.

FROM WORLD WAR I TO INDEPENDENCE
The period during the First World War (1914-1918) through the end of the Second World War (1939-1945), and two years thereafter until the independence of India were challenging for Indian banking. The years of the First World War were turbulent, and it took its toll with banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities. At least 94 banks in India failed between 1913 and 1918 as indicated in the following table:

Years	Number of banks that failed	Authorized capital (Rs. Lakhs)	Paid-up Capital (Rs. Lakhs)
1913	12	274	35
1914	42	710	109
1915	11	56	5
1916	13	231	4
1917	9	76	25
1918	7	209	1

INDIAN BANKING INDUSTRY
The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign). These banks have over 67,000 branches spread across the country.

India has a long history of both public and private banking. Modern banking in India began in the 18th century, with the founding of the English Agency House in Calcutta and Bombay. In the first half of the 19th century, three Presidency banks were founded. After the 1860 introduction of limited liability, private banks began to appear, and foreign banks entered the market.

The beginning of the 20th century saw the introduction of joint stock banks. In 1935, the presidency banks were merged together to form the Imperial Bank of India, which was subsequently renamed the State Bank of India. Also that year, India's central bank, the Reserve Bank of India (RBI), began operation. Following independence, the RBI was given broad regulatory authority over commercial banks in India. In 1959, the State Bank of India acquired the state-owned banks of eight former princely states. Thus, by July 1969, approximately 31 percent of scheduled bank branches throughout India were government controlled, as part of the State Bank of India.

In July 1969, the government nationalized all banks whose nationwide deposits were greater than Rs. 500 million, resulting in the nationalization of 54 percent more of the branches in India, and bringing the total number of branches under government control to 84 percent. Between the time of the 1969 nationalizations and the present, over 58,000 bank branches were opened in India; these new branches, as of March 2003, had mobilized over 9 trillion Rupees in deposits.

In April of 1980, the government undertook a second round of nationalization, placing under government control the six private banks whose nationwide deposits were above Rs. 2 billion, or a further 8 percent of bank branches, leaving approximately 10 percent of bank branches in private hands. The share of private bank branches stayed fairly constant between 1980 to 2000.

Since 1980, has been no further nationalization, and indeed the trend appears to be reversing itself, as nationalized banks are issuing shares to the public, in what amounts to a step towards privatization. The considerable accomplishments of the Indian banking sector not with standing, advocates for privatization argue that privatization will lead to several substantial improvements.

Recently, the Indian banking sector has witnessed the introduction of several "new private banks," either newly founded, or created by previously extant financial institutions. The new private banks have grown quickly in the past few years, and one has grown to be the second largest bank in India. India has also seen the entry of over two dozen foreign banks since the commencement of financial reforms. While we believe both of these types of banks deserve study, our focus here is on the older private sector, and nationalized banks, since they represent the overwhelming majority of banking activity in India.

PHASES & ESTABLISHMENT OF BANKING INSTITUTES

PHASE I

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 powers for the supervision of banking in India as the Central Banking Authority.

Institute	**Year**	**Established By**
The General Bank of India	1786	
Bank of Bengal	1809	
Bank of Bombay	1840	The East India Company
Bank of Madras	1843	
Imperial Bank of India	1920 (Merger of Bank of Bengal, Bank of Bombay, Bank of Madras)	
Allahabad Bank	1865	First by Indians
Punjab National Bank Ltd.	1894	
Bank of India Central Bank of India Bank of Baroda Canara Bank Indian Bank Bank of Mysore	Between 1906 To 1913	
Reserve Bank of India	1935	

PHASE II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalised 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 was nationalised in 1960 on 19th July, 1969, major process of nationalisation 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 nationalised.

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

STEPS BY THE GOVERNMENT OF INDIA TO REGULATE BANKING INSTITUTIONS

Year	*Steps*
1949	Enactment of Banking Regulation Act
1955	Nationalisation of State Bank of India
1959	Nationalisation of SBI subsidiaries
1961	Insurance cover extended to deposits
1969	Nationalisation of 14 major banks
1971	Creation of credit guarantee corporation
1975	Creation of regional rural banks
1980	Nationalisation of seven banks with deposits over 200 crore

The Commercial Banking Structure in India Consists of:
Scheduled Commercial Banks in India
Unscheduled Banks in India

Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.
"Scheduled banks in India" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank".
"Non-scheduled bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank".

