Chapter-2

Banking Sector in India
2.1 BANKING INDUSTRY IN INDIA

The Reserve Bank of India (RBI), as the central bank of the country, closely monitors developments in the whole financial sector. The banking sector is dominated by Scheduled Commercial Banks (SBCs). As at end March 2002, there were 296 Commercial banks operating in India. This included 27 Public Sector Banks (PSBs), 31 Private, 42 Foreign and 196 Regional Rural Banks. Also, there were 67 scheduled co-operative banks consisting of 51 scheduled urban cooperative banks and 16 scheduled state co-operative banks.

Scheduled commercial banks touched, on the deposit front, a growth of 14% as against 18% registered in the previous year. And on advances, the growth was 14.5% against 17.3% of the earlier year.

State Bank of India is still the largest bank in India with the market share of 20% ICICI and its two subsidiaries merged with ICICI Bank, leading creating the second largest bank in India with a balance sheet size of Rs. 1040 bn.

Higher provisioning norms, tighter asset classification norms, dispensing with the concept of ‘past due’ for recognition of NPAs, lowering of ceiling on exposure to a single borrower and group exposure etc., are among the measures in order to improve the banking sector.

A minimum stipulated Capital Adequacy Ratio (CAR) was introduced to strengthen the ability of banks to absorb losses and the ratio has subsequently been raised from 8% to 9%. It is proposed to hike the CAR to 12% by 2004 based on the Basle Committee recommendations.
Retail Banking is the new mantra in the banking sector. The home Loans alone account for nearly two-third of the total retail portfolio of the bank. According to one estimate, the retail segment is expected to grow at 30-40% in the coming years.

Net banking, phone banking, mobile banking, ATMs and bill payments are the new buzz words that banks are using to lure customers.

With a view to provide an institutional mechanism for sharing of information on borrowers / potential borrowers by banks and Financial Institutions, the Credit Information Bureau (India) Ltd. (CIBIL) was set up in August 2000. The Bureau provides a framework for collecting, processing and sharing credit information on borrowers of credit institutions. SBI and HDFC are the promoters of the CIBIL.

The RBI is now planning to transfer of its stakes in the SBI, NHB and National bank for Agricultural and Rural Development to the private players. Also, the Government has sought to lower its holding in PSBs to a minimum of 33% of total capital by allowing them to raise capital from the market. Banks are free to acquire shares, convertible debentures of corporate and units of equity oriented mutual funds, subject to a ceiling of 5% of the total outstanding advances (including commercial paper) as on March 31 of the previous year.

The finance ministry spelt out structure of the government-sponsored ARC called the Asset Reconstruction Company (India) Limited (ARCIL), this pilot project of the ministry would pave way for smoother functioning of the credit market in the country. The government will hold 49% stake and private players will hold the rest 51%- the majority being held by ICICI Bank (24.5%).
2.2 REFORMS IN THE BANKING SECTOR

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank has to earmark a minimum percentage of their Loan portfolio to sectors identified as “priority sectors”. The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number scheduled commercial banks increased four-fold and the number of banks branches increased eight-fold.

After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSB) s found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. Eight new private sector banks are presently in operation. These banks due to their late start have access to state-of-the-art technology, which in turn helps them to save on manpower costs and provide better services.

During the year 2000, the State Bank of India (SBI) and its 7 associates accounted for a 25% share in deposits and 28.1% share in credit. The 20 nationalized banks accounted for 53.5% of the deposits and 47.5% of credit during the same period. The share of foreign banks (numbering 42), regional rural banks and other scheduled commercial banks accounted for 5.7%, 3.9% and 12.2% respectively in deposits and 8.41%, 3.14% and 12.85% respectively in credit during the year 2000.
2.3 Classification of Banks

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

**Chart 2.1 Banking Systems in India**

Reserve bank of India (Controlling Authority)

- Development Financial institutions
  - IFCI
  - IDBI
  - ICICI
  - NABARD
  - NHB
  - IRBI
  - EXIM Bank
  - SIDBI

- Banks
  - Commercial Banks
  - Regional Rural Banks
  - Land Development Banks
  - Cooperative Banks

- Public Sector Banks
  - SBI Groups
  - Nationalized Banks

- Private Sector Banks
  - Indian Banks
  - Foreign Banks
2.4 GLOBAL AND LOCAL SCENARIO OF BANKING SECTOR

Recent time has witnessed the world economy develop serious difficulties in terms of lapse of banking & financial institutions and plunging demand. Prospects became very uncertain causing recession in major economies. However, amidst all this chaos India’s banking sector has been amongst the few to maintain resilience.

A progressively growing balance sheet, higher pace of credit expansion, expanding profitability and productivity akin to banks in developed markets, lower incidence of nonperforming assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. The way forward for the Indian banks is to innovate to take advantage of the new business opportunities and at the same time ensure continuous assessment of risks.

A rigorous evaluation of the health of commercial banks, recently undertaken by the Committee on Financial Sector Assessment (CFSA) also shows that the commercial banks are robust and versatile. The single-factor stress tests undertaken by the CFSA divulge that the banking system can endure considerable shocks arising from large possible changes in credit quality, interest rate and liquidity conditions. These stress tests for credit, market and liquidity risk show that Indian banks are by and large resilient.

Thus, it has become far more imperative to contemplate the role of the Banking Industry in fostering the long term growth of the economy. With the purview of economic stability and growth, greater attention is required on both political and regulatory commitment to long term
development programme. FICCI conducted a survey on the Indian Banking Industry to assess the competitive advantage offered by the banking sector, as well as the policies and structures that are required to further the pace of growth. The results of our survey are given in the following sections.

The pace of development for the Indian banking industry has been tremendous over the past decade. As the world reels from the global financial meltdown, India’s banking sector has been one of the very few to actually maintain resilience while continuing to provide growth opportunities, a feat unlikely to be matched by other developed markets around the world. FICCI conducted a survey on the Indian Banking Industry to assess the competitive advantage offered by the banking sector, as well as the policies and structures required to further stimulate the pace of growth.

The predicament of the banks in the developed countries owing to excessive leverage and lax regulatory system has time and again been compared with somewhat unscathed Indian Banking Sector. An attempt has been made to understand the general sentiment with regards to the performance, the challenges and the opportunities ahead for the Indian Banking Sector.

A majority of the respondents, almost 69% of them, felt that the Indian banking Industry was in a very good to excellent shape, with a further 25% feeling it was in good shape and only 6% of the respondents feeling that the performance of the industry was just average. In fact, an overwhelming majority (93.33%) of the respondents felt that the banking
industry compared with the best of the sectors of the economy, including pharmaceuticals, infrastructure, etc.

