Chapter-4
Urban Co-Operative Banks in Gujarat
4.1 HISTORY OF URBAN COOPERATIVE BANKS

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities workplace groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably. The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Cooperative societies are based on the principles of cooperation, - mutual help, democratic decision making and open membership. Cooperatives represented a new and alternative approach to organization as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organisation.

The first known mutual aid society in India was probably the “Anyonya Sahakari Mandali” organized in the erstwhile princely State of Baroda in 1889 under the guidance of Vithal Laxman also known as Bhausaheb Kavthekar. Urban co-operative credit societies, in their formative phase came to be organised on a community basis to meet the consumption oriented credit needs of their members. Salary earners societies inculcating habits of thrift and self help played a significant role in popularising the movement, especially amongst the middle class as well as organized labour. From its origins then to today, the thrust of UCBs, historically, has been to mobilise savings
from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

The enactment of Cooperative Credit Societies Act, 1904, however, gave the real impetus to the movement. The first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in the erstwhile Madras province in October, 1904. Amongst the prominent credit societies were the Pioneer Urban in Bombay (November 11, 1905), the No.1 Military Accounts Mutual Help Co-operative Credit Society in Poona (January 9, 1906). Cosmos in Poona (January 18, 1906), Gokak Urban (February 15, 1906) and Belgaum Pioneer (February 23, 1906) in the Belgaum district, the Kanakavli-Math Co-operative Credit Society and the Varavade Weavers Urban Credit Society (March 13, 1906) in the South Ratnagiri (now Sindhudurg) district. The most prominent amongst the early credit societies was the Bombay Urban Co-operative Credit Society, sponsored by Vithaldas Thackersey and Lallubhai Samaldas established on January 23, 1906. The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit societies. The Maclagan Committee of 1915 was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban cooperative credit movement was more viable than agricultural credit societies. The recommendations of the Committee went a long way in establishing the urban cooperative credit movement in its own right. In the present day context, it is of interest to recall that during the
banking crisis of 1913-14, when no fewer than 57 joint stock banks collapsed, there was a flight of deposits from joint stock banks to cooperative urban banks. Maclagan Committee chronicled this event thus: As a matter of fact, the crisis had a contrary effect, and in most provinces, there was a movement to withdraw deposits from non-cooperatives and place them in cooperative institutions, the distinction between two classes of security being well appreciated and a preference being given to the latter owing partly to the local character and publicity of cooperative institutions but mainly, we think, to the connection of Government with Cooperative movement. The constitutional reforms which led to the passing of the Government of India Act in 1919 transferred the subject of Cooperation from Government of India to the Provincial Governments.

The Government of Bombay passed the first State Cooperative Societies Act in 1925 which not only gave the movement its size and shape but was a pace setter of cooperative activities and stressed the basic concept of thrift, self help and mutual aid. Other States followed. This marked the beginning of the second phase in the history of Cooperative Credit Institutions. There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees. The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. The Mehta-Bhansali Committee (1939), recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The Co-operative Planning Committee (1946) went on record to say that urban banks have been the best agencies for small people in
whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns.

The first study of Urban Co-operative Banks was taken up by RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban cooperative banks in new centers and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organised at all Urban Centers with a population of 1 lakh or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated.

However, concerns regarding the professionalism of urban cooperative banks gave rise to the view that they should be better regulated. Large cooperative banks with paid-up share capital and reserves of Rs.1 lakh were brought under the preview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Banks supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCBs were extended the benefits of Deposit Insurance. Towards the late 1960s there was much debate regarding the promotion of the small scale industries. UCBs came to be seen as important players in this
context. The Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the Banking Commission (1969).

The Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards. The Hate Working Group (1981) desired better utilisation of banks' surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the MadhavaRao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks. A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorized Dealers in Foreign Exchange.
**Recent Developments**

Over the years, primary (urban) cooperative banks have registered a significant growth in number, size and volume of business handled. As on 31st March, 2003 there were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states, - Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavours are geared to consolidating and strengthening this sector and improving governance.

The Urban Banks Department of the Reserve Bank of India is vested with the responsibility of regulating and supervising primary (urban) cooperative banks, which are popularly known as Urban Cooperative Banks (UCBs).

While overseeing the activities of 1926 primary (urban) cooperative banks, the Urban Banks Department performs three main functions regulatory, supervisory and developmental. The Department performs these functions through its 17 regional offices.

**I. Regulatory Functions**

(i) Licensing of New Primary (Urban) Cooperative Banks

For commencing banking business, a primary (urban) cooperative bank, as in the case of commercial bank, is required to obtain a licence from the Reserve Bank of India, under the provisions of Section 22 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies).

(ii) Licensing of Existing Primary (Urban) Co-operative Banks
In terms of sub-section (2) of Section 22 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies), the primary (urban) cooperative banks existing in the country as on March 1, 1966, (when some banking laws were applied to UCBs), were required to apply to the Reserve Bank of India. They were given three months to obtain a licence to carry on banking business. Similarly, a primary credit society which becomes a primary (urban) cooperative bank by virtue of its share capital and reserves reaching Rs. one lakh (Rs.1,00,000) and above was to apply to the Reserve Bank of India for a licence within three months from the date on which its share capital and reserves reach Rs. one lakh. The existing unlicensed primary (urban) cooperative banks can carry on banking business till they are refused a licence by the Reserve Bank of India.

(iii) Branch Licensing
Under the provisions of Section 23 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies), primary (urban) cooperative banks are required to obtain permission from the Reserve Bank of India for opening branches.

(iv) Statutory Provisions
The regulatory functions of Urban Banks Department relate to monitoring compliance with the provisions of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) by urban cooperative banks. These provisions include:

a. Minimum Share Capital
Under the provisions of Section 11 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies), no primary (urban) cooperative bank can commence or carry on banking business if the real
or exchangeable value of its paid-up capital and reserves is less than Rs. one lakh.

b. Maintenance of CRR and SLR As in the case of commercial banks, primary (urban) cooperative banks are also required to maintain certain amount of cash reserve and liquid assets. The scheduled primary (urban) cooperative banks are required to maintain with the Reserve Bank of India an average daily balance, the amount of which should not be less than 5 per cent of their net demand and time liabilities in India in terms of Section 42 of the Reserve Bank of India Act, 1934. Non-scheduled (urban) cooperative banks, under the provision of Section 18 of Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) should maintain a sum equivalent to at least 3 per cent of their total demand and time liabilities in India on day-to-day basis. For scheduled cooperative banks, CRR is required to be maintained in accounts with Reserve Bank of India, whereas for non-scheduled cooperative banks, it can be maintained by way of either cash with themselves or in the form of balances in a current account with the Reserve Bank of India or the state co-operative bank of the state concerned or the central cooperative bank of the district concerned or by way of net balances in current accounts with public sector banks. In addition to the cash reserve, every primary (urban) cooperative bank (scheduled/non-scheduled) is required to maintain liquid assets in the form of cash, gold or unencumbered approved securities which should not be less than 25 per cent of the total of its demand and time liabilities in accordance with the provisions of Section 24 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies). Out of the prescribed SLR, the UCBs have been advised to maintain a certain amount in the form of SLR Securities.
II Supervisory function:
Ensure that the UCBs conduct their affairs in the interests of the depositors and also comply with the regulatory framework prescribed by the Reserve Bank of India, the department undertakes on site inspection of these banks with frequency ranging from one to two years depending upon the financial condition / status of banks. The thrust of supervision is to ensure that banks' affairs are not conducted in a manner detrimental to the depositors' interest and also to assess the solvency of the bank, its liabilities, besides examining the bank's compliance with the existing regulatory framework. The department also undertakes off-site surveillance of scheduled banks and non-scheduled banks with a deposit base of Rs 100 crore and above based on a set of quarterly and annual returns.

III Development Function:
With a view to extending institutional credit support to tiny and cottage units, the Reserve Bank of India grants refinance facilities to urban cooperative banks under the provisions of Section 17 of the Reserve Bank of India Act, 1934. The refinance is given at the Bank Rate. Training is imparted to the middle and top management of urban cooperative banks through College of Agricultural Banking, Pune.
The international co-operative alliance has in 1925 adopted the beautiful seven-colour pattern of the rainbow horizontal strips as its international flag, the flag of co-operation, progress and peace. The flag has seven colours. They are violet, indigo, blue, green, yellow, orange and red. Rainbow is regarded as an auspicious omen, Farmers see the rainbow and
start ploughing their fields, They read in it the message about rains to come, It is thus a symbol of hope a harbinger peace.

Men see co-operation in its multi-colour patterned, each colour blending with the other to make one harmonious. Whole an ultimately all-pervading harmony & unity in diversity.

