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OUT OF THE BOX

New Generation Banking

HORIZONS

New policies and key changes

IN FOCUS

Importance of Banks



INDIAN BANKING: Gateway to a BANKable & SAFE industry



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VIEWPOINT



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Banking industry in India

Physical and virtual expansion of banking through mobile banking, internet banking, tele-banking, and mobile ATMs is taking place since last decade and has gained great popularity over the last few years.

THE FIRST BANK of India was the Oudh Commercial Bank founded in 1881, following which the Punjab National Bank was formed in 1894 managed wholly by Indians. The swadeshi movement encouraged the formation of commercial banks in India, but the banking crisis led to failure of more than 500 commercial banks from 1913-1917. Then in the year 1949, the Banking Companies Act was amended to Banking Regulations Act and this provided the legal framework for the regulation of banking in India.

In 1955, the Imperial Bank of India was nationalized, and the State Bank of India was formed instead and seven other associate banks in 1959. In 1969, the Indian government nationalized 14 major private banks. Six more commercial banks were nationalized by 1980 which changed the face of banking in India. In 1993, in recognition of the requirement to introduce greater competition in the banking sector, new private sector banks were permitted to be set up. Around 10 banks were issued license during this time, which had satisfied the required regulatory requirements. Then in 2001,

fresh rules and regulations for setting up new private sector banks were issued, and two banks were allotted license under those norms.

The Indian banking sector is broadly classified into two parts scheduled banks and non-scheduled banks. The scheduled banks are categorized in: Nationalized banks; State Bank of India plus its associates; Regional Rural Banks (RRBs); foreign banks; and remaining Indian private sector banks. Commercial banks refer to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act of 1949. Physical and virtual expansion of banking through mobile banking, internet banking, tele-banking, and mobile ATMs is taking place since last decade and has gained great popularity over the last few years. This has led to a total change in the face of the banking industry in India.



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The financial sector, of which the banking industry is one of the largest players, has also been undergoing some really important changes.

Maritime India Summit: Refinance under the 5/25 scheme is also not possible for shipbuilders as they do not have a “positive number” when one subtracts the operating profit from the interest outstanding.



ROUNDUP



A BANK ACCEPTS deposits of money from the public and also lends money to the public. Anybody who has account in the bank can withdraw money. The Indian banking sector is broadly classified into two parts scheduled banks and non-scheduled banks. The scheduled banks are classified into: Nationalised banks; State Bank of India and its associates; Regional Rural Banks, foreign banks; and other Indian private sector banks. The country had no central bank before the establishment of the Reserve Bank of India. The RBI is the topmost monetary and banking authority in the country and controls the whole of the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

The Commercial banks in India are largely Indian-public sector and private sector with some foreign banks. The public sector banks make up for more than 92 percent of the entire banking business in India and have an important position in the banking sector. The State Bank of India along with its 7 associate banks and other 19 banks are the public sector banks. All commercial banks whether Indian or foreign, regional rural banks, and state

cooperative banks are scheduled banks. These banks have to have a capital and reserves of not less than Rs.5 lakhs and have to satisfy the RBI that their motive of work is for the good of the depositors. There are only 3 non-scheduled banks in India today.

The Regional Rural Banks, came into existence in the 1970s and were sponsored by nationalised commercial banks with the main motive of helping to develop the rural economy by providing easy credit and deposit facilities for agriculture and other productive activities in the rural areas. Co-operative banks are banks registered under the Cooperative Societies Act, 1912. The main objective of co-operative bank is to provide credit to the rural people. The cooperative banks in India play an important part even today in rural co-operative financing.

The Indian banking structure has been quite sound and effective and has helped in the growth of the Indian economy. The Indian banking system has reached the farthest places of the country and provided them with hassle free banking. This is one of the main reasons of

DATA BRIEFING

The public sector banks make up for more than **92%** of the entire banking business in India

India's growth process and the addition of technology has made banking much easier today. Today you can withdraw or deposit money with a touch of a finger. ▶

Internet banking and its uses

MOST OF US today are very busy with our lives and do not have the time to go to a bank. Even office hours are such for some people that they do not have the time to go to a bank, do any transactions or stand in a queue for any work. This is where internet banking comes to the rescue. Internet banking has made banking very comfortable and easy for the generation of today. Not only has it made transactions safe and secure but you can also do it from the comfort of your home without having to wait in long queues. Internet banking also helps us to know our account balance immediately, transfer money from one account to another with just a click and you can use it to pay your utility bills and other bills quickly with ease without again having to stand in lines for hours. There is no need to visit the bank physically here.

It even provides other facilities like online ordering of cheque books, updating accounts, enquiring about interest rates of financial products. Internet banking also provides services like financial planning capabilities, budgeting and forecasting tools, loan calculators, investment analysis tools and equity trading platforms which are available on the bank's website. You can also fill online tax forms and make tax preparation using internet banking. Internet banking also allows another important feature to customers who can now handle any financial transactions even while on the move. Some other important benefits of internet banking is that it helps to preserve the environment as it minimizes the usage of paper, lessens pollution as people do not have to go to the banks in person and also cuts down emissions. Although internet banking has its own advantages yet there are some disadvantages too.

Despite the modern encryption software which is designed to protect your account there is always a chance of it being hacked by hackers in the cyber world. Hacker attacks, phishing, malware and other unauthorized activity are very common problems in the cyber world today. Thus, although internet banking has more of advantages yet it also has some disadvantages too. So, if you are doing all your transactions over the internet then make sure you are well protected so that you can do any transaction with a peaceful mind and not worry about hacking or theft. Internet banking has changed the way of transacting in today's world and has made life much easier for many. With just a touch you can solve all your banking problems and there is no need to stand in long queues all day. ▶

You can do
internet banking
from the comfort
of your home.



Phone Banking offers you all the ease you need to get any information from your home, office or while on the move, without actually having to visit the bank.

Phone banking

PHONE BANKING services are services which are provided by each bank or other financial institute that helps the customers to perform a whole range of financial transactions over the telephone without needing to visit the bank in person or any ATM. Phone Banking offers you all the ease you need to get any information about your Accounts, Credit Cards, Loans, Demat and Investment Services from your home, office or while on the move, in your preferred language without actually having to visit the bank. Phone Banking services are nothing but a combination of Interactive Voice Response system and phone banking officers offering advice depending on the type of transaction required by you. If the transactions cannot be completed on the IVR, Phone Banking officers assist the people in their services.

The kinds of transactions that a customer may do through telephone banking comprise obtaining account balances and list of recent transactions,



Investments and developments

THE NEW GOVERNOR of the Reserve Bank of India has promised to make certain changes in the banking sector which will help in its growth and development. He says that his efforts and work will show results in the coming five years. He also says that the monopoly of the public sector in the loan market may just be over. The decision of the government to capitalise public sector banks based on their efficiency could end the muscle power that the state-run banks enjoy.

In response to set up niche banks in India after the government invited applications from aspirants has been stupendous. Hundreds of people have applied to set up payments banks and small finance banks, though the central bank is going to be very cautious while providing licences to them. RBI will also provide incentives to banks which will finance infrastructure projects.