Most of the respondents were positive with regard to the growth rate attainable by the Indian banking industry for the year 2009-10 and 2014-15, with 53.33% of the view that growth would be between 15-20% for the year 2009-10 and greater than 20% for 2014-15.

**Chart 2.2 Projected Growth Rates for Banks**

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<thead>
<tr>
<th>Projected Growth Rate</th>
<th>2009-10</th>
<th>2014-15</th>
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<tbody>
<tr>
<td>&lt; 5%</td>
<td>6.67</td>
<td>0</td>
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<tr>
<td>5-10%</td>
<td>13.33</td>
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<td>10-15%</td>
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<td>15-20%</td>
<td>53.33</td>
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<td>&gt;20%</td>
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On being asked what is the major strength of the Indian banking industry, which makes it resilient in the current economic climate; 93.75% respondents feel the regulatory system to be the major strength, 75% economic growth, 68.75% relative insulation from external market, 56.25% credit quality, 25% technological advancement and 43.75% our risk assessment systems.
Change is the only constant feature in this dynamic world and banking is not an exception. The changes staring in the face of bankers relates to the fundamental way of banking—which is going through rapid transformation in the world of today. Adjust, adapt and change should be the key mantra. The major challenge faced by banks today is the ever rising customer expectation as well as risk management and maintaining growth rate. Following are the results of the biggest challenge faced by the banking industry as declared by our respondents (on a mode scale of 1 to 7 with 1 being the biggest challenge):

**Chart 2.3 Challenges to Banking Industry**
They also asked their respondents to rate India on certain essential banking parameters (Regulatory Systems, Risk Assessment Systems, Technological System and Credit Quality) in comparison with other countries i.e. China, Japan, Brazil, Russia, Hong Kong, Singapore, UK and USA.

The recent financial crisis has drawn attention to under-regulation of banks (mainly investment banks) in the US. Though, the Indian story is quite different. Regulatory systems of Indian banks were rated better than China, Brazil, Russia, and UK; at par with Japan, Singapore and Hong Kong where as all our respondents feel that we are above par or at par with USA. On comparing the results with their previous survey where the respondents had rated Indian Regulatory system below par the US and UK system, they see that post the financial crisis Indian Banks are more confident on the Indian Regulatory Framework.

Chart 2.4 Regulatory Systems
The global meltdown started as a banking crisis triggered by the credit quality. Indian banks seem to have paced up in terms of Credit Quality. Credit quality of banks has been rated above par than China, Brazil, Russia, UK and USA but at par with Hong Kong and Singapore and 85.72% of the respondents feel that we are at least at par with Japan.

Chart 2.5 Credit Quality

As technology ingrains itself in all aspects of a bank’s functioning, the challenge lies in exploiting the potential for profiting from investments made in technology. A lot needs to be done on the technological front to keep in pace with the global economies, as is evident from the survey results. Technology systems of Indian banks have been rated more advanced than Brazil and Russia but below par with China, Japan, Hong Kong, Singapore, UK and USA. They find no change on introspection of their past surveys which also highlighted the need for Indian banks to pace up in adoption of advanced technology.
The idea of creating bigger banks to take on competition sounds attractive but one must realize even the biggest among Indian banks are small by global standards. The lack of global scale for Indian banks came into sharp focus during the recent financial crisis which saw several international banks reneging on their funding commitments to Indian companies, but local banks could not step into the breach because of balance sheet limitations.

In this light, 93.75% of all respondents to their survey are considering expanding their operations in the future. They further asked participants on the methods that they consider suitable to meet their expansion needs. They divide them into organic means of growth that comes out of an increase in the bank’s own business activity, and inorganic means that includes mergers or takeovers.
Chart 2.7 Organic Means

**ORGANIC MEANS**

- Direct Sales: 14%
- New Representative office: 22%
- New ventures: 7%
- Upgrade offices: 24%
- Branch expansion: 33%

Chart 2.8 Inorganic Means

**INORGANIC MEANS**

- Strategic alliances: 31%
- Subsidiaries: 12%
- Joint Ventures: 27%
- Buyout portfolios: 9%
- M&A: 21%
We see from the above graph that amongst organic means of expansion, branch expansion finds favor with banks while strategic alliances is the most popular inorganic method for banks considering scaling up their operations. On the other hand, new ventures and buyout portfolios are the least popular methods for bank expansion.

While there has been prior debate, they questioned banks on NBFCs and Industrial houses being established as banking institutions and find opinion to be marginally against the notion, with 35.71% in favour while 42.86% were against them being established as banks.

However, on further questioning, 57.14% of respondents feel that the above may be allowed but only if it is along with specific regulatory limitations. Banks felt that limitations regarding track record, ensuring adequate capitalization levels, a tiered license that enables new entrants to enter into specific areas of the business only after satisfactorily achieving set milestones for the prior stages, cap on promoter's holdings and wider public holding in addition to a common banking regulator on a level playing field are essential before they may set themselves up as banks.

2.5 Banking Activities

Over the last three decades, there has been a remarkable increase in the size, spread and scope of activities of banks in India. The business profile of banks has transformed dramatically to include non-traditional activities like merchant banking, mutual funds, new financial services and products and the human resource development. Their survey finds that within retail operations, banks rate product development and differentiation; innovation and customization; cost reduction; cross selling and technological upgradation as equally important to the growth of their
retail operations. Additionally a few respondents also find pro-active financial inclusion, credit discipline and income growth of individuals and customer orientation to be significant factors for their retail growth.

There is, at the same time, an urgent need for Indian banks to move beyond retail banking, and further grow and expand their fee-based operations, which has globally remained one of the key drivers of growth and profitability. In fact, over 80% of banks in their survey have only up to 15% of their total incomes constituted by fee-based income; and barely 13% have 20-30% of their total income constituted by fee-based income.

Out of avenues for non-interest income, we see that Banc assurance (85.71%) and FOREX Management (71.43%) remain most profitable for banks. Derivatives, understandably, remains the least profitable business opportunity for banks as the market for derivatives is still in its nascent stage in India.

There is nevertheless a visibly increased focus on fee based sources of income. 71% of banks in their survey saw an increase in their fee based income as a percentage of their total income for the FY 2008-09 as compared to FY 2007-08. Indian banks are fast realizing that fee-based sources of income have to be actively looked at as a basis for future growth, if the industry is to become a global force to reckon with.