The seven hues of the rainbow when blended together reunite to present pure unstained white effulgence. Thus it stands for purity truth and righteousness.

It symbolizes the aims and idea of the co-operative movement like the rainbow co-operation brings hope to the depressed achieves harmony among diverse interest and offers the promise of an ultimate and universe peace.

Co-operative by their own efforts inspired by a sense of fraternity, equity and love of the past and creates a new economic system, a system in which capital plays the role of servant instead of master, the object of production is organized self-help instead of profit and human dignity is given the pride of place for achieving a more equitable and efficient economy better social adjustment and a more balanced system of democracy.

Co-operatives are based on the values of self-responsibility, democracy, equality and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and carrying for others.
Unlike commercial banks, which are occupied in the helping, the industrial and commercial sectors of the economy, the co-operative Banks on the other hand provide credit and other associated facilities to the rural and agricultural sectors.

In World, Co-operative activity was stated in December 1844 in Britain. Social development is the sole aim of co-operative activity. Co-operative societies came in to begin when the co-operative societies Act-1904, was enacted. A co-operative society is the society of voluntary and organized group of individuals. The movement was started with the aim of providing farmer funds with low rate of interest. So that, exploitation by the village money lenders in hindered.

Under the Banking Regulation Act of 1904, co-operative banks have been brought under the control of Reserve Bank Of India (RBI).

In India, co-operative activity was started in 1889. The noble ideals like unity, similarity, honesty, loyalty and mutual co-operation etc. are the base of Co-operative activity.

In India, co-operative society Act was enacted in 1904. In 1909, Jambusar Urban co-operative Bank was first established under this act. Then in 1925, new co-operative society Act was come. Before then there was seven co-operative Banks in the Gujarat.

The activity of urban co-operative Banking was to extraordinary developed in the latter half 20th century. There is two reason of this. Banking regulation Act 1949 was apply to the co-operative Bank in 1966. At that time there was only 400 Urban co-operative Bank in the whole country. Then in 1969, nationalization of 14 large business banks
was become in the country. Today in our country, there are about 1400 urban co-operative Bank providing service in area of villages and cities.

**Principles of Co-operative Bank:**

The basic principles of co-operation are as follows:

1) Voluntary and open Membership:

Co-operatives Banks are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2) Democratic Member Control:

Co-operative Banks are democratic organizations controlled by their members, who actively participate in setting their policies and making decision, men and women serving as elected. Member representatives are accountable to the membership. In primary co-operatives members have equal voting right (one member, one vote) and co-operative at other levels are organized in a democratic manner.

3) Member Economic Participation:

Members Contribute equitably to and democratically control the capital of their co-operative. At least part of the capital is usually the common properly of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as condition of membership.
Members allocated surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible, benefiting members in proportions to their transactions with the co-operative, and supporting other activities approved by the membership.

4) Autonomy and Independence:

Co-operatives Banks are autonomous, self-help organizations controlled by their members. If they either into agreements with other organizations, includes governments to raise capital from external sources, they do so in terms that ensure democratic control by their members and maintain their co-operative autonomy.

5) Education, Training and Information:

Co-operatives Banks provide Education and Training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their Co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefit of Co-operation.

6) Co-operation among Co-operatives:

Co-operatives Banks serve their members most effectively and strengthen the Co-operative movement by working together through local, national, regional and international structures.
7) Concern for community:
   Co-operative works for the sustainable development of their communities through policies approved by their members.

4.2 BANKING SECTOR IN GUJARAT

The Banking Regulation Act 1949 defines banking as accepting 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 otherwise. The essential function of a bank is to provide services related to the storing of value and the extending credit. The evolution of banking dates back to the earliest writing, and continues in the present where a bank is a financial institution that provides banking and other financial services. Currently the term bank is generally understood an institution that holds a banking license. Banking licenses are granted by financial supervision authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. There are also financial institutions that provide certain banking services without meeting the legal definition of a bank, a so called non-bank. Banks are a subset of the financial services industry.

The word bank is derived from the Italian “banca” which is derived from German and means bench. The terms bankrupt and "broke" are similarly derived from banca rottia, which refers to an out of business bank, having its bench physically broken. Money lenders in Northern Italy originally did business in open areas, or big open rooms, with each lender working from his own bench or table.
Typically, a bank generates profits from transaction fees on financial services or the interest spread on resources it holds in trust for clients while paying them interest on the asset.

**TYPES OF BANKS:**

There are several different types of banks including:

- **Central banks** usually control monetary policy and may be the lender of last resort in the event of a crisis. They are often charged with controlling the money supply, including printing paper money. Examples of central banks are the European Central Bank and the US Federal Reserve Bank.

- **Investment banks** underwrite stock and bond issues and advice on mergers. Examples of investment banks are Goldman Sachs of the USA or Nomura Securities of Japan.

- **Merchant banks** were traditionally banks which engaged in trade financing. The modern definition, however, refers to banks which provide capital to firms in the form of shares rather than loans. Unlike Venture capital firms, they tend not to invest in new companies.

- **Private Banks** manage the assets of the very rich. An example of a private bank is the Union Bank of Switzerland.

- **Savings banks** write mortgages exclusively.

- **Offshore banks** are banks located in jurisdictions with low taxation and regulation, such as Switzerland or the Channel Islands. Many offshore banks are essentially private banks.

- **Commercial banks** primarily lend to businesses (corporate banking)
Retail banks primarily lend to individuals. An example of a retail bank is Washington Mutual of the USA.

Universal banks engage in several of these activities. For example, Citigroup, a large American bank, is involved in commercial and retail lending; it owns a merchant bank (Citicorp Merchant Bank Limited) and an investment bank (Salomon Smith Barney); it operates a private bank (Citigroup Private Bank); finally, its subsidiaries in tax-havens offer offshore banking services to customers in other countries.

Banking in India has its origin as early as the Vedic period. It is believed that the transition from money lending to banking must have occurred even before Manu, the great Hindu Jurist, who has devoted a section of his work to deposits and advances and laid down rules relating to rates of interest.

During the Mogul period, the indigenous bankers played a very important role in lending money and financing foreign trade and commerce. During the days of the East India Company, it was the turn of the agency houses to carry on the banking business.

The General Bank of India was the first Joint Stock Bank to be established in the year 1786. The others which followed were the Bank of Hindustan and the Bengal Bank. The Bank of Hindustan is reported to have continued till 1906 while the other two failed in the meantime.

In the first half of the 19th century the East India Company established three banks; the Bank of Bengal in 1809, the Bank of Bombay in 1840 and the Bank of Madras in 1843. These three banks also known as Presidency Banks, were independent units and functioned well.
These three banks were amalgamated in 1920 and a new bank, the Imperial Bank of India was established on 27th January 1921. With the passing of the State Bank of India Act in 1955 the undertaking of the Imperial Bank of India was taken over by the newly constituted State Bank of India.

The Reserve Bank which is the Central Bank was created in 1935 by passing Reserve Bank of India Act 1934. In the wake of the Swadeshi Movement, a number of banks with Indian management were established in the country namely, Punjab National Bank Ltd, Bank of India Ltd, Canara Bank Ltd, Indian Bank Ltd, the Bank of Baroda Ltd, the Central Bank of India Ltd. On July 19, 1969, 14 major banks of the country were nationalized and in 15th April 1980 six more commercial private sector banks were also taken over by the government.

Today the commercial banking system in India may be distinguished into:

**Public Sector Banks**
- State Bank of India and its associate banks called the State Bank group
- 20 nationalized banks
- Regional Rural Banks mainly sponsored by Public Sector Banks

**Private Sector Banks**
- Old generation private banks
- New generation private banks
Foreign banks in India
Scheduled Co-operative Banks
Non-scheduled Banks

Co-Operative Sector
The co-operative banking sector has been developed in the country to supplement the village money lender:
- State Co-operative Banks
- Central Co-operative Banks
- Primary Agriculture Credit Societies
- Land Development Banks
- Urban Co-operative Banks
- Primary Agricultural Development Banks
- Primary Land Development Banks
- State Land Development Banks

Development Banks
- Industrial Finance Corporation of India (IFCI)
- Industrial Development Bank of India (IDBI)
- Industrial Credit and Investment Corporation of India (ICICI)
- Industrial Investment Bank of India (IIBI)
- Small Industries Development Bank of India (SIDBI)
- SCICI Ltd.
- National Bank for Agriculture and Rural Development (NABARD)
- Export Import Bank of India
- National Housing Bank
STATUS OF INDIAN BANKING INDUSTRY

It is useful to note some telling facts about the status of the Indian banking industry juxtaposed with other countries, recognizing the differences between the developed and the emerging economies.