Top Five Scheduled Banks in India		
Public Sector	*Private Sector*	*Foreign Banks*
State Bank of India	ICICI Bank	Standard Chartered Bank
Punjab National Bank	HDFC Bank	Hongkong and Shanghai Banking Corporation
Bank of Baroda	Axis Bank	Citi Bank N. C.
IDBI Bank	Yes Bank	Deutsche Bank A.G.
Syndicate Bank	Kotak Mahindra Bank	Barclays Bank PLC

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 set up by his name which worked for the liberalisation of banking practices.
The country is flooded with foreign banks and their ATM stations. Efforts are being put 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.

INDIAN BANKS ASSOCIATION (IBA)
The Indian Banks Association (IBA) was formed on the 26th September, 1946 with 22 members. Today IBA has more than 156 members comprising of Public Sector banks, Private Sector banks, Foreign banks having offices in India, Urban Co-operative banks, Developmental financial institutions, Federations, merchant banks, mutual funds, housing finance corporations, etc.

CURRENT SCENARIO
The industry is currently in a transition phase. On the one hand, the PSBs, which are the mainstay of the Indian Banking system are in the process of shedding their flab in terms of excessive manpower, excessive Non Performing Assets (Npas) and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through mergers and acquisitions.
PSBs, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs (a mind-boggling Rs 830 billion in 2000), falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service. The PSBs are of course currently working out challenging strategies even as 20 percent of their massive employee strength has dwindled in the wake of the successful Voluntary Retirement Schemes (VRS).
The private players however cannot match the PSB's great reach, great size and access to low cost deposits. Therefore one of the means for them to combat the PSBs has been through the merger and acquisition (M& A) route. Over the last two years, the industry has witnessed several such instances. For instance, HDFC Bank's merger with Times Bank ICICI Bank's acquisition of ITC Classic, Anagram Finance and Bank of Madura. Centurion Bank, Indusind Bank, Bank of Punjab, Vysya Bank are said to be on the lookout. The UTI bank- Global Trust Bank merger however opened a Pandora's box and brought about the realization that all was not well in the functioning of many of the private sector banks.
Private sector Banks have pioneered internet banking, phone banking, anywhere banking, mobile banking, debit cards, Automatic Teller Machines (ATMs) and combined various other services and integrated them into the mainstream banking arena, while the PSBs are still grappling with disgruntled employees in the aftermath of successful VRS schemes. Also, following India's commitment to the W To agreement in respect of the services sector, foreign banks, including both new and the existing ones, have been permitted to open up to 12 branches a year with effect from 1998-99 as against the earlier stipulation of 8 branches.
Talks of government diluting their equity from 51 percent to 33 percent in November 2000 has also opened up a new opportunity for the takeover of even the PSBs. The FDI rules being more rationalized in Q1FY02 may also pave the way for foreign banks taking the M& A route to acquire willing Indian partners.

AGGREGATE PERFORMANCE OF THE BANKING INDUSTRY
Aggregate deposits of scheduled commercial banks increased at a compounded annual average growth rate (Cagr) of 17.8 percent during 1969-99, while bank credit expanded at a Cagr of 16.3 percent per annum. Banks' investments in government and other approved securities recorded a Cagr of 18.8 percent per annum during the same period.
In FY01 the economic slowdown resulted in a Gross Domestic Product (GDP) growth of only 6.0 percent as against the previous year's 6.4 percent. The WPI Index (a measure of inflation) increased by 7.1 percent as against 3.3 percent in FY00. Similarly, money supply (M3) grew by around 16.2 percent as against 14.6 percent a year ago.
The growth in aggregate deposits of the scheduled commercial banks at 15.4 percent in FY01 percent was lower than that of 19.3 percent in the previous year, while the growth in credit by SCBs slowed down to 15.6 percent in FY01 against 23 percent a year ago.
The industrial slowdown also affected the earnings of listed banks. The net profits of 20 listed banks dropped by 34.43 percent in the quarter ended March 2001. Net profits grew by 40.75 percent in the first quarter of 2000-2001, but dropped to 4.56 percent in the fourth quarter of 2000-2001.