**Financial Inclusion and Expansion of Banking Services**

Transition from class banking to mass banking and increased customer focus is drastically changing the landscape of Indian banking. Expansion of retail banking has a lot of potential as retail assets are just 22% of the
total banking assets and contribution of retail loans to GDP stands merely at 6% in India vis-à-vis 15% in China and 24% in Thailand. All banks in their survey weigh Cost effective credit delivery mechanisms (100%) as most important to the promotion of financial inclusion. This was followed by factors such as identifying needs and developing relevant financial products (75%), demographic knowledge and strong local relations (62.5%) and ensuring productive use and adequate returns on credit employed (43.75%) in decreasing levels of importance. In fact, India has an expanding middle class of 250 to 300 million people in need of varied banking services. While 60% of our population has access to banks, only 15% of them have loan accounts and an overwhelming 70% of farmers have no access to formal sources of credit, reflective of immense potential for the banking system. This is mirrored in the fact that while our survey finds no discernible shift in the lending pattern of banks across Tier 1, Tier 2 and Tier 3 cities over the last two years, 93% Indian Banking System: The Current State & Road Ahead Page | 20 participants still find rural markets to be a profitable avenue, with 53% of respondents finding it lucrative in spite of it being a difficult market. Cost of accessing markets has been the only sour note in the overall experience of our respondents in rural markets. At the same time, more than 81.25% of our respondents have a strategy in place to tap rural markets, with the remainder as yet undecided on their plan of action. Tie ups with micro finance institutions (MFIs)/SHG and introduction of innovative and customized products are considered most important to approaching rural markets according to respondents, more so as compared to internet kiosks, post offices and supply chain management techniques.
Additionally, 81.25% of respondents found branchless banking to be an effective and secure way of reaching out to rural markets, with mobile, biometric and handheld devices, equally popular amongst banks. Some respondents also found the Business Correspondents model to be an untapped model for financial inclusion.

As Indian financial markets mature over time, there is also a need for innovative instruments to deepen the market further. Suggestions ranged from micro saving and micro insurance initiatives, Cash deposit machines, warehouse receipts, to prepaid cash cards, derivatives, interest rate futures and credit default swaps as a means to further the financial inclusion and expansionary process.
Credit Flow and Industry

India Inc is completely dependent on the Banking System for meeting its funding requirement. One of the major complaints from the industry has in fact been high lending rates in spite of massive cuts in policy rates by the RBI. We asked the banks what they felt were major factors responsible for rigid prime lending rates.

None of the banks in their survey considered the cap on bank deposit rates to be one of the causes of inflexible lending rates. Due to long-term maturity, the trend seems to be changing. However, there are other factors which have led to the stickiness of lending rates such as wariness of corporate credit risk (33.33%), competition from government small savings schemes (26.67%). Benchmarking of SME and export loans against PLR (20.00%) on the other hand, do not seem to have as significant an influence over lending rates according to banks.

The great Indian industrial engine has nevertheless continued to hum its way through most of the year long crisis. We asked banks about the sectors that they consider to be most profitable in the coming years (Fig. 12). All respondents were confident in the infrastructure sector leading the profitability for the industry, followed by retail loans (73.33%) and others.
Chart 2.10 Sectors Profitable in the Coming Years

SECTORS PROFITABLE IN THE COMING YEARS

Chart 2.11 Porter’s Five Force Model

(2) Potential Entrants is high as development financial institutions as well as private and Foreign Banks have entered in a big way

(5) Organizing power of the supplier is high. With the new financial instruments they are asking higher return on the investments

(1) Rivalry among existing firms has increased with liberalization. New products and improved customer services is the focus.

(4) Bargaining power of buyers is high as corporate can raise funds easily due to high Competition.

(3) The threat of substitute product is very high like credit unions and investment houses. There are other substitutes as well banks like mutual funds, stocks, government securities, debentures, gold, real estate etc.
1. Rivalry among existing firms

With the process of liberalization, competition among the existing banks has increased. Each bank is coming up with new products to attract the customers and tailor made Loans are provided. The quality of services provided by banks has improved drastically.

2. Potential Entrants

Previously the Development Financial Institutions mainly provided project finance and development activities. But they now entered into retail banking which has resulted into stiff competition among the exiting players.

3. Threats from Substitutes

Competition from the non-banking financial sector is increasing rapidly. The threat of substitute product is very high like credit unions and in investment houses. There are other substitutes as well banks like mutual funds, stocks, government securities, debentures, gold, real estate etc.

4. Bargaining Power of Buyers

Corporate can raise their funds through primary market or by issue of GDRs, FCCBs. As a result they have a higher bargaining power. Even in the case of personal finance, the buyers have a high bargaining power. This is mainly because of competition.
5. Bargaining Power of Suppliers

With the advent of new financial instruments providing a higher rate of returns to the investors, the investments in deposits is not growing in a phased manner. The suppliers demand a higher return for the investments.

6. Overall Analysis

The key issue is how banks can leverage their strengths to have a better future. Since the availability of funds is more and deployment of funds is less, banks should evolve new products and services to the customers. There should be a rational thinking in sanctioning Loans, which will bring down the NPAs. As there is a expected revival in the Indian economy Banks have a major role to play.

2.6 SWOT ANALYSIS OF BANKING SECTOR

The banking sector is also taken as a proxy for the economy as a whole. The performance of bank should therefore, reflect “Trends in the Indian Economy”. Due to the reforms in the financial sector, banking industry has changed drastically with the opportunities to the work with, new accounting standards new entrants and information technology. The deregulation of the interest rate, participation of banks in project financing has changed in the environment of banks.

The performance of banking industry is done through SWOT Analysis. It mainly helps to know the strengths and Weakness of the industry and to improve will be known through converting the opportunities into strengths. It also helps for the competitive environment among the banks.
a) STRENGTHS

1. Greater securities of Funds
Compared to other investment options banks since its inception has been a better avenue in terms of securities. Due to satisfactory implementation of RBI’s prudential norms banks have won public confidence over several years.

2. Banking network
After nationalization, banks have expanded their branches in the country, which has helped banks build large networks in the rural and urban areas. Private banks allowed to operate but they mainly concentrate in metropolis.

3. Large Customer Base
This is mainly attributed to the large network of the banking sector. Depositors in rural areas prefer banks because of the failure of the NBFCs.

4. Low Cost of Capital
Corporate prefers borrowing money from banks because of low cost of capital. Middle income people who want money for personal financing can look to banks as they offer at very low rates of interests. Consumer credit forms the major source of financing by banks.
b) WEAKNESS

1. Basel Committee

The banks need to comply with the norms of Basel committee but before that it is challenge for banks to implement the Basel committee standard, which are of international standard.

2. Powerful Unions

Nationalization of banks had a positive outcome in helping the Indian Economy as a whole. But this had also proved detrimental in the form of strong unions, which have a major influence in decision-making. They are against automation.

3. Priority Sector Lending

To uplift the society, priority sector lending was brought in during nationalization. This is good for the economy but banks have failed to manage the asset quality and their intensions were more towards fulfilling government norms. As a result lending was done for non-productive purposes.