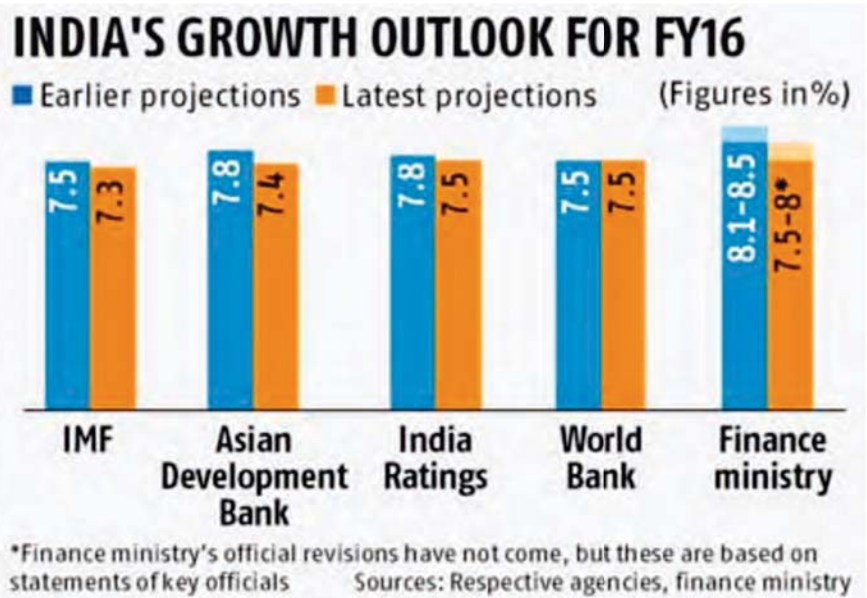
While Indians have been traditionally conservative in their decisions (which is wise sometimes), they are also beginning to open up. As the financial market grows, the investment options and plans are available in large numbers. As the Indian economy does well with over 8% growth in recent times, banks tend to be one of the largest beneficiaries due to the requirement for credit and the fact that market conditions are proper for growing the loan book. In fact, post the global financial crisis of 2008 and 2009, the banking index delivered a return of 82% during May 2009 until October 2010, compared to a return of 40% delivered by the broader market.

The banking industry is passing through a tough time. Bad loans are increasing, the economy is slowing down and credit growth is quite weak. Returns from banking stocks may not be high at present and may even be negative in the short term. Although for the long term, it may be a good time to invest as the sector is not facing any systemic risk and regulations are in tune with international standards. So, banking sector can be said to be one of the best for investment and this can lead to the development of our country. ▶

electronic bill payments and fund transfers between a customer's or another's accounts. From the bank's view point, telephone banking reduces the cost of transactions by decreasing the need for users to visit a bank branch for non-cash withdrawal and deposit transactions. Transactions including cash or documents like cheques are not able to be managed using telephone banking, and a customer requires to visit an ATM or bank branch for cash withdrawals and cash or cheque deposits.

To use any telephone banking facility, a customer must first register with the institution for the service. They would be first be given a customer number and they may be given or set up their own password for customer verification.

Most telephone banking services use automatic answering system with phone keypad response or voice recognition ability. To ensure security, the customer must first confirm through a number or any password or through security questions asked by a customer care representative. This service is quick and efficient and done with just a click of the finger. Phone banking can provide you with any type of information you require and that too in just a few minutes. Hence, no matter what type of service or information you require, just call the phone banking number provided by the bank and get all your queries answered and solved. Thus, phone banking has been a great boon to the people today and has helped to solve many peoples problem of going to the bank for any emergency. ▶



PERSONAL BANKING SERVICES

There are various services that personal banking offers and these banks take care to provide each client with what they require in the best way possible.



PERSONAL BANKING is a mode of banking service and product variations offered by banks to its customers, who are consumers and not businesses, institutions or middlemen. Banks all over the world offer personal banking products that usually include savings and transaction facilities such as a bank transaction account, debit cards/EFT, a floating interest bearing account or savings account and a fixed interest deposit account for an agreed period which may change according to the bank.

Also it also includes debt facilities such as loans, mortgages and credit cards.

The customers of these personal banking services and products are mainly the common public which includes adults, retirees, students, children who are citizens of the country, residents and non-residents all depending on the specifications of the country or bank. Sometimes wealthy individuals may also use personal banking services; they may also be offered private banking services by banks which can include more

advanced services and investments. They offer a range of great products and easy services, plus helpful expertise to make your banking experience smoother and your financial goals for the future more achievable. Their services are tailor-made to suit your requirements and they take care to fulfill all your needs in the best way possible.

There are various services that personal banking offers and these banks take care to provide each client with what they require in the best way possible. Whether you want to know about loans, mortgages or credit cards, their representatives are always ready to help you. Banks often provide certain affluent clients with the personal banking facilities to manage their accounts better and help them to get any information they require as soon as possible with great care. They are totally discreet and keep all personal information about the clients safe. So, if you want a personal banker for yourself you could ask your respective banks for it and see how useful their help is. Most banks offer personal banking facilities and these have been a great help for the people who are really busy as they act as assistants for them and provide them with all the information when required. Thus, personal banking has made life much easier for many. ■



Critical Analysis on Indian banking industry



ATM has been another major device used by all banks to offer service to customers. Internet and mobile banking have also been on the rise and people are accepting these facilities more readily.

IT IS SAID that the banks are the backbone of any economy. Without the proper growth of this sector, a country cannot prosper. India's banking services have steadily moved forward with digitization to offer customers services at everyone's fingertips, laptop and mobile screens. Over the last decade, banks have accepted the use of modern technology consistently to change their operational backdrop. Core banking facilities today have also given banks a strong start up to offer digital channel capabilities. All the banks today are building out their online and mobile channel offerings to attract more customers. ATM has been another major device used by all banks to offer service to customers. Internet and mobile banking have also been on the rise and people are accepting these facilities more readily.

The Indian banking sector consists of a number of public sector banks, twenty private sector banks and around forty three foreign banks along with sixty one regional rural banks (RRBs) and nearly one lakh credit cooperatives. Banks always have to grow and there is no other alternative for them. Every year this growth rate varies from 5-20 percent and the year 2016 will see major growth in the sector and it is expected to range between 18-20 percent. Along with supportive government and regulatory policies, banks are also working on unique business model that helps analytics and social media to improve and customize services for its customers. Banks today are maximizing customer value by engaging them through relevant channels and create newer and more innovative ways to earn revenue.

Banks today are also open to form tie ups with e-commerce companies and let them act as banking correspondents. This partnership will definitely provide both competition and opportunity. Joining hands with e-commerce companies will prove advantageous for banks as it will create new opportunities to sell their products and



services. It will also prevent technology companies and non-banking financial companies from taking away their customers. The banking system in India is very wide spread. The total asset value of the entire banking sector in India is nearly hundreds of billion dollars. The total deposit is nearly US\$ 220 billion. The face of the banking sector in India has been changing rapidly to match pace with the surrounding changes. The latest inclusions in this sector such as Internet banking and other facilities like core banking have made banking operations more easy and user friendly.

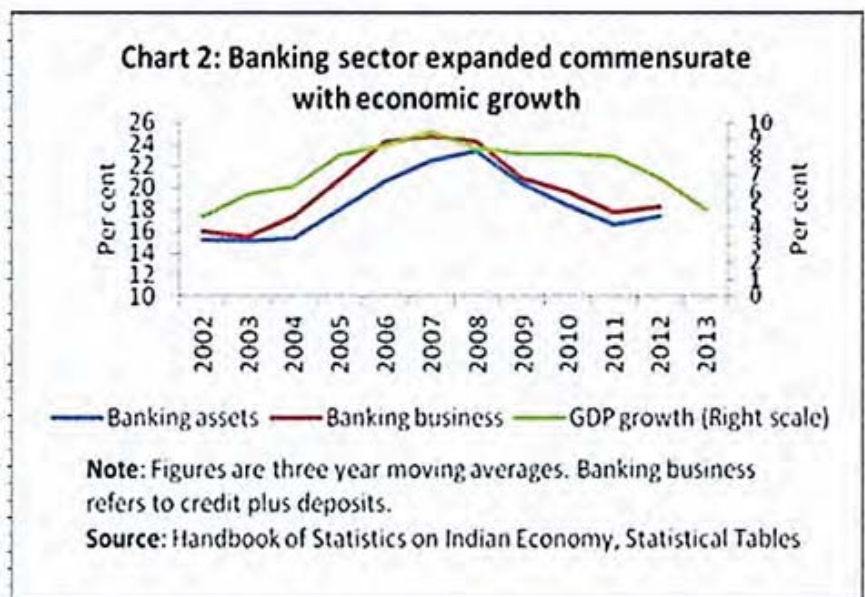
The banking sector recorded slowdown in balance sheet growth for the fourth year in a row in FY15. The slowdown was due to the sluggish credit off take that fell to single-digits throughout the year. However, on the back of controlled operating expenses, the banking sector managed to post increasing profits during the year. However, profitability remained low with the Return on assets continuing to lie low during the year.