INDIAN BANKING AT A GLANCE

Particulars	FY00	FY01	FY02	FY03	FY04	FY05	FY06
Number of Commercial Banks	298	300	297	292	290	289	222
Scheduled Commercial Banks	297	296	293	288	286	285	218
Regional Rural Banks	196	196	196	196	196	196	133
Non-Scheduled Commercial Banks	2	5	4	4	5	4	4
Number of Bank Offices	67868	67937	68195	68500	69170	70373	71177
Rural	32852	32585	32503	32283	32227	30790	30769
Semi Urban	14841	14843	14962	15135	15288	15325	15503
Urban	10994	11193	11328	11566	11806	12419	12747
Metropolitan	9181	9316	9402	9516	9750	11839	12158
Population Per Office (thousands)	15	15	15	16	16	16	16

On the Capital Adequacy Ratio (CAR) front while most banks managed to fulfill the norms, it was a feat achieved with its own share of difficulties. The CAR, which at present is 9.0 percent, is likely to be hiked to 12.0 percent by the year 2004 based on the Basle Committee recommendations. Any bank that wishes to grow its assets needs to also shore up its capital at the same time so that its capital as a percentage of the risk-weighted assets is maintained at the stipulated rate. While the IPO route was a much-fancied one in the early '90s, the current scenario doesn't look too attractive for bank majors.

BANK GROUPS: KEY INDICATORS

Particulars	FY01	FY02	FY03	FY04	FY05	FY06
Net Profit/Total Assets (%)						
State Bank Group	0.55	0.77	0.91	1.02	0.91	0.86
Nationalised Banks	0.33	0.69	0.98	1.19	0.89	0.81
Public Sector Banks	0.42	0.72	0.96	1.12	0.87	0.82
Old Private Sector Banks	0.59	1.08	1.17	1.2	0.33	0.59
New Private Sector Banks	0.81	0.44	0.9	0.83	1.05	0.97
Foreign Banks	0.93	1.32	1.56	1.65	1.29	1.52
All SCBs	**0.49**	**0.75**	**1.01**	**1.13**	**0.89**	**0.88**

INTEREST RATE SCENE

The two years, post the East Asian crises in 1997-98 saw a climb in the global interest rates. It was only in the later half of FY01 that the US Fed cut interest rates. India has however remained more or less insulated. The past 2 years in our country was characterized by a mounting intention of the Reserve Bank of India (RBI) to steadily reduce interest rates resulting in a narrowing differential between global and domestic rates.

The RBI has been affecting bank rate and CRR cuts at regular intervals to improve liquidity and reduce rates. The only exception was in July 2000 when the RBI increased the Cash Reserve Ratio (CRR) to stem the fall in the rupee against the dollar. The steady fall in the interest rates resulted in squeezed margins for the banks in general.

GOVERMENTAL POLICY

After the first phase and second phase of financial reforms, in the 1980s commercial banks began to function in a highly regulated environment, with administered interest rate structure, quantitative restrictions on credit flows, high reserve requirements and reservation of a significant proportion of lendable resources for the priority and the government sectors. The restrictive regulatory norms led to the credit rationing for the private sector and the interest rate controls led to the unproductive use of credit and low levels of investment and growth. The resultant 'financial repression' led to decline inproductivity and efficiency and erosion of profitability of the banking sector in general.

This was when the need to develop a sound commercial banking system was felt. This was worked out mainly with the help of the recommendations of the Committee on the Financial System (Chairman: Shri M. Narasimham), 1991. The resultant financial sector reforms called for interest rate flexibility for banks, reduction in reserve requirements, and a number of structural measures. Interest rates have thus been steadily deregulated in the past few years with banks being free to fix their Prime Lending Rates (PLRs) and deposit rates for most banking products. Credit market reforms included introduction of new instruments of credit, changes in the credit delivery system and integration of functional roles of diverse players, such as, banks, financial institutions and non-banking financial companies (Nbfcs). Domestic Private Sector Banks were allowed to be set up, PSBs were allowed to access the markets to shore up their Cars.