4. High Non-Performing Assets

Non-Performing Assets (NPAs) have become a matter of concern in the banking industry. This is because reduced to meet the international
standards of change in the total outstanding advances, which has to be reduced to meet the international standards.

c) OPPORTUNITIES

1. Universal Banking
Banks have moved along the value chain to provide their customers more products and services. like home finance, Capital Markets, Bonds etc. Every Indian bank has an opportunity to become universal bank, which provides every financial service under one roof.

2. Differential Interest Rates
As RBI control over bank reduces, they will have greater flexibility to fix their own interest rates which depends on the profitability of the banks.

3. High Household Savings
Household savings has been increasing drastically. Investment in financial assets has also increased. Banks should use this opportunity for raising funds.

4. Untapped Foreign Markets
Many Indian banks have not sufficiently penetrated in foreign markets to generate satisfactory business therefore, it can be concluded clear opportunity exists in such markets.
5. Interest Banking
The advance in information technology has made banking easier. Business can effectively carried out through internet banking.

d) THREATS

1. NBFCs, Capital Markets and Mutual funds
There is a huge investment of household savings. The investments in NBFCs deposits, Capital Market Instruments and Mutual Funds are increasing. Normally these instruments offer better return to investors.

2. Changes in the Government Policy
The change in the government policy has proved to be a threat to the banking sector. Due to some major changes in policies related to deposits mobilization credit deployment, interest rates- the whole scenario of banking industry may change.

3. Inflation
The interest rates go down with a fall in inflation. Thus, the investors will shift his investments to the other profitable sectors.
4. Recession
Due to the recession in the business cycle the economy functions poorly and this has proved to be a threat to the banking sector. The market oriented economy and globalization has resulted into competition for market share. The spread in the banking sector is very narrow. To meet the competition the banks has to grow at a faster rates and reduce the overheads. They can introduce the new products and develop the existing services.

2.7 BANKING OPERATIONS

PERSONAL BANKING SERVICES

Personal banking is similar to retail banking. The essence is that the products and services of the bank are tailored to meet individual banking and ancillary needs, including everything from a checking account to investment advice. The different products available through personal banking include checking accounts, savings accounts, CDs, check cards with rewards, different types of loans, and personal lines of credit, credit cards, personal trust and private banking services, mortgage programs, investment management, discount brokerage, insurance services and advisory services. Insurance, investment advice, and wealth management are high end products offered in personal banking.

The most prominent feature in personal banking today is technology-enabled, customized products and services like anywhere banking, ATMs, and the delivery of services through channels like a telephone and the Internet. The idea is that the customer need not come to the branch for
their services and that everything should be delivered to the customer at his convenience. The bank will provide single window service, meaning that customers can visit one counter for any banking need.

Personal banking is quickly catching up in almost all the countries in the world and is expected to contribute significantly to the bank’s total revenue. Almost 15-20% of the customers contribute up to 90% of the banks business, so proper service to these customers will deepen the financial relationships.

Everyone with a personal bank account needs to be very cautious and pay close attention to all aspects of their account. People should promptly review their bank statement, avoid having to pay unnecessary fees and bank charges, avoid leaving discarded bank documents behind, avoid banking online in public places, and periodically change their password.

**DEPOSITS**

It is the taking of deposits and granting of loans that single out a bank. These are the core activities of a bank. Initially, all accounts are opened with a deposit of money by the customer and hence these accounts are called deposit accounts. Public deposits comprise the major proportion of a bank working funds which are used primarily to make loans and advances and to purchase securities. The banker solicits deposits from the members of the public belonging to different walks of life, engaged in numerous economic activities. The nature of banking facility sought by them, therefore, varies widely, e.g., some want to earn interest, some want their money to be safe; others use banking facilities for conducting
business. As a result, different types of accounts with various facilities and privileges are offered by banks to their customers. Banks accept various types of deposits, which are generally categorized as demand or time deposits.

**Demand deposits:** Demand deposits are those where customers expect to be able to withdraw money at anytime. These include savings deposits and deposits in current accounts.

**Saving deposits:** As saving accounts are meant to encourage saving habit, organizations whose purpose is profit are not allowed to open such accounts. Interest is paid on a half-yearly basis in these accounts. A minimum balance is stipulated by each bank. A balance amount above the minimum stipulated amount is eligible for a 3.5 per cent interest rate in India at present.

**Current deposits:** Since this account is to meet the transaction needs of the customer, there is no restriction on the number of transaction in the account or in the type of customers eligible to open these accounts. Account holders are not entitled to any interest from the bank.

**Time deposits:** These are also called as fixed deposits or term deposits. These are repayable after the expiry of a specified period varying from 7 days to 120 months. Any deposit which is not repayable on demand is a
time deposit. They are a genuine saving medium. The banker can utilize such amounts more profitably since he knows before hand when this money will be demanded. As a result, a much higher rate of interest is offered to the customer on such deposits.

**Loans:**

The basic function of a commercial bank is to make loans and advances out of the money which comes to it from the public by way of deposits. Direct loans and advances are given to all types of persons, particularly to businessmen and investors against personal security, gold and silver and other movable and immovable assets. Banks, sometimes, also lend money at concessionary rates of interest to priority sector industries, small borrowers, students, disabled persons, etc.

**Commercial banks usually lend money in the following forms:**

**Cash credit:** A cash credit is an arrangement by which the banks agree to lend money up to a specified limit. The bank places a certain amount to the credit of the customer. The customer draws the money as and when he needs. Interest is charged only on the amount actually utilized by him and not on the limit granted. Cash credit is usually granted on a bond or certain other securities. This method of lending is very popular in India.
**Loans:** A loan is a specified amount which is sanctioned by the banker to the customer. It is granted for a fixed period, say six months, or a year. The specified amount is placed to the credit of the borrower. He can withdraw the amount in lump sum or draws cheques against this sum form any amount. Interest is charged on the full amount whether the borrower makes use of it or not. The rate of interest on it is lower than what is charged on cash credit. A loan is usually granted against the security of assets or the personal security of the borrower. It may be repayable in installments or in lump sum.

**Bank Overdraft:** Bank overdraft is granted when the customer has a current account in the bank. Under an overdraft arrangement, a depositor is allowed to draw by a cheque more than the deposited amount to his credit, but up to a specified limit. Interest is charged on the exact amount overdrawn by the customer. The rate of interest on it is always higher than that charged on the loans. This facility is given by banks on the security of some assets or on the personal security of the customer.