The ownership in the banking sector remained mainly within the public sector despite a gradual fall in their share in recent years. Public sector banks (PSBs) accounted for more than half of the total banking sector assets. However, in terms of profits, the share of private banks crossed that of PSBs. In FY15, PSBs had a share of a little less than half in the overall profits.

The role of the Indian Government in extending the banking sector is worth noticing. It is expected that the new guidelines issued by RBI will cut down practices of small borrowers and streamline the loan policy in the country. In the following time, India could see a growth in the number of banks in the country, a change in the style of operation, which could also change by using modern technology in the industry. The domestic banking industry is set for a rapid growth in coming years with its assets size expected to touch USD 28,500 billion by

the year 2025. This growth can be connected to banks moving focus to client servicing. Public and private sector banks are today stressing more on the significance of technology infrastructure, in order to enhance customer experience and attain a competitive edge over the others. Using the popularity of internet and mobile banking, banks are increasingly adopting an integrated approach for asset-liability match, credit and derivatives risk management. Thus, the Indian Banking sector is poised on the verge of rapid growth and development.

Below is the graph representing the expansion of banking sector:



Government initiatives

WITH THE PM's Jan DhanYojna, a number of regions in the country today are able to say that the poor and low income segment of Indians have access to mainstream banking like never before. The PM has also asked the central bank to draw up a 20 year map leading to full financial inclusion of all the people of the country. During the Jan DhanYojana by the beginning of the month about crores of accounts had been opened under this scheme but only a little less than half of them have any deposits. The fact that over thousands of crore have been accumulated by banks under the scheme is a proof that there is more. He asked banks to concentrate on the Eastern and North Eastern areas of the country which have lower inclusion rates. Although with unemployment attaining newer heights, the focus of banks shall be to address small businesses and future entrepreneurs. By tapping into high-profit generating but low-investment sectors shall not only be more productive for banks but also accomplish the welfare goals that our society now requires. Banks should promote new and small businesses to withdraw from the reserves of mainstream banking rather than searching for private money lenders for their financing needs.

Economic Survey 2014- 15 also says that there were many reform initiatives undertaken in the banking sector during 2014- 2015 by the government of India. These include:

1. Banks will be allowed to raise capital from the market to meet capital requirement rules by lessening the government's stake of more than half of it.
2. Pradhan Mantri Jan DhanYojana was launched to provide access to banking facilities for all with minimum one basic banking account for every household throughout the country.
3. In April 2014, two applicants infra financier IDFC and micro lender Bandhan Financial Services, have been permitted 'in principle' approval

to set-up new banks in the private sector within 18 months.

4. RBI released new rules and invited applications for setting up payments banks and local area banks. Over 100 applications were obtained, from those who desired to set up payments banks and small finance banks. Big corporate entities for example- Reliance, Bharti Airtel, and the Aditya Birla Group had applied for payment banks. RBI is in the process of looking into the bids and is expected to award licenses in the next few months.

include introducing Credit Guarantee Fund Scheme for Micro and Small Enterprises, issuing norms to banks concerning collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by both government and private sector, India is undoubtedly one of the world's most vibrant capital markets of today. The government is trying its best to reform this sector and provide it the boost that it requires for better performance and growth.

Government was evaluating PSBs'



The poor and low income segment of Indians have access to mainstream banking like never before.

The P J Nayak committee to examine governance concerns in banks hasn't been accepted fully but the government has shown an intention to commence the reform process. The Narendra Modi-led government has already divided the chairman and managing director's post in public sector banks and welcomed applications from those in private banks to lead the public sector banks, at market-linked pay. The government calls bankers for a brainstorming session, known as the GyanSangam, to map out the road ahead for the banking sector

The Government of India has launched several reforms to help, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken a number of measures to facilitate easy availability of funds to finance for Micro, Small and Medium Enterprises (MSMEs). These steps

health from time to time and believes there is no need for panic since all matters can be fixed, as said by finance minister Mr. ArunJaitley. The plan for this also known as Indradhanush (rainbow), focuses on changing the state-run lenders, and take a new look at hiring, a well-made plan to de-stress big lenders, capital giving, accountability benefits with higher rewards. The government has drawn up a plan that rests on getting projects moving through speedy approval and hand holding, taking over management power of equity infusion by promoters, reshuffling the duty structure, pushing for versatility in restructuring of existing loans. Thus, with the government initiatives the Indian Banking sector is looking to fulfil all its goals and visions at a rapid pace. These initiatives taken by the government has been a step in the right direction for this industry. ▀

IN RECENT YEARS, the banking industry all over the world has been changing fast. The growth of information technology has helped to better track and fulfill commitments and create a variety of delivery channels for online customers. The Indian society and the banking sector have welcomed this change. With an increasing number of Indian banks using modern ways, such as Online banking, to make a customer's banking experience more convenient and efficient there are new policies being formulated for further development. The use of internet in banking has seen reduction in the physical transfer of paper money and currency from one place to another or even from one person to another which has helped banks to cut down on costs. This is known as electronic banking. It may include wire transfers, electronic funds transfers, and use of credit / debit cards.

The Indian Banking sector has changed a lot since its inception and has moved on from offering simple banking services to ATM's, Internet banking, Mobile banking and have fulfilled the vision of anytime - anywhere banking. India's banking sector is set to transformative changes in the coming future accompanied by a

New policies and key changes

rapidly growing market and IT-induced banking. In the next two years, the RBI might also give licenses for setting up of payment banks, small finance banks and maybe even, a postal bank as well. Since country's banking sector was laden with opportunities, it said it was important that banks began operating in the social sector.