First, the structure of the industry: In the world’s top 1000 banks, there are many more large and medium-sized domestic banks from the developed countries than from the emerging economies. Illustratively, according to The Banker 2004, out of the top 1000 banks globally, over 200 are located in USA, just above 100 in Japan, over 80 in Germany, over 40 in Spain and around 40 in the UK. Even China has as many as 16 banks within the top 1000, out of which, as many as 14 are in the top 500. India, on the other hand, had 20 banks within the top 1000 out of which only 6 were within the top 500 banks. This is perhaps reflective of differences in size of economies and of the financial sectors.

Second, the share of bank assets in the aggregate financial sector assets: In most emerging markets, banking sector assets comprise well over 80 per cent of total financial sector assets, whereas these figures are much lower in the developed economies. Furthermore, deposits as a share of total bank liabilities have declined since 1990 in many developed countries, while in developing countries public deposits continue to be dominant in banks. In India, the share of banking assets in total financial sector assets is around 75 per cent, as of end-March 2004. There is, no doubt, merit in recognizing the importance of diversification in the institutional and instrument-specific aspects of financial intermediation in the interests of wider choice, competition and stability.
Third, **internationalization** of banking operations: The foreign controlled banking assets, as a proportion of total domestic banking assets, increased significantly in several European countries (Austria, Ireland, Spain, Germany and Nordic countries), but increases have been fairly small in some others (UK and Switzerland). Amongst the emerging economies, while there was marked increase of foreign-controlled ownership in several Latin American economies, the increase has, at best, been modest in the Asian economies. Available evidence seems to indicate some correlation between the extent of liberalization of capital account in the emerging markets and the share of assets controlled by foreign banks. As per the evidence available, the foreign banks in India, which are present in the form of branches, seem to enjoy greater freedom in their operations, including retail banking, in the country on par with domestic banks, as compared with most of the other developing countries. Furthermore, the profitability of their operations in India is considerably higher than that of the domestically-owned banks and, in fact, is higher than the foreign banks’ operations in most other developing countries. India continues to grant branch licenses more liberally than the commitments made to the WTO.

Fourth, the **share of state-owned banks** in total banking sector assets: Emerging economies, with predominantly Government-owned banks, tend to have much higher state-ownership of banks compared to their developed counterparts. While many emerging countries chose to privatize their public sector banking industry after a process of absorption of the overhang problems by the Government, we have
encouraged state-run banks to diversify ownership by inducting private share capital through public offerings rather than by strategic sales and still absorb the overhang problems.

A noteworthy feature of banking reforms in India is the growth of newly licensed private sector banks, some of which have attained globally best standards in terms of technology, services and sophistication. In many respects related to performance, these domestically promoted banks have surpassed branches of foreign banks in India, and could be a role model for other banks. The Reserve Bank of India (RBI) is India's central bank. Though the banking industry is currently dominated by public sector banks, numerous private and foreign banks exist. India's government-owned banks dominate the market. Their performance has been mixed, with a few being consistently profitable. Several public sector banks are being restructured, and in some the government either already has or will reduce its ownership.

**Private and foreign banks**

The RBI has granted operating approval to a few privately owned domestic banks; of these many commenced banking business. Foreign banks operate more than 150 branches in India. The entry of foreign banks is based on reciprocity, economic and political bilateral relations. An inter-departmental committee approves applications for entry and expansion.
**Capital adequacy norm**
Foreign banks were required to achieve an 8 percent capital adequacy norm by March 1993, while Indian banks with overseas branches had until March 1995 to meet that target. All other banks had to do so by March 1996. The banking sector is to be used as a model for opening up of India's insurance sector to private domestic and foreign participants, while keeping the national insurance companies in operation.

**Banking**
India has an extensive banking network, in both urban and rural areas. All large Indian banks are nationalized, and all Indian financial institutions are in the public sector.

**RBI banking**
The Reserve Bank of India is the central banking institution. It is the sole authority for issuing bank notes and the supervisory body for banking operations in India. It supervises and administers exchange control and banking regulations, and administers the government's monetary policy. It is also responsible for granting licenses for new bank branches. 25 foreign banks operate in India with full banking licenses. Several licenses for private banks have been approved. Despite fairly broad banking coverage nationwide, the financial system remains inaccessible to the poorest people in India.
Indian banking system

The banking system has three tiers. These are the scheduled commercial banks; the regional rural banks which operate in rural areas not covered by the scheduled banks; and the cooperative and special purpose rural banks.

Scheduled and non scheduled banks

There are approximately 80 scheduled commercial banks, Indian and foreign; almost 200 regional rural banks; more than 350 central cooperative banks, 20 land development banks; and a number of primary agricultural credit societies. In terms of business, the public sector banks, namely the State Bank of India and the nationalized banks, dominate the banking sector.

Local financing

All sources of local financing are available to foreign-participation companies incorporated in India, regardless of the extent of foreign participation. Under foreign exchange regulations, foreigners and non-residents, including foreign companies, require the permission of the Reserve Bank of India to borrow from a person or company resident in India.

Regulations on foreign banks

Foreign banks in India are subject to the same regulations as scheduled banks. They are permitted to accept deposits and provide credit in accordance with the banking laws and
RBI regulations. Currently about 25 foreign banks are licensed to operate in India. Foreign bank branches in India finance trade through their global networks.

**RBI restrictions**
The Reserve Bank of India lays down restrictions on bank lending and other activities with large companies. These restrictions, popularly known as "consortium guidelines" seem to have outlived their usefulness, because they hinder the availability of credit to the non-food sector and at the same time do not foster competition between banks.

**Indian vs. foreign banks**
Most Indian banks are well behind foreign banks in the areas of customer funds transfer and clearing systems. They are hugely over-staffed and are unlikely to be able to compete with the new private banks that are now entering the market. While these new banks and foreign banks still face restrictions in their activities, they are well-capitalized, use modern equipment and attract high-caliber employees.

**Need to Ponder**
Debates on India's slowdown focus on the manufacturing sector which is dangerously misleading: one of the biggest areas of worry about India's economic slowdown is being ignored - the systemic flaw of India's banking sector. Stories about the real health of Indian banks get less publicised because banks are still overwhelmingly owned, controlled and directed by the government, i.e., the ministry of finance (MoF). Banks have no effective mouthpiece either.
Grey future

One more reason being the opacity of the Reserve Bank of India. This does not mean a forecast of doom for the Indian banking sector the kind that has washed out south east Asia. And also not because Indian banks are healthy. We still have no clue about the real non-performing assets of financial institutions and banks. Many banks are now listed. That puts additional responsibility of sharing information. It is now clear that it was the financial sector that caused the sensational meltdown of some Asian nations. India is not Thailand, Indonesia and Korea. Borrowed investment in property in India is low and property prices have already fallen, letting out steam gently. Our micro-meltdown has already been happening.

Still, there are several other worries about the banking sector, mainly confusion over ownership and control. Sometime soon India will be forced to apply the norms of developed countries and many banks (including some of the biggest) will show very poor return ratios and dozens of banks will be bankrupt. When that happens the two popular reasons to defend bad banks will disappear. These are: one, to save face in the remote hope of that fortunes will `revive' and two, some banks are too big to be allowed to fail, fearing social upheaval.

India is one of the fastest growing economies in the world. Evidence from across the world suggests that a sound and evolved banking system is required for sustained economic development. India has a better banking system in place vis a vis other developing countries, but there are several issues that need to be ironed out.
The challenges that the banking sector in India faces are:

- **INTEREST RATE RISK:**
  Interest rate risk can be defined as exposure of bank's net interest income to adverse movements in interest rates. A bank's balance sheet consists mainly of rupee assets and liabilities. Any movement in domestic interest rate is the main source of interest rate risk. Now as yields go up (with the rise in inflation, bond yields go up and bond prices fall as the debt market starts factoring a possible interest rate hike), the banks will have to set aside funds to mark to market their investment. This will make it difficult to show huge profits from treasury operations. This concern becomes much stronger because a substantial percentage of bank deposits remain invested in government bonds.