IMPLICATIONS OF SOME RECENT POLICY MEASURES

The allowing of PSBs to shed manpower and dilution of equity are moves that will lend greater autonomy to the industry. In order to lend more depth to the capital markets the RBI had in November 2000 also changed the capital market exposure norms from 5 percent of bank's incremental deposits of the previous year to 5 percent of the bank's total domestic credit in the previous year.

The move to increase Foreign Direct Investment FDI limits to 49 percent from 20 percent during the first quarter of this fiscal came as a welcome announcement to foreign players wanting to get a foot hold in the Indian Markets by investing in willing Indian partners who are starved of net worth to meet CAR norms. Ceiling for FII investment in companies was also increased from 24.0 percent to 49.0 percent and have been included within the ambit of FDI investment.

The abolishment of interest tax of 2.0 percent in budget 2001-02 will help banks pass on the benefit to the borrowers on new loans leading to reduced costs and easier lending rates. Banks will also benefit on the existing loans wherever the interest tax cost element has already been built into the terms of the loan. The reduction of interest rates on various small savings schemes from 11 percent to 9.5 percent in Budget 2001-02 was a much awaited move for the banking industry and in keeping with the reducing interest rate scenario, however the small investor is not very happy with the move.

Some of the not so good measures however like reducing the limit for tax deducted at source (TDS) on interest income from deposits to Rs 2,500 from the earlier level of Rs 10,000, in Budget 2001-02, had met with disapproval from the banking fraternity who feared that the move would prove counterproductive and lead to increased fragmentation of deposits, increased volumes and transaction costs. The limit was thankfully partially restored to Rs 5000 at the time of passing the Finance Bill in the Parliament.

APRIL 2001 – CREDIT POLICY IMPLICATIONS

The rationalization of export credit norms in will bestow greater operational flexibility on banks, and also reduce the borrowing costs for exporters. Thus this move could trigger exports growth in the future. Banks can also hope to earn increased revenue with the interest paid by RBI on CRR balances being increased from 4.0 percent to 6.0 percent.

The stock market scam brought out the unholy nexus between the Cooperative banks and stockbrokers. In order to usher in greater prudence in their operations, the RBI has barred Urban Cooperative Banks from financing the stock market operations and is also in the process of setting up of a new apex supervisory body for them. Meanwhile the foreign banks have a bone to pick with the RBI. The RBI had announced that forex loans are not to be calculated as a part of Tier-1 Capital for drawing up exposure limits to companies effective 1 April 2002. This will force foreign banks either to infuse fresh capital to maintain the capital adequacy ratio (CAR) or pare their asset base. Further, the RBI has also sought to keep foreign competition away from the nascent net banking segment in India by allowing only Indian banks with a local physical presence, to offer Internet banking.

CRYSTAL GAZING

On the macro economic front, GDP is expected to grow by 6.0 to 6.5 percent while the projected expansion in broad money (M3) for 2001-02 is about 14.5 percent. Credit and deposits are both expected to grow by 15-16 percent in FY02. India's foreign exchange reserves should reach US$50.0 billion in FY02 and the Indian rupee should hold steady.

The interest rates are likely to remain stable this fiscal based on an expected downward trend in inflation rate, sluggish pace of non-oil imports and likelihood of declining global interest rates. The domestic banking industry is forecasted to witness a higher degree of mergers and acquisitions in the future. Banks are likely to opt for the universal banking approach with a stronger retail approach. Technology and superior customer service will continue to be the imperatives for success in this industry.

Foreign banks are likely to succeed in their niche markets and be the innovators in terms of technology introduction in the domestic scenario. These banks will continue to be the early technology adopters in the industry, thus increasing their efficiencies. Already, banks such as ICICI Bank and HDFC Bank have forged alliances with Prudential Life and Standard Life respectively. This is one segment that is likely to witness a greater deal of action in the future. In the near term, the low interest rate scenario is likely to affect the spreads of majors. This is likely to result in a greater focus on better asset-liability management procedures.

In India, till the eighties, the banks operated in a protected environment characterized by administered interest rates, high levels of pre-emption in the form of reserve requirements and directed credit. Financial and Banking sector reforms were initiated in India in 1991 against the backdrop of challenges faced by the Indian banks from within and outside the banking system in the country as well as forces of globalization operating worldwide.