**Discounting of bills:** Banks may also give financial help to its customers by discounting their bills of exchange. The bank purchases them at their present worth. The bill is purchased by the bank at the face value less the interest at the current rate till the time when the bill falls due. This is known as discounting of bills. This is a form of lending to the business community. Discounting of bills facilitates modern business transactions in a large number.
The following types of loans can be availed from banks:

Home loans
Car loans
Education loans
Two Wheeler loans
Business Installment loans
Personal loans

Investment:

Investment banks help companies and governments raise money by issuing and selling securities in the capital markets (both equity and debt), as well as providing advice on transactions such as mergers and acquisitions. Until the late 1980s, the United States and Canada maintained a separation between investment banking and commercial banks. A majority of investment banks offer strategic advisory services for mergers, acquisitions, divestiture or other financial services for clients, such as the trading of derivatives, fixed income, foreign exchange, commodity, and equity securities. Trading securities for cash or securities (i.e., facilitating transactions, market-making), or the promotion of securities (i.e., underwriting, research, etc.) is referred to as the "sell side." Dealing with the pension funds, mutual funds, hedge funds, and the investing public who consume the products and services of
the sell-side in order to maximize their return on investment constitutes the "buy side". Many firms have buy and sell side components.

**Demat services**: Banks provide depository services where shares are held in dematerialized (demat) form. Demat is the process of converting the physical (paper) shares into electronic form. With demat trading; customers won’t need to worry about forgery and duplicate or stolen share certificates. Apart from safety, transaction costs are significantly lesser too. Under demat trading, every security has a ISIN (International Security Identification Number) that uniquely identifies that particular security, and provides a convenient form of ID. The salient features of a demat account are:

Holding statement every 3 months, showing current portfolio of shares.

Overdraft available against demat shares through AssetLink upto 90 per cent of the value of select scrips.

No account opening charges and no minimum balance requirements.

No stamp duty on transfers and immediate transfers possible.

Just 3-4 weeks to dematerialize shares, immediate transfer on buying.

A total of 10 sale transactions per month may be free of cost for each demat account. Further, banks will receive new issues, rights and bonus issues in demat form on behalf of the customer. Interest rates for loans against demat shares are lower than the rates for loans against physical scrips.
Cards:

Credit cards: A credit is an instrument which provides instantaneous credit facility to its holder-usually between 30 and 45 days. A credit card is made of plastic. It is a payment device that can be used in local, national and sometimes even in international markets, during travel, at ATMs, etc. for purchase of all kinds of goods such as households, consumer durables and services like hotels, airways, railways, and so on. The credit card reduces the need for the customer to hold money balances at any given time. Having a bank account is not a prerequisite for issuing a credit card. Each credit card holder is given a credit limit on his credit card.

Debit cards: Like a credit card a debit card too is a payment mechanism which allows the holder to make purchases without making any immediate cash payment. A debit card can be used in any merchant outlet that is linked with the customer’s bank for making payment. At the time of making payment through a debit card, the amount is instantly debited to the customer’s account. It is like a blank cheque, so it must be used carefully. There are no chances of the debit card user to fall into the debt trap. There are no transaction costs and no question of late fee payment in the use of debit card. Bankers also avoid the risk of bad debts.
Insurance:

In Financial sense:

The term insurance may be defined in the financial sense as: A social device providing financial compensation for the consequences of adversity, the payments being made from the accumulated contributions of all parties participating in the arrangement. The essence of insurance thus, is collective bearing of risks as it involves pooling of risk.

In Legal sense:

The contract of insurance may be defined as: A contract under which the insurer (insurance company) in consideration of a sum of money paid (premium) by the insured (the person whose risk is insured) agrees to: (i). make good the loss suffered by the insured against a specific risk (for which the insurance is effected), or; (ii).To pay a prefixed amount to the insured or his/her beneficiaries on the happening of a specified event. Thus, insurance is a contract between the insurer and the insured requiring all the essentials of a valid contract according to the law of contracts. The instrument containing the contract of insurance is called a policy.

Bank assurance is the distribution of insurance products through the bank’s distribution channel whereby, along with a complete range of banking and investment products and services, insurance products are also offered through the vast network of banking services. Thus, it is in the nature of a partnership between an insurance company and a banking
institution through which an attempt is made to exploit synergies between both the insurance companies and banks.

Government of India, through its notification dated August 3, 2000, has recognized insurance as a permissible form of banking business under the provisions of the Banking Regulation Act, business under the provisions of the Banking Regulation Act, 1949. The RBI too has recognized bank assurance, allowing banks with prior permission to offer physical infrastructure to insurance companies within the premises of some selected branches. Some of the bank assurance alliances in India include the following:

**Table 2.1 Insurance By Banks**

<table>
<thead>
<tr>
<th>Insurance Company</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Standard Life Insurance Co. Ltd.</td>
<td>Union Bank Of India</td>
</tr>
<tr>
<td>ICICI Prudential Life Insurance Co. Ltd.</td>
<td>Lord Krishna Bank, ICICI Bank, Bank of India, Citibank, Allahabad Bank, Federal Bank, South Indian Bank, Punjab and Maharashtra Cooperative Bank</td>
</tr>
<tr>
<td>Insurance Company</td>
<td>Bank</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Life Insurance Corporation of India</td>
<td>Corporation Bank, Indian Overseas Bank, Centurion Bank( Centurian Bank Of Punjab), Satara District Central Cooperative Bank, Janata Urban Cooperative Bank, Yeotmal Mahil Sahkari Bank, Vijaya Bank, Oriental Bank Of Commerce</td>
</tr>
<tr>
<td>Metlife India Insurance Co. Ltd.</td>
<td>Karnataka Bank, Dhanalakshami Bank, J&amp;K Bank</td>
</tr>
<tr>
<td>SBI Life Insurance Co. Ltd.</td>
<td>State Bank Of India</td>
</tr>
<tr>
<td>Bajaj Allianz General Insurance Co. Ltd.</td>
<td>Karur Vysya Bank and Lord Krishna Bank</td>
</tr>
<tr>
<td>National Insurance Co. Ltd.</td>
<td>City Union Bank</td>
</tr>
<tr>
<td>Royal Sundaram General Insurance Company</td>
<td>Standard Chartered Bank, ABN AMRO Bank, Citibank, Amex and Repco Bank</td>
</tr>
<tr>
<td>United India Insurance Co. Ltd.</td>
<td>South Indian Bank</td>
</tr>
</tbody>
</table>

**Online services**: On-line banking or internet banking is the ability to use one’s personal computer to communicate with one’s bank. It is an outgrowth of PC banking. PC banking enables customers to execute bank transactions from their personal computer via a modem through financial software of the bank. Internet banking has become a strategic necessity for most commercial banks. It is being used as a distribution channel to build up customer contracts in a systematic way in order to inform, counsel and sell products and services.
All banks, which propose to offer internet services, should obtain prior approval from RBI. Only those banks which are licensed and supervised in India and have a physical presence in India will be permitted to offer internet banking products to residents of India. Thus, both banks and virtual banks incorporated outside the country and having no physical presence in India will not, for the present, be permitted to offer internet banking services to Indian residents.