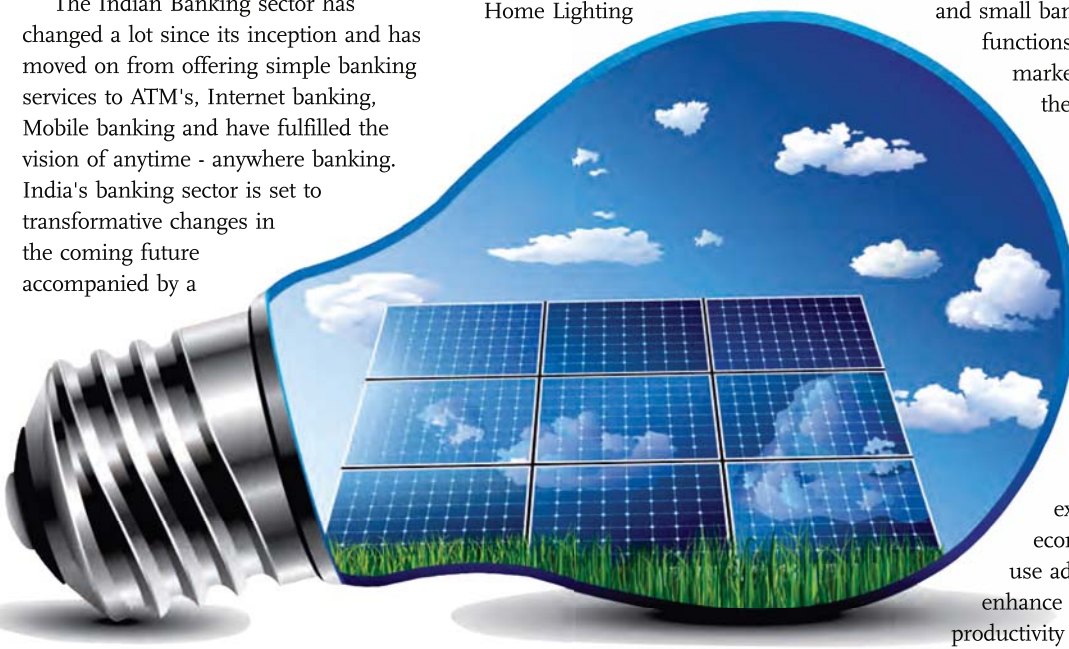
There have been occasions when banks have acted beyond their role of simple finance providers. For example, a newspaper recently reported that Aryavart Gramin Bank, a regional rural bank sponsored by Bank of India, joined hands with Tata BP Solar to finance "Solar Home Lighting

System" for village homes in Uttar Pradesh. It has provided finance of around Rs10,000 with Rs3,000 as margin money to be contributed by the beneficiary.

The changes in the banking sector will require banks to also adapt to their new environment. Banks of the future will have to be small and quick with technology integrated to support a sustainable and good business. The Indian banking sector is expected to grow bigger in order to have more regional as well as national players. Except for a few large banks who have all India presence, many of the mid and small banks specialize in certain

functions/regions in diverse markets. RBI has also reduced the policy repo rate under the liquidity adjustment facility by 25 basis points from 6.75 per cent to 6.5 per cent. It is the rate at which RBI lends to the other financial systems in our country.

Thus, Banking sector plays an important role in expansion of Indian economy. So banks need to use advanced technology to enhance their reach, improve their productivity and efficiency, deliver cost-effective products and services and provide faster, efficient, convenient customer service and solutions. So, technological changes and policies to simplify their use can contribute to the overall growth and development of the country. ■



Aryavart Gramin Bank, a regional rural bank sponsored by Bank of India, joined hands with Tata BP Solar to finance "Solar Home Lighting System" for village homes in Uttar Pradesh.

Nationalization of banks

There was growth of bank branches all over the country getting even the rural poor and the farmers into the habit of banking.



THE PRIME OR main objective behind the Nationalization of Banks was to release huge amounts held by the Private Banks by way of deposits from the general public for the equal and comprehensive growth of the Country's economy and facilitate easy access to credit for the common people for their various productive requirements. Before Nationalization, the major Banks in India were wholly or partially owned and controlled by big business houses, which were using the money collected from the common man by these Banks by way of deposits as captive funds to cater to their own business needs.

These Banks generally used to ignore the monetary needs of the common people in important segments like agriculture, small scale industries and other small business enterprises, forcing a lot of these people into the grip of the greedy local money lenders for their genuine financial needs and requirements. So, keeping these objectives in mind, the then Prime Minister Mrs. Indira Gandhi nationalized 14 major private Banks in July 1969, by an Ordinance, which was later passed as an Act by the Parliament. Six more important Banks were nationalized in 1980, on Indira Gandhi's return to power with the downfall of the Janata government. After a few years, one among the newly nationalized banks, New Bank of India was combined with another one, known as the Oriental Bank of Commerce. Thus, at present there are 19 Nationalized or Public Sector Banks in India.

Some positives which came out of this nationalization were:

- There was growth of bank branches all over the country getting even the poor into the habit of banking.
- Earlier banks were there in large cities and metropolitans only but with nationalization, Banking reached out to a vast number of people in rural areas too, and this enabled the Banks to acquire huge deposits from the untapped rural community. This helped rapid development of rural enterprise and economy.
- Important segment of the population like poor farmers, artisans, retail trade, professional and self-employed people, small business enterprises, and exporters of goods got the benefits of targeted or directed Bank loan programs, at low rates of interest and simple terms of repayment. It made it easier for students to obtain educational loans to pursue higher studies, and for the middle classes to acquire a house of their own by availing home loans etc.
- The huge expansion of the banking network created employment opportunities, giving employment to a large number of educated youth in the country. This also led to an explosion of job opportunities and income levels in the Banking industry in the 70's and helped many unemployed people get jobs.

Although there were some drawbacks of nationalization too but the positives mattered more. Thus, Nationalization of the banks helped in the growth and development of the country to a great degree. So, nationalization of banks acted as a boon for the poor section of the society. ■

How are banks important?

OUR ECONOMY wouldn't function without banks. Banks are one of the most important parts of any country. By attracting savings and granting credit, banks provide lubrication for the wheels that keep the economy moving. Banks are places where people can safely deposit their money, which banks then pay interest on. If there were no banks, people would have to save and protect their savings on their own, which would involve major risks. Banks are mainly responsible for the payments system. Electronic payments are becoming more prominent as people use limited cash. This means that banks are preparing more card payments, transfers, direct debits, etc. every day. Banks give loans to both people and companies. Without banks, it would be very difficult for people to buy a home or start a business, or for companies to make investments, as it provides financial assistance to all. Some ways in which banks are useful to us are:



It is very important for a country to have a sound banking sector as it helps in the overall development and progress of a country. It helps in rural and urban development and helps all institutions similarly without distinguishing between any of them. It is right to say that they are the backbones of a country.

3. A good banking system provides various attractive services like mobile banking, internet banking, debit cards facilities, credit cards which help in quick and smooth transactions. So, banks indirectly help to develop trade and commerce.
4. Modern banks promote the agricultural sector by providing cheap loans and advances with less interest compared to other loans and advances schemes.
5. It facilitates a country to spread banking activities in rural and smaller areas. With the spreading of banking operations around the country it helps to attain balanced development by helping in the growth of rural areas.
6. The modern bank plays a significant role in the socio- economic development of the country. A grown-up banking system facilitates the country to achieve balanced development without any particular consideration of rich and poor, cities and rural areas etc.

Thus, it is very important for a country to have a sound banking sector as it helps in the overall development and progress of a country. It helps in rural and urban development and helps all institutions similarly without distinguishing between any of them. It is right to say that they are the backbones of a country. We cannot think of our lives today without banks and their services have become a part of our lives. ▶

Internet banking

My bank goes...



...wherever I go

NO MORE WAITING in long lines for your turn at the bank. With the development of technology and science, there is no more need to go to the bank for any service. The bank comes to your home through internet banking. Internet Banking is the easiest way to do banking from the comfort of your home or office without having to wait for hours in a line. You can fulfil your daily banking needs using internet banking in an easy, secure and safe way. Avoid the queue or delays and try the simple and secure Internet Banking facility for an unmatched online banking experience.

Thus, internet banking, e-banking, or virtual banking, is an electronic payment solution that helps customers of a bank or other financial institution to direct many types of transactions through the financial institution's website. This can be done with just the clicking of a button and your job will be done.

Internet banking helps to:

- Provide real time access to your account and you can check account statement
- Transfer funds from one account to another
- Open a fixed deposit account
- Pay utility bills or insurance premium
- Recharge prepaid mobile/DTH and a lot more

- Change your mailing address, phone numbers and E-mail address if required
- Re-order Cheque Books.
- Get your queries answered through the self-help 24x7 tool available there
- View, buy and sell Mutual Funds.
- Book and withdraw a whole range of deposits online.