The Indian banking sector is growing at a fast pace along with the Indian economy. In this age of globalization, foreigners are also making investments in India and so Indian banks are planning global strategies. Thanks to liberalization, that the Indian banks have been able to make a mark for themselves in the world map.

In the present scenario of banking industry, competition among the banks is very severe. The banks have been trying to find new avenues not only to retain the present customer strength but also attracting new customers by offering hassle-free services. In the process, strategies of certain banks, specially Public Sector Banks, are aiming to divide customers into different segments on the basis of the type of service they would like to render and also trying to segregate their servicing counters in their respective branches to enable customer to have easy access to a particular transaction (Srinivasa Rao, K.S. and Rama Rao, U., 1998).

On the other side, Foreign Banks and old and new Private Sector Banks in India, have progressed well in the areas of technology up-gradation in operations, extending the business hours, introduction of new products and services like "Any Where Banking", "Any Time Money", "Electronic Fund Transfer", "Electronic Clearing", "Tele-Banking", etc.. These new tools enabled them to improve the quality of service and introduce Value Added Products (Saraf, W.S., 1997).

The Indian economy under Liberalization, Privatization and Globalization (LPG) throws mind-boggling process for existence and growth of the sector. WTO was established in 1995 and signing of WTO Agreement by Indian Government meant greater competition from foreign and domestic bankers in terms of speed, sophistication and professionalism. The banks are now expected to maintain transparency in their operational and financial statements. However, in the deregulated virtual market, small banks with high Return On Equity (ROE) will have an edge over the large banks. In fact, modern commercial banks have to be much more agile in order to stay in the competitive market. Adoption of Information Technology is vital for survival and growth of the sector and will fix the future of commercial banks in the LPG economy (S. K. Bose, 2001).

NUMBER OF BANKS, GROUP WISE

Bank Groups	FY02	FY03	FY04	FY05	FY06
State Bank Group	8	8	8	8	8
Nationalised Banks	19	19	19	19	20*
Public Sector Banks	27	27	27	27	28*
Old Private Sector Banks	22	21	21	21	19
New Private Sector Banks	8	9	9	8	8
Foreign Banks	40	33	33	31	29
All SCBs	**97**	**93**	**90**	**87**	**84**

Includes Industrial Development Bank of India Ltd.

Currently, India has 88 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

BRANCHES/ATMS/STAFF IN BANKS (NUMBER)

Particulars	State Bank Group	Nationalised Banks	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs
Branches							
Rural	5229	12990	18219	936	97	-	19252
Semi Urban	4043	7103	11146	1447	322	1	12916
Urban	2449	6990	9439	1236	674	37	11386
Metropolitan	2110	6929	9039	947	857	221	11064
Total	13831	34012	47843	4566	1950	259	54618
ATMs	5443	7165	12608	1547	6112	880	21147
On Site	1775	4812	6587	1054	2255	232	10128
Off Site	3668	2353	6021	493	3857	648	11019
Employees	270611	467499	738110	49657	59249	20999	868015
Officers	82499	165771	248270	21308	44519	18958	333055
Clerks	122409	208576	330985	29301	4469	1551	366306
Subordinates	65703	93152	158855	9048	261	490	168654
Foreign Offices	27	66	93	9	4		106

GROWTH IN THE INDIAN BANKING INDUSTRY

The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years. Based on the projections made in the "India Vision 2020" prepared by the Planning Commission and the Draft 10th Plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate. The total assets of all scheduled commercial banks by end-March 2010 is estimated at Rs 40, 90,000 crores. That will comprise about 65 per cent of GDP at current market prices as compared to 67 per cent in 2002-03. Bank assets are expected to grow at an annual composite rate of 13.4 per cent during the rest of the decade as against the growth rate of 16.7 per cent that existed between 1994-95 and 2002-03. It is expected that there will be large additions to the capital base and reserves on the liability side.

PROGRESS OF COMMERCIAL AND PRIVATE BANKS

The commercial banks have made tremendous progress with respect to its profitability, capital adequacy, risk management etc. The private banks too are playing an important role in the Indian banking industry. The private banks are growing at a rate of 35% per annum. As a result the share of the private banks has increased to nearly 16%.The limit of FDI has also been increased from 49 % to 74% in the private banks.