- **INTEREST RATES AND NON-PERFORMING ASSETS:**
  The best indicator of the health of the banking industry in a country is its level of NPAs. Given this fact, Indian banks seem to be better placed than they were in the past. A few banks have even managed to reduce their net NPAs to less than one percent (before the merger of Global Trust Bank into Oriental Bank of Commerce, OBC was a zero NPA bank). But as the bond yields start to rise the chances are the net NPAs will also start to go up. This will happen because the banks have been making huge provisions against the money they made on their bond portfolios in a scenario where bond yields were falling.
COMPETITION IN RETAIL BANKING:
The entry of new generation private sector banks has changed the entire scenario. Earlier the household savings went into banks and the banks then lent out money to corporates. Now they need to sell banking. The retail segment, which was earlier ignored, is now the most important of the lot, with the banks jumping over one another to give out loans. The consumer has never been so lucky with so many banks offering so many products to choose from. With supply far exceeding demand it has been a race to the bottom, with the banks undercutting one another. A lot of foreign banks have already burnt their fingers in the retail game and have now decided to get out of a few retail segments completely.

THE URGE TO MERGE:
In the recent past there has been a lot of talk about Indian Banks lacking in scale and size. The State Bank of India is the only bank from India to make it to the list of Top 100 banks, globally. Most of the PSBs are either looking to pick up a smaller bank or waiting to be picked up by a larger bank.

The central government also seems to be game about the issue and is seen to be encouraging PSBs to merge or acquire other banks. Global evidence seems to suggest that even though there is great enthusiasm when companies merge or get acquired, majority of the mergers/acquisitions do not really work.
So in the zeal to merge with or acquire another bank the PSBs should not let their common sense take a back seat. Before a merger is carried out cultural issues should be looked into. A bank based primarily out of North India might want to acquire a bank based primarily out of South India to increase its geographical presence but their cultures might be very different. So the integration process might become very difficult. Technological compatibility is another issue that needs to be looked into in details before any merger or acquisition is carried out. The banks must not just merge because everybody around them is merging. As Keynes wrote, "Worldly wisdom teaches us that it's better for reputation to fail conventionally than succeed unconventionally". Banks should avoid falling into this trap.

- IMPACT OF BASEL-II NORMS:

Banking is a commodity business. The margins on the products that banks offer to its customers are extremely thin vis a vis other businesses. As a result, for banks to earn an adequate return of equity and compete for capital along with other industries, they need to be highly leveraged. The primary function of the bank's capital is to absorb any losses a bank suffers (which can be written off against bank's capital). Norms set in the Swiss town of Basel determine the ground rules for the way banks around the world account for loans they give out. These rules were formulated by the Bank for International Settlements in 1988.

Essentially, these rules tell the banks how much capital the banks should have to cover up for the risk that their loans might go bad. The rules set in 1988 led the banks to differentiate among the customers it
lent out money to. Different weight age was given to various forms of assets, with zero percentage weightings being given to cash, deposits with the central bank/govt. etc, and 100 per cent weighting to claims on private sector, fixed assets, real estate etc. The summation of these assets gave us the risk-weighted assets. Against these risk weighted assets the banks had to maintain a (Tier I + Tier II) capital of 9 per cent i.e. every Rs100 of risk assets had to be backed by Rs 9 of Tier I + Tier II capital. To put it simply the banks had to maintain a capital adequacy ratio of 9 per cent.

The problem with these rules is that they do not distinguish within a category i.e. all lending to private sector is assigned a 100 per cent risk weighting, be it a company with the best credit rating or company which is in the doldrums and has a very low credit rating. This is not an efficient use of capital. The company with the best credit rating is more likely to repay the loan Vis a Vis the company with a low credit rating. So the bank should be setting aside a far lesser amount of capital against the risk of a company with the best credit rating defaulting Vis a Vis the company with a low credit rating. With the BASEL-II norms the bank can decide on the amount of capital to set aside depending on the credit rating of the company.

Credit risk is not the only type of risk that banks face. These days the operational risks that banks face are huge. The various risks that come under operational risk are competition risk, technology risk, casualty risk, crime risk etc. The original BASEL rules did not take into account the operational risks. As per the BASEL-II norms, banks will have to set aside 15 per cent of net income to protect themselves against operational risks.
So to be ready for the new BASEL rules the banks will have to set aside more capital because the new rules could lead to capital adequacy ratios of the banks falling. How the banks plan to go about meeting these requirements is something that remains to be seen. A few banks are planning initial public offerings to have enough capital on their books to meet these new norms.

**IN CLOSING:**

Over the last few years, the falling interest rates, gave banks very little incentive to lend to projects, as the return did not compensate them for the risk involved. This led to the banks getting into the retail segment big time. It also led to a lot of banks playing it safe and putting in most of the deposits they collected into government bonds. Now with the bond party over and the bond yields starting to go up, the banks will have to concentrate on their core function of lending. The banking sector in India needs to tackle these challenges successfully to keep growing and strengthen the Indian financial system.

Furthermore, the interference of the central government with the functioning of PSBs should stop. A fresh autonomy package for public sector banks is in offing. The package seeks to provide a high degree of freedom to PSBs on operational matters. This seems to be the right way to go for PSBs. The growth of the banking sector will be one of the most important inputs that shall go into making sure that India progresses and becomes a global economic super power.
CHALLENGES AHEAD

Following highlights some thoughts on certain areas which have a key bearing on the ability of Indian banks to remain competitive and enhance soundness. Needless to state, these are more in the nature of random thoughts, rather than any structured thinking, and are meant to invite discussion.

First, cost management. Cost containment is a key to sustainability of bank profits as well as their long-term viability. To highlight this point, we take recourse to some figures. In 2003, operating costs of banks as a proportion of total average assets\(^1\) in the UK were 2.12 per cent, for those in Switzerland they were 2.03 per cent, and less than 2 per cent in major European economies like Sweden, Austria, Germany and France. In India, however, in 2003, operating costs as proportion of total assets of scheduled commercial banks stood at 2.24 per cent. The tasks ahead are thus clear and within reach.

Second, recovery management. This is a key to the stability of the banking sector. There should be no hesitation in stating that Indian banks have done a remarkable job in containment of non-performing loans (NPL) considering the overhang issues and overall difficult environment. Let me add that for 2004, the net NPL ratio for the Indian scheduled commercial banks at 2.9 per cent is ample testimony to the impressive efforts being made by our banking system. In fact, recovery management is also linked to the banks’ interest margins. We must recognize that cost and recovery management supported by enabling legal framework hold the key to future health and
competitiveness of the Indian banks. No doubt, improving recovery-management in India is an area requiring expeditious and effective actions in legal, institutional and judicial processes.

Third, **technological intensity** of banking: This is one area where perhaps India needs to do significant ‘catching up’, notwithstanding the rapid strides made over the last.

Some available figures indicate that in late 1999, the percentage of customers using online banking was less than 1 per cent in India, compared with anywhere between 6-30 per cent in developed economies like US, UK, Germany, Finland and Sweden. Even in Latin America, these figures are much higher than for India. While admittedly the numbers for India are likely to be much higher at present than these figures suggest, so would be the case for these other economies as well. The issue, therefore, remains what has been the extent of ‘catching up’ by India on this score? In fact, this seems somewhat intriguing: India happens to be a world leader in information technology, but its usage by our banking system is somewhat muted. It is wise for Indian banks to exploit this globally state-of-art expertise, domestically available, to their fullest advantage.

Fourth, **risk management**. Banking in modern economies is all about risk management. The successful negotiation and implementation of Basel II Accord is likely to lead to an even sharper focus on the risk measurement and risk management at the institutional level. Thankfully, the Basel Committee has, through its various publications, provided useful guidelines on managing the various facets of risk. The
institution of sound risk management practices would be an important pillar for staying ahead of the competition. Banks can, on their part, formulate ‘early warning indicators’ suited to their own requirements, business profile and risk appetite in order to better monitor and manage risks.

Fifth, governance. The recent irregularities involving accounting firms in the US have amply demonstrated the importance of good corporate governance practices. The quality of corporate governance in the banks becomes critical as competition intensifies, banks strive to retain their client base, and regulators move out of controls and micro-regulation. As already mentioned, banks are special in emerging markets since they take a leading role in development of other financial intermediaries and of financial markets, apart from having a large recourse to public deposits. No doubt, there is nothing like an ‘optimal’ level of governance for one to be satisfied with. The objective should be to continuously strive for excellence. The RBI has, on its part, made significant efforts to improve governance practices in banks, drawing upon international best practices. It is heartening to note that corporate governance presently finds explicit mention in the annual reports of several banks. The improved corporate governance practice would also provide an opportunity to accord greater freedom to the banks’ boards and move away from micro regulation to macro management. Banks in India are custodians of depositors’ monies, monies of the millions of depositors who are seeking safe avenues for their hard earned savings, and hence, banks must accept and perform an effective fiduciary role. In this light, improvement in policy-framework, regulatory regime, market-
perceptions, and indeed, popular sentiments relating to governance in banks need to be on the top of the agenda – to serve our society’s needs and realities while being in harmony with the global perspective.