Banks that offer internet banking are open for business transactions anywhere a client might be as long as there is internet connection. Apart from periods of website maintenance, these internet banking services are available 24 hours a day and all through the year. Thus, without actually moving physically you can easily keep a track of your transactions and your account balance easily which saves time and effort. Today, almost all banks offer internet banking facilities and this has made life much easier for the consumers. So, if you are still doing banking the conventional way then its time you tried it the new way. It will save you time, energy and the need to be physically present at the bank for any activity. They offer loads of services and make life much easier for the people of today. ▶

Growth of Indian banking



Bad loans at Indian banks have jumped an unprecedented 30% in the third quarter and things are likely to get worse.

THE THEORY OF Banking in India dates back to the 18th century. The first bank that was founded in the country was The General Bank of India established in 1786. Subsequent to that came the State Bank of India in Kolkata in 1806 which was then identified as The Bank of Bengal. The performances of all the banks in India are regulated by the Reserve Bank of India. All the Indian banks are supervised by the RBI or Reserve Bank of India. This governing body took over the strings of formally regulating the Indian banks in 1935. The Reserve Bank of India was then considered to be the official Central Banking Authority for the smooth surveillance of the banking industry in India. Banks in India are divided into 2 broad categories namely, Public sector banks and Private sector banks.

The banking outline in India has already changed a lot, with the domestic and international banks meeting place. All the banks in India are following the popular models of earning profit.

Thus, the Indian banking structure has been quite sound and effective and has helped in the growth of the Indian economy. The Indian banking system has reached the farthest places of the country and provided them with hassle free banking. Today you can withdraw or deposit money with a touch of a

finger. The role of the Indian Government in growing the banking sector is worth noticing. It is expected that the new guidelines issued by RBI will cut down practices of small borrowers and streamline the loan system in the country. So, with the government initiatives, the Indian Banking sector is looking to realize all its goals and visions at a rapid pace. These initiatives taken by the government has been a step in the right direction for this industry and has helped all the other sectors in this country.



The banking sector plays an important role in the expansion and the growth of a country's economy. They have helped to utilize the capital for the betterment of the country. Thus, banks play an important role in the success and growth of any economy. With the technological advancement, today banking has become easier and has helped people to access their services right from their home without having to visit a bank physically. The government on the other hand is doing its best for the development of these banks and to see that they perform well and help the people all over the country. Indian banking has thus grown from a handful to many and widespread providing variety of services to the people. ▶

Marketplace of Indian Banks



The marketplace deals with distribution of retail loans, small business loans and credit cards for the consumers. They offer all type of financial products to the customers here.

INDIA'S BANKS today seem to have started running an online marketplace to sell goods to its customers. The marketplace which is developed manages all the goods and services it wants to sell to its customers. Such market places have been around for a while, but they seem to have gone rather unnoticed so far. They accept only those bank's cards and often has tie ups with other portals for payments. The marketplace deals with distribution of retail loans, small business loans and credit cards for the consumers. They offer all type of financial products to the customers here. The market place for Indian banks is slowly growing and they are trying to get customers to buy their financial products online.

These market places help the customers to get the best deals in the quickest time possible and are efficient and impressive. Banks are always getting pressured by newcomers but banks are today are no more relying on old school thoughts for banking services and banking infrastructure like bank accounts, payments, compliance, brokerage, etc. In other words, they are re-inventing the user

experience, the user interface or the business model and presenting the users with a fresh way of dealing with all their financial works and tools. Market place is a place, where borrowers and lenders are matched using online platforms, and is a recent financial innovation that has been expanding around the world.

Indian banks, they help you to get frictionless loans and other financial services and advice from third parties or others easily. So, no matter what you are looking for you get to meet lenders who are always ready to provide you with the goods you require. It also competes with other banks on core banking services without the need to build all products. These marketplaces are serving consumers that are currently either not served or are not well served by traditional financial ways. They're providing a better priced product and are providing a better customer experience, which is simple and clear and quick.

The banks in India are expanding the set of products they are offering to their growing base of borrowers. It's an exciting time to be in a marketplace of the Indian

banks. Their success in this industry is tied to whether we can continue serving consumers better than traditional finance companies. With their huge growth opportunities, marketplace in the Indian Banking industry is connecting consumers with investors and making their life much easier. Today most banks have their own marketplace and are looking to outdo each other with the products and services they are offering.

So, the marketplace of Indian banks is slowly getting noticed and popular among the people today as they are providing one of the best platforms to the clients to get their required services quickly and easily. Thus, the expansion of marketplace has helped the financial sector and all who are dealing with this sector. ■



Which is better? Private or Nationalized Banks?

BANKING IS VERY important for the growth of a country. Banks can be used for different purposes. The banks help to lend money to people and accept deposits too. Private banks and nationalized banks differ in the powers that control them, and so they both differ in many characteristics. In 1969, 14 major private banks were nationalized by the then prime minister Mrs. Indira Gandhi and 6 more banks were nationalized in 1980. Today there are 19 nationalized banks in India and several private banks. Now, those banks where the Government holds more than 50% of the shares are known as public sector banks whereas those banks where private institutions or individuals hold more than 50% of the shares are identified as private sector banks.

Nationalized banks run on government aid and are very important for a country's economy. The government is quite efficient in terms of running and managing the banks. The nationalized banks also come with many advantages which other banks cannot provide. The government has a better administrative network, thus the policies and rules to run these banks can be changed according to the shift in the economy. The employees of nationalized banks

enjoy greater job security than private banks. The strategy of nationalizing the banks has been frequently adopted by socialist governments for changing over to socialist country. Several commercial banks were nationalized in order to save them from their debts. These banks present more protection to the customers in comparison to the banks that are

Since the nationalised banks are government aided, the government helps them to recover debts and losses and helps them to get back on their feet. This cannot be said for private banks.

private. The nationalized banks are often connected with the social welfare and thus the policies of these banks are made for the greater good of the people.