A number of routine issues which are simple in nature but time-consuming can be handled through the internet, e.g., customer’s request for opening an account, balance enquiries, FD renewals, request for cheque-books, foreign exchange rates, on-line bill payment, stop payment request, request for debit cards, transfer of funds on-line and monthly statement be e-mail. No staff intervention is required in all these cases and the bank can provide all these services to their customers at a fraction of the cost. Internet banking not only ensures saving in the salary of the staff, but also enhances the bank’s ability to increase their customer base without having to invest in exorbitantly priced real estate for opening more physical branches. According to some estimates, the cost per transaction over the internet is one-eighth of the cost to the bank if performed through branch banking.

Internet banking provides anywhere and anytime banking as services are provided round the clock; worldwide connectivity as it transcends geographical boundaries; easy access to recent and historical data; direct customer control of international movement of funds; greater processing speed and accuracy. However, there are certain limitations of internet
banking also- it pre-supposes computer literate customers who can develop trust in this technology which is not always the case especially in a country like India. The fear of hacking is very real in people’s minds so the risk management of the system of the banks poses new challenges.

**NRI banking:**

To meet the specific needs of non-resident Indians related to their remittances, savings, earnings, investments and repatriation, the Government of India introduced in 1970 Non-Resident (External) Account Rules which are governed by the Exchange Control Regulations. **NRI accounts** are maintained by banks which hold authorised dealers' licences from the **Reserve Bank of India**. Some cooperative and commercial banks have also been specifically permitted to maintain NRI accounts in rupees even though they are not authorised dealers. The financial budget for 2007-08 extends NRI accounts to regional rural banks (RRBs) as well. This would boost remittances from NRIs particularly in Bihar, Kerala, Uttar Pradesh and Gujarat where a large number of persons from rural areas from these states are employed overseas.

**Banking Laws for NRIs** allow for accounts with authorised dealers to be maintained in Indian rupees and in foreign currency.

Bank Accounts:

The Foreign Exchange Management Act, 1999 determines the laws regulating foreign exchange and enlists the various deposit schemes
available to Non-Resident Indians. The types of deposit schemes made available to NRIs are:

a) FCNR (B) - Foreign Currency (Non-Resident) Account (Banks) Scheme for all NRIs

b) NRE Account - Non-Resident (External) Rupee Account for all NRIs

c) NRO Account - Non-Resident Ordinary Rupee Account Scheme.

All NRIs can open such accounts, with the exception of individuals residing in Pakistan and Bangladesh, who require special permission from the RBI. Joint accounts of two or more non-residents and nomination facility are permitted.

Bank Accounts:

NRE Savings Account:

The Non-Resident External Account (NRE) is the perfect choice for NRIs wishing to route investments on a repatriable basis. An NRI is permitted to transfer the funds held in the NRE Account as well as the interest earned on it. Maintained in Rupee, this Savings Account requires one to keep an average quarterly balance of Rs.10,000 only. NREs have the choice to open this account jointly with other NRIs. They can transfer their funds out of India whenever they want. What’s more, the funds in the account and the interest earned are both exempt from taxes.

NRO Savings Account:

NRIs can enjoy a host of advantages with the NRO Savings Account. They can repatriate the interest earned after payment of applicable taxes. If they have any investments made in Indian Rupee, they also get the advantage to route these out of India.
NRE Fixed Deposit:

An NRE Fixed Deposit is a fixed deposit maintained in Indian Rupee. It can be fully repatriated at any time.

NRO Fixed Deposit:

An NRO Fixed Deposit is a fixed deposit that is maintained in Indian Rupee by NRIs.

FCNR (Foreign Currency Non-Resident) Deposit:

The NRIs can earn Indian Interest Rates on their Foreign Currency Non-Resident Deposit.

RFC Fixed Deposit:

An RFC Fixed Deposit allows returning Indians to hold their deposit in any one of the four currencies (US Dollar, Pound Sterling, Euro, Japanese Yen). They can convert their deposit into Indian Rupees as and when required.

RFC Savings Account:

An RFC Savings Account allows NRIs to hold their deposit in any one of four currencies (US Dollar, Pound Sterling, Euro, Japanese Yen). They can convert the deposit into Indian Rupees as and when required.

While the FCNR(B) is a term deposit only, the NRE and NRO accounts can be operated as either savings, current, recurring or fixed deposit accounts. As for interest rates, FCNR(B) and NRE are subject to a cap, and should not exceed the LIBOR/SWAP rates. In the case of NRO accounts, rates are determined by the banks. The interest rates, currently at 3.5% apply to a period of 1 to 3 years.
The total NRE/ FCNR deposits during 2006-2007, as per RBI statistics, are USD 37,751 million and are expected to grow with regional rural banks also mopping up funds. Banks are expected to offer lucrative interest rates to bolster NRI funds.

**Money Transfer:**

Many banks provide simple and convenient, online remittance facility to India. NRI’s can remit funds from USA, UK, Singapore, Germany, France, Italy, etc. The money can be sent to accounts at all the branches of the banks across India. Demand draft delivery can also be done to all locations across India. The benefits of this facility are: it is completely online; there are no transaction charges; superior exchange rates can be availed; email updates are available and personalized messages can also be sent. Online donations can also be made to a host of charitable institutions.

**Investments and Insurance:**

Mutual Funds: Mutual Funds pool the money of several investors to invest in equity or debt markets. Mutual Funds could be Equity Funds, Debt Funds or Balanced Funds. Funds are selected on quantitative parameters like volatility, FAMA Model, risk adjusted returns and rolling return, coupled with a qualitative analysis of fund performance and investment styles through regular interactions/due diligence processes with fund managers. The bank will help to determine the investment profile, which in turn, will help choose the type of investments that suits customer the best.
Insurance: NRIs can avail a world of choice in insurance. They can also avail of Life-Insurance plans.

Portfolio Investment Scheme: Portfolio Investment Scheme (PIS) is a scheme through which NRIs who want to deal in shares in the secondary market can route their transactions. No matter which part of the world the NRIs are in, they can trade on recognized Indian Stock Exchanges under the Portfolio Investment Scheme (PIS).