RETAIL BANKING

Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. Services offered include: savings and checking accounts, mortgages, personal loans, debit cards, credit cards, and so forth. This is very different from wholesale banking.

RETAIL BANKING IN INDIA:

India is poised to become the world's fourth largest economy in the span of two decades. Economic prosperity is providing many in this populous nation with real purchasing power; it simply is an opportunity that cannot be overlooked by global banks. Despite its appeal, India remains a developing economy. Thus, global banks seeking a presence or expansion in India must craft a business strategy that considers the country's attendant challenges: long-established competitors; rudimentary infrastructure; dynamic political environment; restrictive regulations; and developing country operational risks.
These challenges should be weighed against the potential gains from entering the marketplace, as well as the likely cost of doing nothing. Extensive research conducted by the IBM Institute for Business Value pinpointed four of the most promising product areas for global banks entering the Indian market: housing loans, automobile loans, small and medium enterprise (SME) banking and personal financial services. However, recognizing the growth opportunities is only the beginning. Global banks targeting India as a source of new growth will have to do much more than just "show up" - success will lie in the details of execution.

With one of the most under penetrated retail lending markets in Asia-Pacific, India offers great potential. India's mortgage debt in 2002 totaled only 2 percent of gross domestic product (GDP), compared to 7 percent of Thailand's GDP, 8 percent of GDP in China and much higher proportions in other parts of the region: Malaysia (28 percent), South Korea (30 percent) and Hong Kong (52 percent). While India remains characterized by extreme wealth and poverty, a middle class is beginning to emerge, with absolute demand for products and services on the rise. To seize this opportunity, new market entrants must exploit specific market niches and leverage best-in-class capabilities while addressing the unique challenges of the Indian banking environment.

During the last decade, India has emerged as one of the biggest and fastest growing economies in the world. The strengthening economy in India has been fueled by the convergence of several key influences: liberalization policies of the government, growth of key economic
sectors, development of an English-speaking, well-educated work force and the emergence of a middle class population.

**More liberal economic policies: Opening the marketplace**

India's debt crisis in the early 1990s forced the government to radically reform its economic policies. The resulting liberalization program opened the market for foreign investment, fostered domestic competition and spawned an era of privatization. In the 10 years after 1992, India's economy grew at an average rate of 6.8 percent. During April to June 2004, the economy continued to show its strength and grew by 7.4 percent.

Foreign direct investment (FDI) grew more than twenty-fold, from just under US$0.13 billion in 1992 to almost US$2.86 billion in 2003. Meanwhile, privatization accelerated between 2000 and 2002, when 13 state-owned companies were sold, while the Indian government recently raised another US$3.41 billion by selling off stakes in six state-owned firms. Since foreign investment and access to external markets remain critical to the growth of the country - and specifically, it’s banking system - reform-minded institutional and foreign investors are monitoring the early words and actions of the new administration that took control in May 2004, uncertain whether its predecessor's liberalization program will continue.

**Booming businesses: Services, agriculture and manufacturing**

Domestic industries have prospered from the development of India's capital markets and the increased foreign trade and investment across sectors. The rapidly expanding services sector (including telecommunications and information technology), has benefited from government spending and explosive demand for IT and IT-enabled
services (ITES), such as call centers and back-office administration. Agriculture and core industries (such as steel, cement and automobiles) are expected to remain strong over time because of affordable consumer credit and the robust economy. In addition, infrastructure spending is expected to be very strong - fueled by big-ticket projects involving national highway systems, establishment of privatized airports, and the modernization of ports and telecommunication networks. An estimated US$440 billion is expected to be spent in public and private projects over the next five years.

A growing labor force: English-speaking with IT savvy Global investors are attracted to India because of the growing number of well-educated, English-speaking workers who are comfortable working in information technology. India's IT work force will be augmented by a booming population of engineering students. The number of engineering students admitted at the university level rose in 2004 to 341,649 from 310,590 in 2003. Furthermore, India's labor pool also serves as an expanding customer base for retail bank products and services.

The emerging middle class: Managing "new money" The development of India's economy is boosting overall consumer purchasing power. The percentage of middle to high income Indian households is expected to continue rising. The younger, more educated population not only wields increasing purchasing power, but it is more comfortable than previous generations with acquiring personal debt
A view of India's banking industry

India's banking industry is one of the major beneficiaries of the country's ascendant economic power. Improving consumer purchasing power, coupled with more liberal attitudes toward personal debt, is fueling India's explosive banking segment. Global banks should be encouraged further by the relatively underpenetrated status of the country's various retail lending segments. The retail market for mortgages, credit cards, automobile loans and other consumer loans is expected to jump from its 1999 total of US$9.7 billion to US$36.7 billion in 2004 (see Figure 3). Even with this strong performance, significant opportunities for continued retail lending growth remain as retail lending figures lag India's regional peers.

Unlike most rapidly-expanding, emerging markets, India's banking sector has exhibited financial stability and a trend toward improved governance under the management of its central bank, the Reserve Bank of India (RBI). One challenge the RBI had to contend with was the legacy of policy-directed, corporate lending by the state-owned banks that had produced high levels of non-performing assets (NPAs). Through structural reform, remedial legislative actions, and favorable returns from the fixed income Treasury Markets, Indian banks have cut gross NPA levels from 15.7 percent in 1997 to 8.8 percent in 2003.

Fortunately, new entrants to the market are not subjected to the same mandatory lending requirements as domestic banks and can therefore "cherry-pick" the most desirable clients, allowing them to lower their own risk of NPAs through more rigorous risk management strategies.

Global banks in India: Gaining a foothold

The competitive environment in India presents both challenges and opportunities to global banks seeking market entry. Entrenched
domestic competitors and restrictive equity ownership ceilings imposed by the government create obstacles for banks establishing a foothold in India. Primary challenges include tough competition and government ceilings on foreign equity ownership. Opportunities exist because global banks often have technological advantages, well-honed, efficient processes and appealing products and services.

For the most part, global banks must execute on an organic growth strategy to expand their footprint in India. Merger and acquisition activity in the banking sector remains limited by government regulation. This is difficult news for global banks that have relied on acquisitions as a market entry or expansion strategy. Unless the government shifts its posture on foreign equity ownership, global banks will have to rely on organic growth to expand their presence in India.

Crafting an India-specific retail banking strategy
As global banks have experienced in the past, successfully competing in India requires substantially more consideration than merely choosing the right market to target. It warrants a well-crafted strategy that addresses the numerous risks and challenges specific to India's developing economy. The confluence of rapid economic development, elevated consumer purchasing power levels and an underserved retail banking population position India as a potential growth region for the 21st Century. However, India's banking history has also seen global banks failing to establish a profitable operation in the country.

Success will truly lie in the details of execution.
REASONS FOR THE CHANGE OVER FROM CORPORATE BANKING TO RETAIL BANKING:

- The financial sector reforms undertaken by the Government since the year 1991 have accelerated the process of disintermediation which has encouraged blue chip corporate to access cheaper funds to meet their working capital requirements directly from investors in India and abroad through capital market instruments and external Commercial Borrowings route thus by-passing Banks in the process. The deregulation of markets and interest rates has lead to cut throat competition among Banks for corporate loans making them to lend even at PLR or sub PLR and offer other valued services at comparatively cheaper rates to big and high value corporate. In the process, most of the banks have experienced substantial reduction in interest spreads and drain on their profitability.

- The introduction of stringent Asset Classification, Income Recognition and provisioning norms has resulted in growing menace of NPAs in corporate loans which has affected the asset quality, profitability and capital adequacy of banks adversely. The risks involved in corporate loans are very high as corporate have to keep all their eggs in one basket. The risks involved in retail Banking advances are comparatively less and well diversified as loan amounts are relatively small ranging from Rs. 5000 to Rs. 100 lace and repayable normally in short period of 3-5 years except housing loans (where repayment period is long up to 15 years in some cases) and from fixed source of income like salaries.
Whereas corporate loans give average return of just 0.5 to 1.5 percent only, the retail advances offer attractive interest spread of 3 to 4 percent, because retail borrowers are less interest rate sensitive than the Corporate. Another reason for large interest spreads on retail advances is that the retail customers are too fragmented to bargain effectively.

While corporate loans are subject to ups and downs in trade frequently, retail loans are comparatively independent of recession and continue to deliver even during the sluggish phase of economy.

Retail Banking gives a lot of stability and public image to banks as compared to corporate banking.

The housing loans, which form the major chunk of retail lending and where NPAs are the least, carry risk weight of just 50% for capital adequacy purposes. This is likely to come down further as new Basel Capital Accord or (Basel II) norms are put in place from the year 2006. This offers added incentive to banks for lending to this retail segment as against corporate lending where capital consumption is higher.