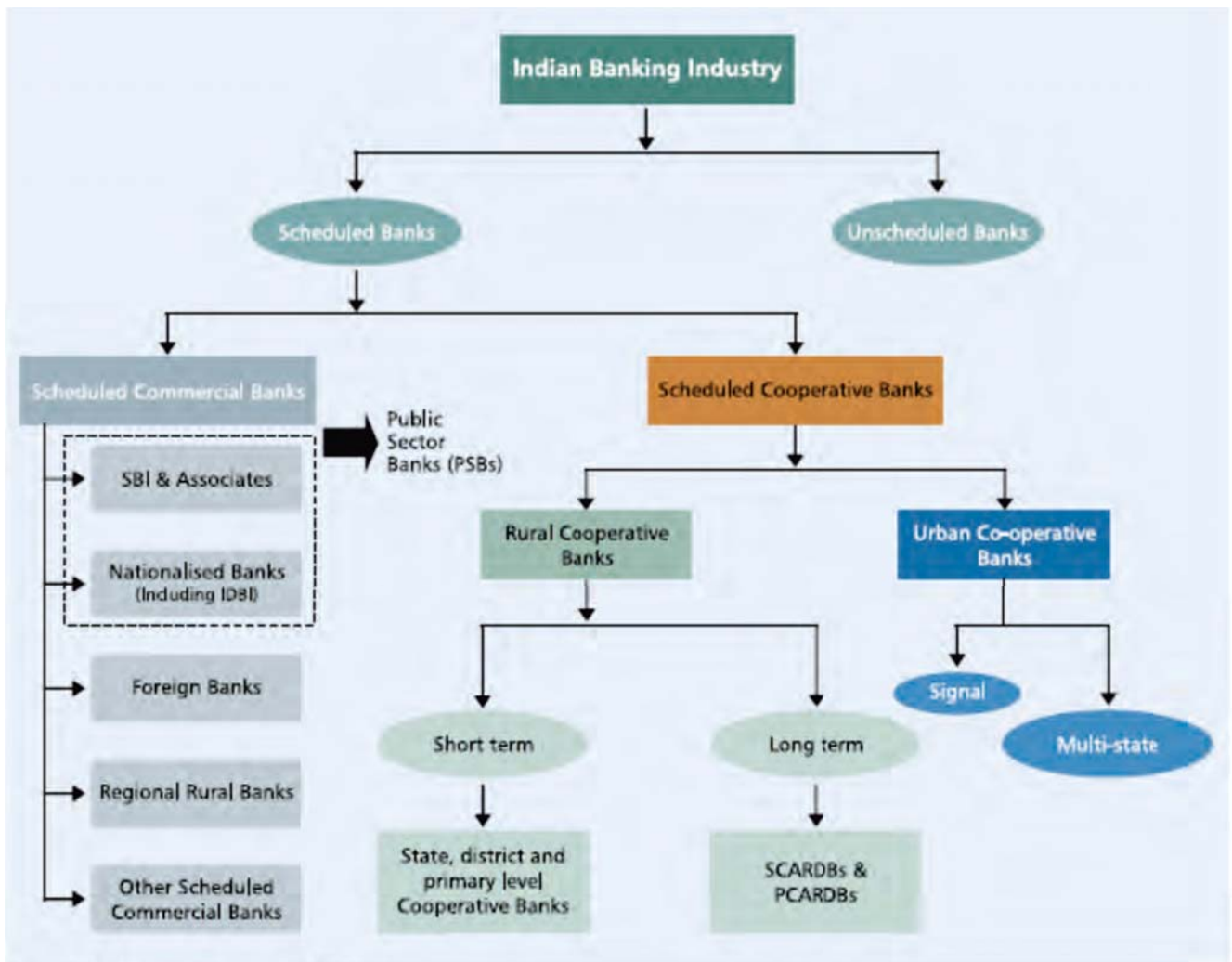
Private sector banks are maintained by the private people. The private banks are also directed and controlled by people who are free to operate as per changes taking place in the market. The interest

rates of private banks are costly as opposed to public sector banks. Banking has been originated in the form of private banking. The private banks main motive is profitability but they are also known for providing better and quick services to the consumers. The private banks have affluent clients who are very important for the private banks. But when these banks face major tumult in the market, the future of a private bank becomes unpredictable, and this is where nationalized banks can be said to be better. Since they are government aided, the government helps them to recover debts and losses and helps them to get back on their feet. This cannot be said for private banks.

Though both these kinds of banks are needed in a country's development, yet, it is nationalized banks which most people prefer, as they are more dependable and their interest rates are not as high as private banks. Thus, it is difficult to choose between the nationalized and private banks, but in our country, the nationalized banks are doing better business than the private banks and receive good help from the government. Nationalized banks offer greater job security to its employees and cannot be shut down. ▀

Structure of BANKING SYSTEM in India

The structure of this sector on business segmentation is that it can be again be divided into wholesale banking, retail banking, treasury banking and other banking business. Whereas on the basis of products and services the structure of Indian banking can be divided into deposits, credit and other customized services and products.



Source: D&B Industry Research Service

BANK IS AN enterprise that accepts deposits of money from the public and lends them when required. Banking has been one of the most prominent features in the development of India. Our country has progressed and scaled such heights due to some good structural banking and with the initiation of new technology in this sector, it is performing even better.

The Indian banking industry has its roots in the 18th century, and has evolved since then. The first banks in India were mainly traders' banks which helped only in financing activities of traders. The Presidency Banks of the pre independence time slowly transformed into the Imperial Bank of India and later into the State Bank of India. In those days majority of such banks were privately owned and had a highly volatile presence with no security. With the nationalization of banks in 1969 the whole face of this sector slowly began to change. The industry in recent times has accepted the importance of private and foreign players in this sector and has taken everything in its stride well.

Currently, the Indian banking industry has a varied structure. The present structure of the Indian banking industry has been seen on the basis of its established status, business as well as product segmentation. In the organized status we can see that the Indian banking sector is mainly divided into two parts: scheduled and unscheduled banks. Now scheduled banks can be further divided into commercial banks and cooperative banks. The SBI and its associates along with the other nationalized banks are known as the public sector banks under



With the nationalization of banks in 1969 the whole face of this sector slowly began to change. The industry in recent times has accepted the importance of private and foreign players in this sector and has taken everything in its stride well.

the commercial banks category. The other members of these commercial banks are the foreign banks, regional rural banks and some other scheduled commercial banks.

Now Scheduled cooperative banks in India can be broadly classified into urban credit cooperative institutions and rural

cooperative credit institutions. Rural cooperative banks undertake long-term as well as short term lending. Credit cooperatives in most states have a three tier structure comprising of primary, district and state level.

The unscheduled banks are also known as the local area banks. Local area banks are banks which were set

up by the government of India in 90's for the founding of new private banks of a local nature; with jurisdiction over three districts. Local Area Banks help in the mobilization of funds of rural and semi urban districts. Six LABs were given license originally, but the license of one of them was canceled due to ups and downs in operations, and the other was merged with Bank of Baroda in 2004 as it became financially weak to support itself.

The structure of this sector on business segmentation is that it can be again be divided into wholesale banking, retail banking, treasury banking and other banking business. Whereas on the basis of products and services the structure of Indian banking can be divided into deposits, credit and other customized services and products. ▀





THE RESERVE BANK is the central bank of India and controls all banking and financial systems of the country. The Reserve Bank of India was started in the year 1935 in agreement with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the central Bank of India has got a significant role. Among other roles it includes maintaining stability, be it monetary or financial. It is required of it to develop and maintain a stable financial system to help and develop financial infrastructure and to regulate or control the financial institutions. Originally it was a private shareholder's company which was nationalized in 1949. Its work is governed by the Central Board of Directors appointed by the Government of India. Since its formation the Reserve Bank of India had played an important role in the economic development and monetary stability in the country.

Some of the important functions of the Reserve Bank of India are:

Banker to Government

The Reserve Bank of India acts as a banker to the government and accepts and makes payment on behalf of Central Government. It carries out its exchange, remittance, management of public debt and other banking function of the Central Government. The Central Government of India entrusts its money, remittance, exchange and banking

The **RBI** (Reserve Bank of India)

transactions in India with the Reserve Bank of India.

Right to Issue Bank note

The Reserve Bank of India has the right to issue bank notes in India and no one else can do it. The issue of these bank notes is done by a separate department called issue department. The Central Government stipulates denomination of bank notes comprising discontinuance of bank notes. The Central Government approves design, form and material of Bank notes on consideration of recommendations of the Central Board. It issues these currency against the security of gold bullion, securities, exchange bills and government of India bonds etc.

Formulates Banking policy

The Reserve Bank of India has the authority to make banking policy in the interest of the public or depositors and provide direction on the purpose of the advances, margins to be kept in a secured advances, the highest amount of advance may be given, the rate of interest, terms and conditions for advances or guarantees may be provided.

Licensing Authority

The Reserve Bank of India has the power to grant license to banks to commence banking business in India, and also has the power to cancel a license granted to a banking company.

Banker's Bank

Every commercial bank has to maintain a part of their capital with its parent bank; that is the Reserve Bank of India. In case of need or emergency these banks approach the RBI for fund. Thus Reserve Bank of India is also referred to as the lender of the last resort. It offers loans and advances in foreign currency to

scheduled Banks and to other financial institution. It can purchase, sell or discount any bill of exchange or promissory note or make a loan or advance to schedule bank.