Online Investment Services on NRE/NRO Savings Account:

Investment Services Account (ISA): The online facility of the banks allows the NRIs to enjoy the comfort of investing in Mutual Funds in India from their home/office abroad. The NRIs can open an Investment Services Account by signing up a onetime agreement with the bank to invest in Mutual Fund Schemes. No additional login/password/validations are required at the time of login. The customer can log on to the bank’s website using the Customer Id and Net Banking Password and access their investment services account.

Loans:

Home Loans: Attractive Home Loans can be availed at attractive rates meant exclusively for NRIs. The banks help them to realize their dreams.

Loans Against Securities: NRIs can get an overdraft against their securities such as Equity Shares, Mutual Fund Units, GOI Relief Bonds and LIC Policies, while still retaining ownership.

Loans Against Deposits:

Foreign Currency Loans: The NRIs can avail of the Foreign Currency Loans with the FCNR Deposit as Collateral. They can retain the FCNR
Deposit even as you meet their financial needs overseas. They can utilize the loan amount for any purpose whatsoever except investing in India.

Indian Rupee Loans (INR Loans): The NRIs enjoy a high rate of interest along with the liquidity of a Savings Account by opting for a Super Saver Account. They can avail of an overdraft facility of up to 90% of the value of their fixed deposit or Rs. 20 lac, whichever is lower and get the best of both the worlds.

Corporate Banking

Cash Management Services (CMS):- Cash Management is the process of optimizing receivable and payables while ensuring predictability in the cash flows. Efficient Cash Management is about getting funds in time, quick transfers, quick realization of local and outstation cheques, easy disbursements, account reconciliation, controlled processes and customized MIS. Thus Cash Management Services (CMS) eliminates the inherent delays of a funds transfer mechanism, thus enhancing liquidity and ensuring optimum planning and utilization of funds. Bank Cash Management Services include the following basic components:

1. Collection or Receivables Management
2. Payment or Payables Management

Benefits of Cash Management Services:

- Financial
  Collection & Disbursement products enable business to reduce the interest cost on their borrowings by getting access to your funds faster there-by reducing the borrowings. Additionally, it helps
business to improve the liquidity position by realizing cheques earlier, thereby improving the Balance Sheet and Financial Ratios.

- **Operational**
  Banking and Treasury functions can be managed with far less number of people as most of the funds and liquidity management functions get outsourced to the bank and in addition business will require lesser manpower for performing various payment related activities.

- **Control**
  The Bank’s CMS products allows business to maintain better control over the various Banking and Treasury related activities, improve speed and ease of reconciliation and reduces the risk of fraud.

**Trade services:**

International trade is a risky business. Exporters and importers may be thousands of miles apart. The banks at both ends of the trade transaction have to safeguard the interests of these distant business partners. Effective support through payment instruments such as letters of credit, bills of exchange, and documentary collections is a prerequisite to the unobstructed flow of goods and services.

**Trade way:**

Trade Way is designed to be an international banking gateway for India related trade business. With Trade Way the Bank is the customer’s single point contact for India related documentary collections.
With addition of Trade Way to its spectrum of financial services the Banks truly offer the customer the ultimate banking experience. As a hub for multi-banking transactions, banks make all Documentary Collection Process smoother, faster, cost effective and most importantly – more efficient. Optimizing every business opportunity for the client.

Benefits

- Single point of contact for all the India bound collections.
- Efficient Document Handling and Payment Collection Services
- Cost / Time Advantages through economies of scale
- Online status enquiry facility.
- Leveraging the Bank’s extensive domestic network and area coverage
- Specialized processing team with expertise in Trade Services.

Forex Online:

Getting right rates at the right time is the key factor for determining profitability in forex transactions. To serve this purpose, Forex online offers instant rates that enhance client’s decision-making capability to maximize their gains. Client gets to book rates and view deal tickets online and all they need to do is ‘login’. One can transact from anywhere through the internet. No calling up the bank now, just keep the Forex online page open till one gets the best rate and book it the moment one gets it.
It is completely safe with firewalls, filtering routers and a multi layered security architecture to protect from unauthorized access.

**Forex online Features**

- Real time platform with competitive forex rates
- Transaction in a secure network
- Instantaneous deal number and deal ticket generation
- No need to call up Branch/ dealer for rates
- Archival and online retrieval of past transactions

**Process of registration**

The FXOnline application form along with a Board resolution / Partnership letter / Sole proprietorship letter / HUF letter in the specified format should be handed over to the Solution Manager, or to FX Channels team.

The forms should be dispatched to the Web Channel Team at the following address.

FXOnline / FX-On-Call, Secondary dealing room, 2nd Floor, North Tower, ICICI Bank towers, Bandra Kurla Complex, Bandra (E), Mumbai 400051.

1. Once the form is received by us User ID & Passwords are dispatched to the clients.
SME SERVICES

A squeeze on interest margins, a nudge from the central bank and an opportunity to expand their credit portfolio towards a new and relatively unexplored direction, and led most banks to take a focus on the small and medium enterprise (SME) sector. According to a recent survey commissioned by Citibank, the small businesses and professionals community in India is estimated at more than 3 million. As a result, this sector is the focus of attention among banks.

With so much to work with, most banks now have special cells in place to target this sector. In addition to providing the usual loans and working capital assistance, banks are now going the extra mile to empower their SME clients.

But nothing works like a nudge from the Finance Minister himself. P Chidambaram has asked the State Bank of India (SBI) to increase its share of lending to this sector. “The bank should also use its vast branch network to increase lending to the SME sector as it helps in generating employment and also addresses the issue of balanced regional development,” he said.

SBI on its part has already taken an initiative in this direction. Through its Project Uptech, has taken a cluster financing approach, where the units from similar industry are identified for process improvement. This means
that units, which come forward to adopt innovations, get financial assistance for upgradation costs.

ICICI Bank, the country's second largest bank, has introduced a simplified loan product, an unsecured loan upto Rs 25 lakh for the SME sector.

Oriental Bank of Commerce (OBC) is in the process of setting up a specialised cell for the SME sector.

Though, these are recent initiative, almost all banks now have a special package for this sector. The foreign banks don’t want to be left behind either. Most of them want to target the neglected segment of potential customers as many of these businesses get only transactional banking services, because of their size and relatively low cash flow requirements.

Standard Chartered Bank has taken a lead in this direction. It is offering this service through a separate business unit called Standard Chartered Investment & Loans Ltd (SCILL), currently present in 16 cities. The bank has drawn up a road map to extend SCILL’s network to 60 cities by the end of this fiscal.

HSBC, which has become an aggressive player in the Indian market, is not far behind. HSBC is offering this mass-banking service through its 21 branches in 16 cities across the country. The minimum income level required for getting a loan from HSBC is just Rs 3,500 per month for salaried employees and Rs 10,000 per year for the self-employed.