The Public Sector Banks (PSBs), which are the base of the Banking sector in India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks are making tremendous progress. They are leaders in Internet banking, mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking Industry.

In the Indian Banking Industry some of the Private Sector Banks operating are IDBI Bank, ING Vyasa Bank, SBI Commercial and International Bank Ltd, Bank of Rajasthan Ltd. and banks from the Public Sector include Punjab National bank, Vijaya Bank, UCO Bank, Oriental Bank, Allahabad Bank among others. ANZ Grindlays Bank, ABN-AMRO Bank, American Express Bank Ltd, Citibank are some of the foreign banks operating in the Indian Banking Industry.

Banking industry in India has evolved lately under the impact of the stimulus packages announced by the Government. According to the Annual Policy 2008-09 of the Reserve Bank of India (RBI), the central bank, key monetary aggregates have witnessed some growth in 2008-09. This is reflected in the changing liquidity positions arising from domestic and global financial conditions and the policy initiatives taken by the government. Also, reserve money variations during 2008-09 have largely reflected an increase in currency in circulation and reduction in the cash reserve ratio (CRR) of banks.

According to a study by Dun & Bradstreet (an international research body)—"India's Top Banks 2008"—there has been a significant growth in the banking infrastructure.

PROSPECTS AND ACHIEVEMENTS OF INDIAN BANKS

India has the second largest financially excluded households (about 135 million) and it is expected that nearly 60 million house hold will be added in India's bankable pool by 2009. So it is quite clear that the banking industry is going to grow very rapidly. Indian banks are also very advanced in terms of technology and have vast network of branches. Nine Indian banks have made their mark in the list of top 50 Asian Banks. The leaders are HDFC and ICICI bank. State Bank of India (SBI) was the top loan arranger in the Asia - Pacific region in 2007 and Indian banks were the top provider of educational loans in 2007.

Just recently on 21^{st} November 2014, Rana Kapoor, the Founder, Managing Director and CEO of 'YES BANK' was awarded the 'C. Rangarajan Award for Excellence in Banking', instituted by SKOCH (Sameer Kochhar) for outstanding contribution to the Banking sector and in post-economic liberalisation reform era in India.

THE CREDIT SCENARIO

The year-on-year (y-o-y) aggregate bank deposits stood at 21.2 per cent as on January 2, 2009. Bank credit touched 24 per cent (y-o-y) on January 2, 2009 as against 21.4 per cent on January 4, 2008. The year-on-year (y-o-y) growth in non-food bank credit at 23.9 per cent as on January 2, 2009 was higher than that of 22.0 per cent as on January 4, 2008. Increase in total flow of resources from the banking sector to the commercial sector was also higher at 23.4 per cent as compared with 21.7 per cent a year ago. The incremental credit-deposit ratio rose to 81.4 per cent as on January 2, 2009, as against 63.1 per cent as on January 4, 2008. Also, during 2008-09 so far, the total flow of resources to the commercial sector from banks stood at US$ 58.83 billion upto January 2, 2009. Scheduled commercial banks' credit to the commercial sector expanded by 27.0 per cent (y-o-y) as on November 21, 2008, as compared with 23.1 per cent a year ago.

There has been variation in credit expansion across bank groups. Credit expansion as on January 2, 2009 for public sector banks stood at 28.6 per cent, scheduled commercial banks (SCBs) including the regional rural banks (RRBs) at 24 per cent, foreign banks at 6.9 per cent and private sector banks at 11.8 per cent, according to the Annual Policy for 2008-09 of Reserve Bank of India.

Several measures initiated by the Reserve Bank have resulted in banks reducing their deposit and lending rates between November 2008 and January 2009. The range for deposit rates for public sector banks varied from 5.25 to 8.5 per cent, foreign at 5.25 to 7.75 per cent and private sector banks at 4 to 8.75 per cent. In the post-crisis quarter caused due to collapse of Lehman Brothers, large corporates like Infosys moved their deposits to State Bank of India (SBI), the country's largest bank. Infosys has revealed that it transferred deposits of nearly US$ 200.61 million from ICICI Bank to SBI last year.

Deposits as on January 2, 2009 for public sector banks stood at 24.2 per cent, scheduled commercial banks (SCBs) including the regional rural banks (RRBs) at 21.2 per cent, foreign banks at 12.1 per cent and private sector banks at 13.4 per cent, according to the Annual Policy for 2008-09 of the Reserve Bank of India.