The greater amount of consumerism in the country with upswing in income levels of burgeoning middle class, which has propensity to consume to raise their standard of living, is enlarging the retail markets. This market is growing 250 percent per year and boosting the demand for credit from households. The potential is huge as present penetration level is just over 2 percent in the country. Given the easy liquidity scenario in the country the growth rate in this sector is likely to go up manifold in the years come. This offers great potential for banks to enlarge their loan books.
The Indian mindset is also changing and consumers prefer to improve their quality of life even if it means borrowing for facilities like housing, consumer goods, vehicles, and vacationing etc. Borrowing and lending is no longer considered a taboo. The peer pressure and demonstration effect is further pushing up demand for housing loans, consumer products, and automobiles. The profiles of customers are fast changing from conservative dodos to fashionable peacocks. All these developments give big push to Retail Banking activities.

Retail Banking clients are generally loyal and tend not to change from one Bank to another very often.

Large numbers of Retail clients facilitate marketing, mass selling and ability to categorize/select clients using scoring system and data mining. Banks can cut costs and achieve economies of scale and improve their bottom-line by robust growth in retail business volume.

Through product innovations and competitive pricing strategies Banks can foster business relationship with customers to retain the existing clients and attract new ones.

Innovative products like asset securitization can open new vistas in sustaining optimal capital adequacy and asset liability management for banks.

Retail Banking offers opportunities to banks to cross sell other retail products like credit card, insurance, mutual fund products and demate facilities etc. to depositors and investors.
RETAIL BANKING PRODUCTS AND SERVICES

⇒ Deposits:
There are many products in retail banking like F.D., Savings A/c, Current A/c, Recurring A/c, NRI A/c, Corporate Salary A/c, Free Demat A/c, Kid’s A/c, Senior Citizen Scheme, Cheque Facilities, Overdraft Facilities, Free Demand Draft Facilities, Locker Facilities, Cash Credit Facilities, etc. They are listed and explained as follows:

⇒ Fixed Deposit:
The deposit with the bank for a period, which is specified at the time of making the deposit is known as fixed deposit. Such deposits are also known as F.D or term deposit. A F.D is repayable on the expiry of a specified period. The rate of interest and other terms and conditions on which the banks accepted F.D were regulated by the R.B.I. in section 21 and 35A of the Banking Regulation Act 1949.

Each bank has prescribed their own rate of interest and has also permitted higher rates on deposits above a specified amount. R.B.I has also permitted the banks to formulate F.D. schemes specially meant for senior citizen with higher interest than normal.

⇒ Savings A/c:
Saving bank A/c is meant for the people who wish to save a part of their current income to meet their future needs and they can also earn in interest on their savings. The rate of interest payable on by the banks on deposits maintained in savings account is prescribed by R.B.I. The bank should not open a saving account in the name of:
Nowadays the fixed deposit is also linked with savings account. Whenever there is excess of balance in savings a/c it will automatically transfer into Fixed deposit and if there is shortfall of funds in savings a/c, by issuing cheque the money is transferred from fixed deposit to savings a/c. Different banks give different name to this product.

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Current A/c:
A current A/c is an active and running account, which may be operated upon any number of times during a working day. There is no restriction on the number and the amount of withdrawals from a current account. Current account suit the requirements of a big businessmen, joint stock companies, institutions, public authorities and public corporation etc.

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Recurring Deposit:
A variant of the saving bank a/c is the recurring deposit or cumulative deposit a/c introduced by banks in recent years. Here, a depositor is required to deposit an amount chosen by him. The rate of interest on the recurring deposit account is higher than as compared to the interest on the saving a/c. Banks open such accounts for periods ranging from 1 to 10 years. TDS is not applicable to this type of deposit. The recurring deposit account can be opened by any number of persons, more than
one person jointly or severally, by a guardian in the name of a minor and even by a minor.

⇒ NRI Account:
NRI accounts are maintained by banks in rupees as well as in foreign currency. Four types of Rupee account can be open in the names of NRI.

1. Non Resident Rupee Ordinary Account (NRO)
2. Non Résident External Account (NRE)
3. Non Resident (Non Repatriable Deposit Scheme) (NRNR)
4. Non Resident (special) Rupee Account Scheme (NRSR)

Apart from this, foreign currency account is the account in foreign currency. The account can be open normally in US dollar, Pound Sterling, Euro. The accounts of NRIs are Indian millennium deposit, Resident foreign currency, housing finance scheme for NRI investment schemes.

⇒ Corporate Salary Account:
Corporate Salary a/c is a new product by certain private sector banks, foreign banks and recently by some public sector banks also. Under this account salary is deposited in the account of the employees by debiting the account of employer. The only thing required is the account number of the employees and the amount to be paid them as salary. In certain cases the minimum balance required is zero. All other facilities available in savings a/c is also available in corporate salary a/c.
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⇒ **Demat Account:**
Dematerialization is a process by which physical share certificates / securities are taking back by the company or registrar and destroyed ultimately. An equivalent number of shares are credited electronically to customers depository account. Just like saving/current account with a bank one can open a securities account with the depository through a depository participant (DP).

⇒ **Kid’s Account: ( Minor Account )**
Children are invited as customer by certain banks. Under this, Account is opened in the name of kids by parents or guardians. The features of kid’s account are free personalized cheque book which can be used as a gift cheque, internet banking , investment services etc.

⇒ **Senior Citizenship Scheme :**
Senior citizens can open an account and on that account they can get interest rate somewhat more than the normal rate of interest. This is due to some social responsibilities of banks towards aged persons whose earning are mainly on the interest rate.

⇒ **Loans and Advances:**
The main business of the banking company is lending of funds to the constituents, mainly traders, business and industrial enterprises. The major portion of a bank’s funds is employed by way of loans and advances, which is the most profitable employment of its funds.
There are three main principles of bank lending that have been followed by the commercial banks and they are safety, liquidity, and profitability.

Banks grant loans for different periods like short term, medium term, and long term and also for different purpose.

**⇒ Personal Loans:**
This is one of the major loans provided by the banks to the individuals. There the borrower can use for his/her personal purpose. This may be related to his/her business purpose. The amount of loan is depended on the income of the borrower and his/her capacity to repay the loan.

**⇒ Housing Loans:**
NHB is the wholly own subsidiary of the RBI which control and regulate whole industry as per the guidance and information , home loan’s rates is going to be cheaper so that infrastructure sector gets motivation for development home loans rate is decline up to 7.5% EMI at declining rate so that it becomes cheaper. The purpose of loan to purchase, extension, renovation, and land development.

**⇒ Education Loans:**
Loans are given for education in country as well as abroad.

**⇒ Vehicle Loans:**
Loans are given for purchase of scooter, auto-rickshaw, car, bikes etc. The market size of auto finance is RS 7500 cr. Low interest rates,
increasing income levels of people are the factors for growth in this sector. Even for second hand car finance is available.

✧ **Professional Loans:**
Loans are given to doctor, C.A, Architect, Engineer or Management Consultant. Here the loan repayment is normally done in the form of equated monthly.

✧ **Consumer Durable Loans:**
Under this, loans are given for acquisition of T.V, Cellphones, A.C, Washing Machines, Fridge and other items.

✧ **Loans against Shares and Securities:**
Finance against shares is given by banks for different uses. Now a days finance against shares are given mostly in demat shares. A margin of 50% is normally accepted by the bank on market value. For these loans the documents required are normally DP notes, letter of continuing security, pledge form, power of attorney. This loan can be used for business or personal purpose.

**Services Provided By the Banks:**

✧ **Credit Cards:**
A credit card is an instrument, which provides immediate credit facilities to its holder to avail a variety of goods and services at the merchant outlets. It is made of plastic and hence popularly called as Plastic Money.
Such cards are issued by bank to persons with minimum income ranging between RS 50000 and RS 100000 per annum. And are accepted by a variety of business establishments which are notified by the card issuing bank.

Some banks insist on the cardholder being their customers while others do not.

Few banks do not charge any fee for issuing credit cards while others impose an initial enrollment fee and annual fee also.

If the amount is not paid within the time duration the bank charges a flat interest of 2.5%.

Leading Indian Banks such as : SBI, BOB, Canara Bank, ICICI, HDFC and a few foreign banks like CITIBANK, Standard Chartered etc are the important issuers of credit card in India.

⇒ **Debit Cards:**
It is a new product introduced in India by Citibank a few years ago in association with MasterCard.
A debit card facilitates purchases or payments by the cardholder.
It debits money from the a/c of the cardholder during a transaction. This implies that the cardholder can spend only if his account permits.