Exchange rate management

This is another important and essential function of the RBI. To maintain stability in the external value of rupee, it has to prepare domestic policies in that direction. It also needs to prepare and put into use the foreign exchange rate policy which will help in attaining the exchange rate stability. In order to maintain the exchange rate stability it has to bring demand and supply of the foreign currency close to each other.

Regulation and Management of Foreign Exchange

The Reserve Bank of India also has the power to regulate, forbid, and restrict dealing in foreign exchange. It allots license to banks and other institution to act as the authorized agency in the foreign exchange market.

The Reserve Bank of India plays a crucial role in the banking and economic stability of the country. It makes and implements various policies in the country to maintain stability and growth in the economy. Being a banker's bank its role is of utmost importance for the growth of a country. The Reserve Bank of India is trusted with a huge range of roles and its role as a regulator had been top class in recent economic crisis throughout the world where Indian banking and financial system stayed strong with capital sufficiency and stability. It is considered to be the central bank in India and all financial systems have to answer to it. The proper functioning of this institute has helped in the growth and development of the country financially. ▶



POOJA
KHAITAN

More than half of India's population lives in villages and approximately 6 lakh villages in India do not have a single bank branch.

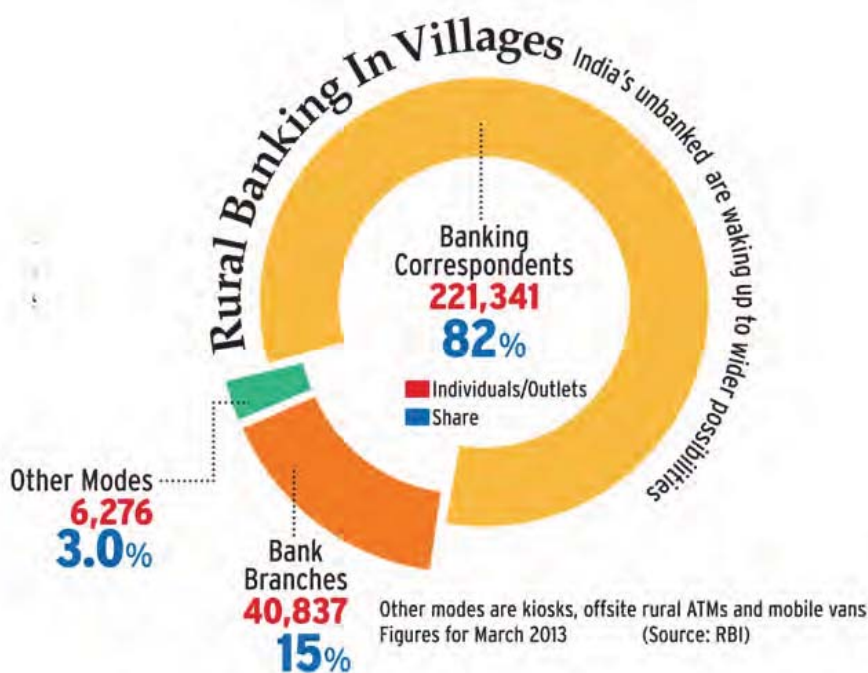
How to improve banking conditions in India?

INDIA IS A vast country and it requires a lot of work and effort to improve the banking conditions in India. The Reserve Bank of India's decision to approve new members in the banking sector will encourage new ways and

technology, improve efficiency, increase the capital funds to meet the credit needs of the economy and will help to generate huge employment opportunities. More than half of India's population lives in villages and approximately 6 lakh villages

in India do not have a single bank branch leaving a huge portion of the rural population in the clutches of money lenders. The starting up of new banks can be helpful in many ways like this can give rise to new processes and technology and will increase competition among the banks which will ultimately help to improve the banking conditions in our country.

This will also encourage existing banks to improve efficiency and the new members with the sound financial base will bring in the much required capital that is needed to support the credit needs of the economy and they will produce huge employment opportunities. Thus, these steps will help to improve banking conditions in India no doubt and will give rise to more players who will contribute more capital and new technology which will increase competition among them. This will make each of them improve their way of working to provide the maximum benefit and this will ultimately benefit the customers and improve the banking conditions in India. ▶





What are RRBs? (Regional Rural Banks)

THE REGIONAL RURAL banks came into being in 1975, and had to have a rural knowledge, local feel and focus on helping the poor. They were established with the objective of providing credit to the poor, agricultural sector of the society and other sectors. Today Regional Rural Banks have reached every corner of the country and have helped in the economic development of these poor rural areas. Since Gandhiji said real

India lies in Villages and rural economy is the backbone of the country, it was important to uplift the rural people and the rural economy of the country. All Grameen banks are regional rural banks. ▶

Pharmaceutical sector and Banking

THE INDIAN PHARMACEUTICAL

companies are facing stiff competition from China and the commerce ministry and the Exim Bank of India will soon be planning a financing model suiting the sector's special needs of Longer-term loan with an extended moratorium period. Now commercial banks extend loans to the sector for only five years and one-year moratorium period, as it does in the case of most other industries. Exim Bank, sources said, has started extending term finance to pharmaceutical companies with maximum repayment duration of 10 years and with a moratorium of up to 36 months. The longer-term loan is to help export-focused medicinal firms to establish high-quality research and development facilities that meet global standards, so as to get approvals from governors comprising the US Food and Drug Administration (FDA). The loans can also be used to help Indian medicine companies acquire companies, assets and brands abroad. ▶



**“ Let's
Not Fall
Victims
to Fraud
Be Aware ”**



NEW GENERATION BANKING

INDIAN ECONOMIC environment is witnessing some really groundbreaking changes today. The financial sector, of which the banking industry is one of the largest players, has also been undergoing some really important changes. The new generation banks have adapted quickly to the changing winds and have responded to the changes in the industry.

RECENT TRENDS IN BANKING

Electronic Payment Services – E Cheques

Just like e-governance, e-mail, e-commerce, a new technology is being developed for introduction of e-cheque, which will replace the paper cheque. India, has already agreed to the use of these cheques in future.

Real Time Gross Settlement (RTGS)

Real Time Gross Settlement system started in India since March 2004, is a system through which electronic order can be given by banks to move funds from their account to the account of another bank. The RTGS system is conducted by the RBI and provides a

means of easy and quick funds transfer among banks helping in their financial works. The movement of funds between banks in the RTGS system takes place in Real Time and the money will reach the person immediately and his bank has the responsibility to credit the account in two hours.

Electronic Funds Transfer (EFT)



Electronic Funds Transfer (EFT) is a mechanism where anyone who wants to make payment to another person or company can ask his bank and make cash payment or give instruction to transfer funds straight from his own account to the bank account of the receiver. RBI also provides EFT.

Electronic Clearing Service (ECS)

Electronic Clearing Service is a payment system that can be used to make payments/receipts in bulk where each individual payment is of a small amount and has to be made every month or year repeatedly. This facility is intended for companies and government institutes to make and receive large volumes of payments rather than using individuals for transferring funds.



Automatic Teller Machine (ATM)

Automatic Teller Machine enables the customers to withdraw their money at any time of the day throughout the year. It is a device that allows customer a number of banking and non-banking transactions like withdrawing money or depositing money, balance enquiry without having to go to the bank. In addition to cash withdrawal, ATMs can be used for payment of various kinds of bills, funds transfer, deposit of cheques /cash, balance enquiry etc.

Point of Sale Terminal



Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and a card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

Tele Banking

Tele Banking helps the customer to do various types of non-cash banking transactions on telephone. In this an Automatic Voice Recorder is used for answering simple questions of customers and transactions. For advanced queries and transactions, customer care individuals have been selected.