The prime lending rates of public sector banks stood at 12 to 12.5 per cent, private sector banks at 14.75 to 16.75 per cent and foreign banks 14.25 to 15.50 per cent as on January 2009.

Bank loans rose 18.1 per cent on year-on-year basis as on March 13, the RBI has said in its Weekly Statistical Supplement released on March 27, 2009. Outstanding loans rose to US$ 541.82 billion in the two weeks to March 13. The non-food credit rose to US$ 530.19 billion in the two weeks, while food credit stood at US$ 9.61 billion in the same period.

Since October 2008, the central bank has cut the cash reserve ratio, or the proportion of deposits that banks set aside, and the repo rate, or the rate at which it lends to banks, by 400 basis points each to inject liquidity into the system and activate a lower interest rate regime. Also, the reverse repo rate has been lowered by 200 basis points to discourage banks from parking surplus funds with RBI. Till April 7, 2009, the CRR had further been lowered by 50 basis points, while the repo and reverse repo rates have been lowered by 150 basis points each. Public sector banks have pruned their benchmark prime lending rates (BPLRs) by 150-200 basis points. Also, in April 2009, private sector banks such as Axis and Bank of Rajasthan have reduced their BPLRs by 50 basis points. Only few foreign banks such as Citibank have pared home loan rates by 50 basis points to 13.75 per cent.

The rupee depreciated during 2008-09, reflecting varied developments in international financial markets and portfolio outflows by foreign institutional investors (FIIs). The rupee exchange rate was between 48.37 to 49.19 against the US dollar and 63.60-68.09 against the Euro in January 2009.

PROXY BANKING IN INDIA

Indian villages were miles away from mutual funds, insurance and even equity trading. Thanks to Internet Kiosk and the ATM duo which has made it possible for rural India. This kiosk has been set up by ICICI Bank in partnership with network n-Logue Communications in remote villages of Southern part of the country. This is known as Proxy Banking. With the help of fiber optic cables, this kiosk works on wireless in local loop technology.

Following are the reasons for setting-up of Proxy Banking:

58% of rural households still do not have bank accounts.

Only 21% of rural households have access to credit from a formal source.

70% of marginal farmers do not have deposit account.

87% households have no formal credit.

Only 1% rural households rely on a loan from a financial intermediary. · The loans take between 24 to 33 weeks to get sanctioned.

Branch banking in rural is a loss-making.

CURRENT SITUATION

Currently, banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true.

With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and asset sales.

In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them.

In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the banks' loan recovery efforts have driven defaulting borrowers to suicide.

In India, the RBI constituted several committees from time to time with different objectives, headed by experts in different fields or Academicians, some of them during eighties and nineties. Public Sector Banks have started experiencing the ill effects of traditional methods adopted till then. Change in policy at the apex level, advent of technology, threat of competition from foreign and private sector banks was felt during the late eighties. Host of recommendations by all such Expert Committees resulted in remarkable changes in products and policies of the banks in India.

Technology and competition have brought about notable changes in the Indian banking today. From Internet Banking to Cash Management Services, technology has changed both in retail and wholesale banking. Banks have been slow to adapt to the changing times finding themselves behind technology-savvy competitors. It applies particularly, to some of the state owned banks opposed to introduction of new technology. Moreover, with lines of demarcation between banks and financial institutions blurring, the focus has shifted to offering all assets (e.g. loans) and liabilities (e.g. deposits) products under one roof heading towards Universal Banking (A.K.Trivedi, 2002).

The impact of reforms on banking sector varies from changing their constitution, cost of operations, reporting norms and ultimately their profitability. The predominance analysis of banks was undertaken. The reforms associate themselves with vision, vigour and vitality and a mission to strengthen the Indian economy (AV. Aruna Kumari, 2002).

Globalization can lead to suspicion, protectionism, and policies that are ultimately self-destructive. Such fears cannot be allowed to frustrate the great potential of a world. The author believes that countries can face the challenges of globalization positively (M.Lakshmi Narasaiah, 2002).