⇒ **Net Banking:**
This facilitates the customers to do all their banking operations from their home by using the internet facility.
With Net Banking one can carry out all banking and shopping transactions safely and with total confidentiality.

With Net Banking one can easily perform various functions:

1. Check Account Balance
2. Download Account Statement
3. Request for a stop payment of a cheque.
5. Make a FD/TDS enquiry.
6. Access DEMAT a/c
7. Transfer funds.
8. Facilitate bill Payments.
9. Open a FD

⇒ Mobile Banking:

To avail the mobile banking, one needs to have a savings, current and FD a/c and mobile connection.

Using mobile banking facility one can –

1. Check Balance
2. Check last three transactions.
3. Request for a statement
5. Enquire on a cheque status.
6. Instruct stock cheque payment.
7. View FD details.
8. Transfer funds.
⇒ **Phone Banking:**

It helps to conduct a wide range of banking transactions from the comfort of one’s home or office.

Using phone banking facility one can

1. Check Balance
2. Check last three transactions.
4. Transfer funds.
5. Enquire on a cheque status, and much more.

⇒ **Anywhere Banking:**

One can operate his roaming current a/c at one centre at any other designated of a particular across any other centre.

One can deposit or withdraw cash from any branch of a particular bank all over the country up to a prescribed limit. One can also transfer funds.

⇒ **Automated Teller Machines (ATM):**

ATM features user-friendly graphic screens with easy to follow instructions. The ATMs interact with customers in their local language for increased convenience.

Following are the features available on ATMs which can be accessed from anywhere at anytime:

1. Cash Withdrawal
2. Cash Deposit
3. Balance Enquiry
4. Mini A/c Statements
5. Cheque Book Request
6. Transaction at various merchant establishments.
Smart Card:
The smart card, a latest additional to the world of banking and information technology has emerged as the largest volume driven end-product in the world due to its data portability, security and convenience. Smart Card is similar in size to today’s plastic payment card; it has a memory chip embedded in it. The chip stores electronic data and programmes that are protected by advanced security features. When coupled with a reader, the smart card has the processing power to serve many different applications.

To ensure the confidentiality of all banking service, smart cards have mechanisms offering a high degree of security. These mechanisms are based on private and public key cryptography combined with a digital certificate, one of the most advanced security techniques currently available.

SOME ASPECTS OF RETAIL BANKING
Impact of Retail Banking:

- The major impact of retail Banking is that, the customers have become the Emperors – the fulcrum of all Banking activities, both on the asset side and the liabilities front.
- The Non-Banking finance companies which have hitherto been thriving on retail business due to high risk and high returns thereon have been dislodged from their profit munching citadel
- Retail Banking is transforming banks into one stop financial super markets.
- The share of retail loans is fast increasing in the loan books of banks.
Banks can foster lasting business relationship with customers and retain the existing customers and attract new ones. There is a rise in their service as well.

Banks can cut costs and achieve economies of scale and improve their revenues and profits by robust growth in retail business. Reduction in costs offers a win situation both for banks and the customers.

It has affected the interface of banking system through different delivery mechanism

It is not that banks are sharing the same pie of retail business, the pie itself is growing exponentially. Retail Banking has fuelled a considerable quantum of purchasing power through a slew of retail products.

4.3 Introduction to Selected Urban Co-Operative Banks of Gujarat

For analysis of operating efficiency of urban co-operative banks of Gujarat, I have selected following 6 scheduled urban co-operative banks of Gujarat.

A) The Kalupur Commercial Co-Operative Bank Ltd.
B) Rajkot Nagrik Sahakari Bank Ltd.
C) The Ahmedabad Mercentile Co-Operative Banld Ltd.
D) Mehasana Urban Co-Operative Bank Ltd.
E) The Surat People’s Co-Operative Bank Ltd.
F) Nutan Nagrik Sahakari Bank Ltd.
A) The Kalupur Commercial Co-Operative Bank Ltd.
The phenomenal growth of the urban co-operative banks in Gujarat as well as in Maharashtra has been witnessed particularly after the nationalization of major commercial banks in the year 1969. Immediately after nationalization, small traders and small scale industrial units in big cities and some urban places experienced difficulties in obtaining timely and adequate credit facilities. They felt the need of having a bank which could cater to their needs. With this objective in mind the Ahmedabad Grain Merchants' Association promoted this bank under the leadership of late Shri Baldevbhai Dosabhai Patel. The Kalupur Bank was registered on 9.10.1970 and started functioning from 5.12.1970 in just 250 sq.ft. area in the premises belonging to the association, under the able and dynamic leadership of late Shri Baldevbhai Dosabhai Patel along with his team of dedicated members on the Board or Directors. Shri B.D.Patel rendered the services as the Chairman continuously and uninterruptedly till he left for heavenly abode on 12.07.1997.
Vikram cooperative Bank Ltd., Ahmedabad became sick in 1982. Reserve Bank of India and co-operative Department of Gujarat State first handed over the administration of this bank to Kalupur Bank and in 1991 the bank was amalgamated with Kalupur Bank. The objective behind this action was to set an example in cooperative banking sector and to protect the interest of its depositors/shareholders by handing over its management or by amalgamation with a sound and well
managed bank and thus to instill confidence of the public in cooperative banking sector. Thereafter three small and weak urban co-op Banks, viz The Standard co-op bank ltd. Ahmedabad, The Royal co-op bank ltd. Ahmedabad and The Tapi Co-op Bank, Surat based were merged with Kalupur Bank wef 04-10-2005, 03-03-2006 and 02-02-2007 respectively. Reserve Bank of India accorded the status of a "Scheduled Bank" effective from 1st September 1988 which is an outstanding achievement. The bank enjoys competitive advantage over its other counterparts on account of this achievement.

The bank was registered under Multi-State cooperative societies Act, 1984 with effect from 8th September 1995. It opened up new vistas to expand its business in the Municipal limits of Greater Mumbai of Maharashtra. At present bank's branch is operating at Kalbadevi, Mumbai.

The Bank has a network of 38 branches of which 4 are functioning in neighbouring urban towns viz. Bavla, Bareja, Sanand and Gandhinagar in Ahmedabad district. The Bank has opened branches in Anand, Vadodara, Kambhat and Surat. The Kalbadevi - Mumbai branch is the first branch opened out of the Gujarat state.

GUIDING PRINCIPLES

- To ensure customer confidence and satisfaction.
- To enhance the bank's net worth.
- To offer maximum dividend to its members.
• To provide best available input to its employees through training.
• To contribute to the social cause.
• To contribute to the progress of the country.
• To respect laws of the land.

Kalupur bank is committed to maintain the leadership position in all parameters and thrive to give best customer satisfaction by efficient, quick and courteous customer service.

B) Rajkot Nagrik Sahakari Bank Ltd.

Rajkot Nagarik Sahakari Bank is a leading Co-Operative Bank in Gujarat State, India. Bank was established on 5th October 1953 With a small Capital Of Rs. 4890 and Membership of 59 persons under the leadership of Late Keshavlal Amrutlal Parekh as a Chairman, and Late Janmashankar Antani as a M.D. Bank has made tremendous & real progress, Bank became pride of saurashtra region & achieved new heights in banking as well as Co.Operative sector under the leadership of former Chairman Late Shri Arvindbhai Maniar.

During past years bank has played vital & leading role for the development of industries, business & Economy of Rajkot City, Development and nursing of Co-operative movement in the Saurashtra region of Gujarat State. Bank was the first co-operative institute to start functioning in the erstwhile state of Saurashtra. Bank was inaugurated by "SAHAKAR MAHARSHI"late Shri Vainkunthbhai Metha.

Bank has developed in manifolds with the time. Membership (Share Holder) of bank is counting towards 2,50,000 which is a record by itself & provides an example of how a mass movement can be turned into the
instrument for social upliftment. To day Bank has more than 7,20,000 +
deposit accounts with a deposit base of 1141.60 + Crores, And 40000 +
Establishments / Individuals enjoy the facility of Rs 760.42+ Crores of
Advances.

Since inception bank was guided by the people with foresight & vision,
Which Includes the names Like Shri Keshubhai Patel, Shri Vajubhai
Vala, Shri Shashikant Mehta, Shri Vasantbhai Khokhani, Shri
Pravinbhai Maniyar, Shri Shivlalbhai Vekaria etc.

Being in the service sector, with a vision of current & future trends,
Bank started automation & modernization way back in 1987 and by
1995 all the Branches were computerized.

Bank is Enjoying the SCHEDULE BANK Status Since 1989. In year
2001 Bank was registered UNDER MULTI-STATE CO-OPERATIVE
SOCIETY ACT. With this Bank has opened a Branch In Mumbai,
Economic Capital of India and become MULTI-STATE SCHEDULE
CO-OPERATIVE BANK.