Despite its extensive research, Citibank is a later entrant in this business, and has announced its initiative only recently. Understandably, risk management for this sector is a huge issue with banks. CRISIL has
stepped in to provide a rating service for the SME sector. According to this rating programme, SMEs would be rated on a scale of one to eight, with scale one indicating the highest credit quality and the scale eight, hinting at default possibilities. The ratings assigned to SMEs would also function as a self-improvement tool for them. To top all initiatives, SBI, ICICI Bank and Standard Chartered Bank, have agreed to join hands with the Small Industries Development Bank of India (SIDBI) to float a rating agency for the SME segment. The rating agency, Small and Medium Enterprises Rating Agency (SMERA), will rate the company’s overall strength, unlike most rating agencies whose core business are to rate debt instruments. With planning, government encouragement and dedicated rating services, banks can tap the potential of this sector in the coming years.

Other Banking Services

ATM:

An automated teller machine or automatic teller machine (ATM) is a computerized telecommunications device that provides a financial institution’s customers a secure method of performing financial transactions in a public space without a human clerk or bank teller. For using an ATM, a customer requires an ATM card. Initially an ATM card worked on various principles including radiation and low-coercivity magnetism that was wiped by the cards reader to make fraud more difficult. However, most modern ATM card are made up of plastic with a magnetic stripe or a plastic smart card with a chip. Customer has a special card number that is referred to as a PIN (personal identification number)
usually of four or more digits. The customer has to insert the card in the machine and quote the PIN number. Initially ATMs were used for withdrawing or depositing cash. However, they provide many other services. A consumer can use an ATM for: deposits/withdrawals of cash; making balance enquiry; obtaining an account statement for previous limited transactions; inter account transfer of funds (restricted to accounts of the same customer at same or different centers); making utility payment of bills, e.g., electricity, telephone, etc.; requisition of cheque books.

**Mobile Banking**

Mobile banking (also known as M-Banking, mbanking, SMS Banking etc.) is a term used for performing balance checks, account transactions, payments etc. via a mobile device such as a mobile phone. Mobile banking today (2007) is most often performed via SMS or the Mobile Internet but can also use special programs called clients downloaded to the mobile device."Mobile Banking refers to provision and availment of banking- and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank and stock market transactions, to administer accounts and to access customised information."

**Demand Draft** is a written order for making payments. It is also called in short form as DD (Demand Draft). The person making payments is called drawee and the recipient is called payee. The bank providing the service is called drawer.
Demand draft can be of two types, Sight Draft or Time Drafts.

Sight drafts allows money transfer only when proper documents are produced on sight. While time drafts allows money transfer after the specified time (a future date).

**Locker/Safe-vault**

Most banks offer safe deposit lockers in branches, though at some places there is a long waiting list before you finally get one. The rates and fees for a locker differ from bank to bank. But regardless of whether it is a private sector or public sector bank you have to have an account with the bank to apply for the facility. Also, fees will vary depending on the size of the locker, usually banks have three sizes - small, medium and large.

Private sector banks like ICICI Bank and HDFC Bank do not charge a one-time deposit in addition to the annual fees like most public sector banks do. The only criterion for obtaining a locker in a private sector bank is that one should have a satisfactorily maintained bank account with a steady minimum balance. The lockers are allocated on the basis of a first-come-first-serve basis or availability. ICICI Bank, for instance, charges Rs.1,800 annually for the smaller locker size and Rs.4,000 for the large locker. This includes the rent, stamp and admission fee.

Public sector banks, however, charge a much lower annual fee. But availability of lockers being a key issue, they charge a deposit which is sometimes as high as Rs.50,000 – Rs.100,000 depending on the waiting list. Like State Bank Of India's branch in Bandra, which charges Rs.50,000 as a deposit, that can be paid in installments over a period of time. The annual fee is Rs.500. Similarly, Indian Bank charges Rs.10,000
as a deposit and Rs.600 annually for a medium sized locker. Indian Bank calculates the deposit such that the interest earned on it matches the annual fee charged for the locker facility.

**Core banking** is a general term used to describe the services provided by a group of networked bank branches. Bank customers may access their funds and other simple transactions from any of the member branch offices.

Core Banking is normally defined as the business conducted by a banking institution with its retail and small business customers. Many banks treat the retail customers as their core banking customers, and have a separate line of business to manage small businesses. Larger businesses are managed via the Corporate Banking division of the institution. Core banking basically is depositing and lending of money.

Normal core banking functions will include deposit accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, and branches.

**Core Banking Solutions**

Core Banking Solutions is new jargon frequently used in banking circles. The advancement in technology especially internet and information technology has led to new way of doing business in banking. The technologies have cut down time, working simultaneously on different issues and increased efficiency. The platform where communication technology and information technology are merged to suit core needs of banking is known as Core Banking Solutions. Here computer software is
developed to perform core operations of banking like recording of transactions, passbook maintenance, interest calculations on loans and deposits, customer records, balance of payments and withdrawal are done. This software is installed at different branches of bank and then interconnected by means of communication lines like telephones, satellite, internet etc. It allows the user (customers) to operate accounts from any branch if it has installed core banking solutions. This new platform has changed the way banks are working. Now many advanced features like regulatory requirements and other specialised services like share (stock) trading are being provided. Core banking solutions are very helpful to SME industries.

In countries such as India and Hong Kong that were a part of the British empire, it is only recently that core banking has caught on. This is mainly due to the restrictions by the UK government on free movement of money throughout the region. Also, the IT infrastructure necessary for such services did not exist in these countries until recently. After Britain chose to give these countries their freedom, the economies of these countries went through a drastic change - thus the demand for such services increased and the need to meet such demand were met with today's technologies. Most of the nationalized banks in India for example: State Bank of India, Punjab National Bank, Allahabad Bank, HDFC and ICICI Bank today supports core banking. As of 2007, many Cooperative banks in India such as REPCO Bank, Jain Urban Cooperative Bank, Kangra Central Cooperative Bank, Udaipur Urban Cooperative Bank, Kollam District Cooperative Bank, Kerala State Cooperative Bank and Panchesheel Mercantile Cooperative Bank have started to use and offer centralized Core Banking too. The Four standard software tools used are
Intellect Suite from POLARIS, Flexcube from iFlex Solutions, Finacle from Infosys and B@ncs from TATA Consultancy Services.

In countries such as Japan, core banking is still in its early stages. Although having autonomous reign over their currency for over half a century, the consumers themselves do not see much use for such services - low demand, thus less services. It is only within the last decade that banks started placing ATMs outside the bank premises. Many of the bank services must be done in person at the account holder's registered branch. Japanese banks rely heavily on paperwork and physical evidence, thus rendering core banking impractical.