Banking in the new millennium will be marked by high expectations of customers who are well informed and possess technical knowledge. Computers are rapidly taking over the functions and personalized service will continue to have relevance. The sum and substance of banking activity in future will boil down to one simple prescription: Customer Delight (K.Sivaloganathan, 2002).

Sathye (2003) measured the productive efficiency of banks in India. It was done using Data Envelopment Analysis. The study shows that the mean efficiency score of Indian banks compares well with the world mean efficiency score and the efficiency of private sector commercial banks, as a group is paradoxically lower than that of public sector banks and foreign banks in India. The existing policy of reducing Non-Performing Assets and rationalization of staff and branches may be continued to obtain efficiency of Indian banks internationally competitive.

To sum up, Indian Public Sector Banks as well as others have transformed f*rom* mere collectors of deposits and purveyors of credit as per directions of the Government or RBI to highly competitive financial outfits in course of the past 12 years ever since Financial Sector Reforms were introduced. Various measures taken by the regulator were (1) Prudential Norms and transparency of Balance Sheets (2) Capital Adequacy requirements and 4-way classification of Assets (Loans and Investments) (3) Gradual reduction of SLR and CRR stipulations (4) Provisioning Norms (5) Deregulation of Interest Rates (6) Creation of Debt Recovery Tribunals, BIFR, etc., (7) Enactment of new laws or amendments to Negotiable Instruments Act, and others by Government (8) implementation of Asset Liability Management measures (9) introduction of Risk Management in Banks (10) Recovery measures like Compromise Settlements, Corporate Debt Restructuring, Rehabilitation facilities to sick units (11) Computerization of branches (12) Closure or shifting or combining of loss making branches (13) Voluntary Retirement Scheme for employees (14) Investment in Hardware, Software and training of staff (15) permission for Online Banking, Internet Banking, ATMs, etc.

BELOW TABLE LISTING TOP 5 BEST BANK RANKINGS IN YEAR 2014

Rank	Bank	Score	Balance sheet size (Rs crore) (End-March2014)	Total Income (Rs cr)	Net Profit (Rs crore)
Large Banks (Balance sheet size more than Rs 2,00,000 crore)					
1	HDFC Bank	3.42	4,91,600	49,055	8,478
2	ICICI Bank	4.36	5,94,642	54,606	9,810
3	Axis Bank	4.29	3,83,245	38,046	6,218
4	Bank of Baroda	6.30	6,59,505	43,402	4,541
5	State Bank of India	6.54	17,92,235	1,54,904	10,891
Mid-Size Banks (Balance sheet size Rs 75,000 – Rs 2,00,000 crore)					
1	IndusInd Bank	4.86	87,026	10,144	1,408
2	Kotak Mahindra Bank	5.19	87,585	10,167	1,503
3	Yes Bank	5.20	1,09,016	11,703	1,618
4	The Jammu & Kashmir Bank	6.03	78,620	7,157	1,182
5	Indian Bank	6.88	1,87,327	16,621	1,159
Small Banks (Balance sheet size less than Rs 75,000 crore)					
1	Federal Bank	4.63	74,594	7,640	839
2	ING Vysya Bank	4.52	60,413	6,072	658
3	The South Indian Bank	5.92	54,986	5,384	507
4	City Union Bank	5.99	24,994	2,847	347
5	Tamilnad Mercantile Bank	6.48	26,398	2,923	301
Foreign Banks (Balance sheet size greater than Rs 5,000 crore)					
1	Citibank	4.17	1,44,981	12,199	2,893
2	Bank of America-Merrill Lynch	3.97	26,930	2,367	703
3	HSBC	5.54	1,31,881	8,987	1,490
4	Deutsche Bank	5.65	57,695	4,030	729
5	The Bank of Nova Scotia	5.68	10,500	1,132	293

(Source – BUSINESSWORLD)

CONCLUSION

The Banking Industry in India has splendid history, good present and brilliant future. This paper gives you the overview of Banking Industries' from World War I, their phases & establishment, progress and growth of banking industry in India. It also gives the aggregate performance of the banking industry, government policies, implications of policy measures, credit policy implication, and crystal gazing. This paper tries to highlight the progress of commercial and private banks, prospects & achievements of Indian Banks, the credit scenario and the need for proxy banking in India as the branch banking in rural area is loss making.

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