Rules and regulations governing Indian banks

The Indian Banking sector has developed a lot since its start and it has moved on from offering simple and mundane banking services to ATM's, Internet banking, Mobile banking and have fulfilled the vision of anytime - anywhere banking. India's banking sector is set to transformative changes in the near future accompanied by a rapidly growing market and IT-induced banking. In the coming years, the RBI might also give licenses for setting up of payment banks, small finance banks and maybe even, a postal bank as well. Since country's banking sector was laden with opportunities, he said it was important that banks had begun operating in the social sector. But there are certain rules and regulations governing the Indian banks.

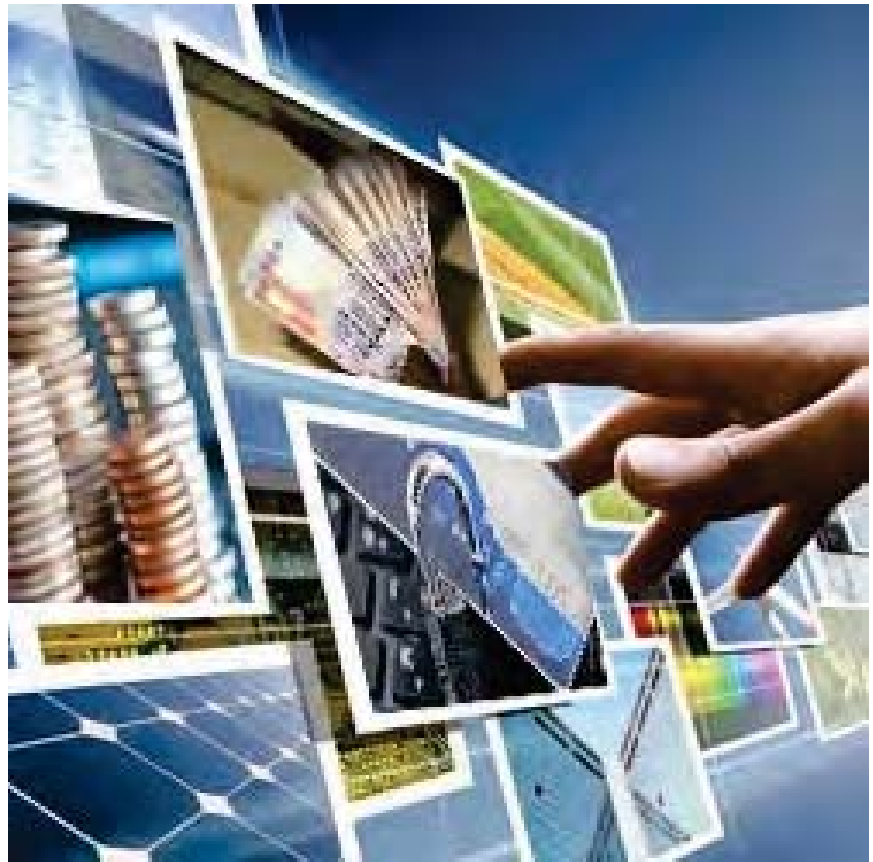
They are:

- **Exposure limits-** Lending to a borrower is limited to 15% of the



bank's capital funds which can be stretched to 20% in the case of infrastructure projects. For group borrowers, lending is limited to 30% of the bank's capital funds, stretchable up to extend it to 40% for infrastructure projects. The lending limits can be further extended by a further 5% with the Board of Directors approval.

- **CRR** - Banks in India are needed to hold a minimum of 4% of their net demand and time liabilities (NDTL) in the form of cash with the Reserve Bank of India. The Cash Reserve Ratio needs to be maintained on a 14 days basis, while each day it has to be minimum 95% of the required reserves. One has to pay 3% above the bank rate implemented on the number of days of default multiplied by the amount by which the amount drops if they default.
- **Provisioning** - Non-performing assets (NPA) are divided into three parts: Substandard, Doubtful and Loss. For substandard assets, a provision of 15% of the outstanding loan amount is made for secured loans and 25% of the amount for unsecured loans. Provisioning for secured loan varies from 25% of the outstanding loan for non-performing assets existing for less than one year to 40% for non-performing assets in existence between one and three years to 100%



for non-performing assets of more than three years, while for the unsecured part it is 100%. Provisioning for agriculture and small and medium businesses is 0.25% and for commercial real estate it is 1% (0.75% for housing), whereas it is 0.4% for the left sectors.

- **New bank license norms** - The new guidelines state that the groups applying for a license should have 10 years of spotless track record and the bank should be performed through a non-operative financial holding company (NOFHC) entirely owned by the promoters. The paid up voting capital required for these has to be five billion rupees, with the NOFHC holding minimum 40% of it and gradually making it down to 15% over 12 years. The shares have to be listed in 3 years of the start of the bank's operations.
- **Willful defaulters** - Willful defaulters (including the directors) have no access to funding, and criminal proceedings may be made against them. The RBI recently changed the regulations to include non-group companies under the willful defaulter tag as well if they fail to honor a guarantee given to another company outside the group. ▶

LIMITED EXPOSURE?

Top foreign banks in India by branch network

Standard Chartered	99
HSBC	50
Citibank	42
Deutsche Bank	17
DBS Bank	12

There are 43 foreign banks operating in India through 334 branches; no foreign lender currently operates through a subsidiary Source: RBI

How are banks wooing customers today?

Today's customers are looking for services that can woo them. They want to be engaged to quick and efficient services. They want their bank to give them more than banking. For this to occur, banks require to think of themselves as more than banks. They need to be a part of their customer's life and more importantly offer them something new and unique every time. The RBI's repo rate cut off by 25 basis points to 6.5 percent is also another wooing factor for the customers of banks. Today banks are also wooing customers with various facilities like internet and online banking facilities, ATM facilities, RTGS, NEFT etc.

All these facilities have been successful in attracting the customers of this generation as there is no more need to wait in queues for hours in the banks but instead, you can do all cash and non-cash transactions online like ordering of cheque books, updating of accounts, enquiring about interest rates of financial products etc.. Internet banking also provides services like financial planning capabilities, forecasting tools, loan calculators, investment analysis tools and equity trading platforms just by the click of a button. Facilities like phone banking have also made life much easier for most customers.



Banks are doing their best to woo customers and have so far

been quite successful. All their efforts have attracted customers of this generation towards them and made them use their facilities for easier banking. Thus, banking in our country is changing with time and keeping pace with the customer's requirements.

What is the difference between bank rate and repo rate?

Repo rate and Bank rate are two frequently used rate for borrowing and lending money that are utilized by the commercial and central banks. These rates are used in monetary transactions between a central bank and a domestic or commercial bank. The discount rate is another name used for bank rate by the financial institutions.

The bank rate is used by commercial banks when they loan money from the central bank, and the reason for this is they have shortage of funds in these banks. The lending rate charged to commercial banks by central bank is passed down to the common man who borrows from these banks. If the bank rate settled between a central and commercial bank is high, the rate proposed by a commercial bank to its clients will be higher, but if the rate granted by a central bank is low, the lower rate will be imposed by commercial banks on the loan given to the clients.

Repo rate is also called as the repurchasing rate, and this rate is used in a banking transaction like a repurchase deal. In a repurchase agreement, central bank trades securities to commercial banks and agrees to buy back these securities after a fixed period of time at a fixed price. Therefore, the interest in these securities for repurchase is known as a repo or repurchase rate. If the repo rate is lower, it increases the monetary system, and as a result, financial institutions get funds at low rates. On the other hand, if repurchase rate is higher in the economy, it reduces the currency supply, which causes shortage of borrowing funds, making loans less accessible for common man.

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