Rajkot Nagarik Sahakari Bank’s aim is to provide a WORLD-CLASS
Banking facility to the common people of the society at a economical
rate, so as to be a preferred provider of the banking services in the area
where bank operates and to achieve a healthy growth in profit, which will
be partly used for the benefit of society and for upliftment of masses &
the general growth of co-operative movement. The bank is committed to
the highest level of ethical standards, professional integrity and regulatory
compliances. Our bank’s business philosophy is based on following core
values, Operational Excellence, Customer Focus and Upliftment through
Co-Operation.
C) The Ahmedabad Mercantile Co-Operative Bank Ltd.
The Ahmedabad Mercantile Co-op. Bank Ltd., Established in the year 1966, popularly known as "AMCO BANK" started its banking activity under the leadership of Shri Mohanbhai C. Patel with one branch at Relief Road, Ahmedabad in Gujarat State, India. Expansion accelerated, and branch after branch was added to the family of branches of the Bank, creating a group of 25 branches, all are operating in their own fully air-conditioned premises. With opening of a branch in Mumbai, in Maharashtra, the Bank attained the Multi State Co-op. Society status. The Bank acquired Scheduled Bank status in 1996.

The birth and the spectacular growth of the Bank in a comparatively a small span of 40 years can mainly be attributed to the desire to cater the needs of the business community in general and small traders in particular, encouraging the community to save and channelise these savings for productive purposes leading to economic progress and prosperity of the community. With the passage of time and with gaining of strength and stability, the Bank spread its wings to other areas such as financing of Small Scale Industries, large industries, professionals, individuals for consumer durables, vehicles etc. as also acceptance of deposits from Non-Resident Indians. Our motto is "CUSTOMER CARE" and thereby total customer satisfaction and our goal is to BETTER to BEST.

- The **salient features** which helped bank in acquiring a unique position amongst the co-operative banks in Ahmedabad are
  - Service with Smile- Fast & Accurate
  - Total Mechanisation- Computerisation & Upgradation
  - Speedy clearing of instruments between Mumbai & Ahmedabad
• Free remittance facility between Ahmedabad & Mumbai through issue of D.D. at par
• Introduction of services like customer terminal, single window service and telebanking
• Acceptance of NRE deposits
• Attractive interest rates on term deposits and most competitive interest rates on advances. Special rates for schematic lending.
• Issue of out-station drafts & collection of cheques/ bills through agency arrangements with country's leading Banks
• Assured safety of deposits
• Funds Transfer To and Fro through RTGS and NEFT on same day to any centre
• Utility bill pay Service Through bill Desk
• Life and General Insurance arrangement with Bajaj Alliance
• All branches equipped with CCTV to arrest unwanted incidence

The Bank is ably managed by an elected Board of Directors with the active support of Executives and staff compliment of around 98 Officers, 131 Clerks and 73 other employees.

The Management and Staff of the Bank has earned a reputation for their unstinted and transparent administration and caring service.

D) Mehasana Urban Co-Operative Bank Ltd.
Mehasana Urban Co-Operative bank Ltd. Established on 23rd October, 1983, registered under Co Operative Society Act 1961 Registration No. 20052 The RBI License No. DB/UBD GJ 357 P dt. 28/09/1983 The Bank started with one branch at Mehsana with Share Capital of Rs. 15.00 lacs,
made continuous Progress as on 31/03/2010 paid up share capital is Rs. 33.19 crore. The Bank was given status of Scheduled Bank by Reserve Bank of India in the year 2000. At present The Bank is providing better customer service through its 25 & one extension counters at Ganpat University, Kherva and Branches at various centers in the state of Gujarat. Bank is having its Spacious and attractive own Premises of 14 Branches, reaming premises on lease hold base. The Business growth of the bank is very tremendous and growth rate graph is on high level every year by year with shows the figures given here under. Internet has revolutionized the way online users can avail services like internet banking from anywhere, anytime without physical presence. Mehsana Urban Co Operative Bank Ltd has been delivering electronic services to its customers and businesses remotely since last couple of years. Though increased world-wide acceptance of internet as a delivery channel for providing services and products creates new business opportunities, it also gives an opportunity for fraudsters to use internet as medium to commit frauds. It is important for online users to be aware of such frauds and protect themselves against them.

E) The Surat People’s Co-Operative Bank Ltd.
With the advent of the 20th century, Co-operative Movement started in India. Late Raosaheb Varundavan Jadav - a visionary dreamt of establishing Co-operative Bank. This Dream turned into reality in the name of The Surat Peoples Co-operative Bank Ltd.
The Surat People’s Co-operative Bank Ltd was established in 1922 at Surat. Bank was registered on 10th March, 1922 and started functioning from 21st April, 1922. The Bank was first registered Urban Co-Operative Bank in India and became Scheduled Bank on 1st September, 1988.
The Bank is serving since last 87 years to the people of Surat. The bank is having network of 21 branches, 19 in Surat and 1 branch at Vapi and 1 branch at Navsari.

- The Bank is the "First Registered Urban Co-operative Bank" of India.
- All Branches Connected in CBS.
- Among the first 13 Co-operative Banks in september 1988 to get the "Scheduled Bank" Status.
- The bank commenced "Total Branch Automation" in 1992-93.
- The Bank introduced "SMS Banking Facility" and "View Account Terminal" {VAT} facility at all branches for better customer service.
- Bank started its own "Training Centre" for providing training to its employees.
- The first Bank to provide the "Depository Participant Services" in South Gujarat.
- Only coop bank of South Gujarat to have direct connectivity to RBI server for RTGS /NEFT facility.
- Only bank to have direct connectivity with RBI server to have NECS facility.
- Only Bank to give RTGS /NEFT facility on STP basis - straight through processing.

F) Nutan Nagrik Sahakari Bank Ltd.
Nutan Nagarik Sahakari Bank Limited was established in Ahmedabad on 4th October, 1971 under the Chairmanship of Late Shri Atmaram Bhogilal Sutaria and Managing Directorship of Late Shri Kalyanbhai P.Fadia. The Bank started functioning in very small rented premises at Maskati market in the area of about 15 X 16 feet.
The Bank got Banking License No. UBD GJ 627 P on 30th October, 1986.
Nutan Nagarik Sahakari Bank Limited has 18 Branches in Ahmedabad City. The Administrative Office of the Bank and most of the branches are functioning in beautiful buildings owned by the Bank. All the branches are situated in very prominent business or residential areas of Ahmedabad. Ten branches of the Bank is having Safe Deposit Vault facility. All branches are provided with modern and comfortable furniture, latest office equipments, computers and fax machines so that customers can conduct their business in pleasant and comfortable surroundings. The Bank has started core banking services since March, 2008. The Board of Directors of the Bank includes very prominent businessmen, industrialists, social workers and leading citizens. The chairman, Vice-Chairmen and all Board of Directors are giving honorary services to the bank. Customers of the Bank includes Manufacturers, Wholesalers, traders and retailers dealing in textiles, chemicals, machine tools, plastics , cars, papers, computers, jewelers etc. Advances against cars and trucks are given to large number of customers. Professionals such as doctors, lawyers, chartered accountants, engineers etc. receive loans for buying premises for their clinics, office, equipments, computers etc. Women entrepreneurs receive special encouragement from the Bank for starting small business or industry. The Bank gives loan against gold ornaments also.
• Gujarat State Co.op. Union had organized competition in the year 1995-96 for best performance during the year 1994-95. Our Bank had secured the shield as a winner of first Prize.

• The Bank has introduced – “Apurva Nutan Yojana”, the services of inter branch cheque encashment. Respected Deputy Governor of Reserve Bank of India – Shri D.R.Mehta inaugurated this unique service called “Apurva Nutan Yojana” on 2nd July, 1994.

• The Bank has constructed a traffic police booth on 27th August, 1996 at Lal Darwaja, Ahmedabad as a part of its Silver Jubilee Year.

• “Puraskar Yojna: The Bank is awarding the meritorious students under the “Nutan Nagarik Sahakari Bank Puraskar Yojna” every year. The students are eligible for merit certificate and cash award of Rs. 500/-.

• Bright Students who have secured first 10 positions in Ahmedabad in SSCE and HSC Board. Children of Depositors / Members who have secured minimum 70 % marks in SSCE and 60 % in HSC Board / Graduation.
• They have to apply in prescribed format within specified time limit. In each category, first ten students, as per merit list, are eligible for cash award. A large number of shareholders and customers enthusiastically take part in every function. The Bank is also encouraging young children who have achieved some goal in various kind of sports.