

“Role Of Private Banks In The Growth Of Indian Economy”

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ABSTRACT:

In 1969, the Banks were nationalized by the then Govt. of India. This step has changed the paradigm shift of priority sector of banks from Class banking to Mass Banking. The Banking should reach to poor sector of the society. The 14 Indian commercial banks in private sector were nationalized in July 1969 and some others thereafter were not sufficient for Inclusive Financial Growth and to extend credit to the rural and urban poor. Micro financing is one of the important tools for inclusive growth. The Banks like ICICI bank are trying to collaborate their services with Self Help Group in order to extend credit to these groups. Along with private banks the leading foreign commercial banks like Citibank, HSBC and the Standard Chartered Bank are also looking for the business in rural India. The Banks presently are moving on the line of Agent base model than branch base model. This helps banks to operate with economy. The banks are now introducing mobile based services concept for the rural sector also to reach to the rural customers directly. The economic reforms implemented from 1990 must be linked with the structural financial institution where private sector banks have to play very important role. Capital adequacy norms, product innovation, use of modern technology, risk management, skill and efficiency of Human resources, application of corporate governance, CRM, customer orientation, asset management are some of the challenges emerged which are to be focused by the private sector banks. Thus in the developing economy like ours the private sector banks will help country grow and prosper. The cost reduction techniques and application of modern technology will help the growth of private banking sector.

Key words: Class banking, Mass Banking, Structured financial institutions, stiff competition, Product innovation, Customer Relations Management, Economic Reforms,

INTRODUCTION

“In 1969, the Banks were nationalized by the then Govt. of India. This step has changed the paradigm shift of priority sector of banks from Class banking to Mass Banking. The Banking should reach to poor sector of the society. The 14 Indian commercial banks in private sector were nationalized in July 1969 and some others thereafter were not sufficient for Inclusive Financial Growth and to extend credit to the rural and urban poor. Accordingly private banking sector entered into banking scenario for further financial growth. The inclusion of weaker section of the society in financial aspects shall be the top priority of Indian economy. Merely nationalized or cooperative sector banking cannot help to serve this purpose. Accordingly private sector banks have to play vital role in the development of Indian economy like ours. Presently the private sector Banks are working only in Urban or Semi urban areas but if they need to hold and sustain the business it is important for them to go to the rural Indian sector. The large number of excluded group from structural financial institutions such as poor and unprivileged sector is an opportunity for banking business. The Banks must draft their strategies and policies suited to reach to the excluded customers from banking arena. The need base banking produces will help to increase contribution of private sector banks in the Indian banking scenario. Technology and expertise is not the problem for Indian banking sector and especially for the private banking sector. it must be properly concentrated.

The private sector banks are subject to the provisions of the banking Regulation Act, 1949. The public sector banks are governed by their respective funding status and by those provisions of Banking Regulation Act, which is specifically applicable for them only. The Urban Cooperative Banks on the other hand are governed by the provisions of cooperative societies Act of the respective states and certain provisions of Banking Regulation Act are also applicable to them. The Banking sector policies introduced by the Govt. of India help to promote Pvt. Banking in India.

Growth of Deposits & Advances of Private Sector Banks (Rs. In crores)

| DEPOSITS | 2013 | 2014 | 2015 |
|-------------------------------|----------------------|----------------------|----------------------|
| TOTAL OF 13 PVT BANKS [I] | 10,560,161.05 | 12,193,298.41 | 14,073,204.56 |
| TOTAL OF 7 NEW PVT BANKS [II] | 10,562,174.05 | 12,195,312.41 | 14,075,219.56 |
| TOTAL OF 20 PVT BANKS [I+II] | 14,762,849.46 | 17,048,598.87 | 19,690,669.40 |
| ADVANCES | | | |

| | | | |
|-------------------------------------|---------------------|---------------------|---------------------|
| TOTAL OF 13 PVT BANKS [I] | 269,937.30 | 299,262.32 | 288,853.29 |
| TOTAL OF 7 NEW PVT BANKS [II] | 873,311.28 | 1,043,672.29 | 1,255,063.92 |
| TOTAL OF 20 PVT BANKS [I+II] | 1,143,248.58 | 1,342,934.62 | 1,543,917.21 |

Old Private Sector Banks: The old private sector banks were those banks which were working in the private sector before the great depression. The old private sector banks have been operating since a long time and may be referred to those banks, which are in operation from before 1991. These banks are more than 50 years old. The banks, which were not nationalized at the time of bank nationalization that took place during 1969 and 1980 are known to be the old private sector banks.

New Private Sector Banks: The new private sector banks are those that have come into operation very recently. The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called as new private sector banks. Banking regulation act was then amended in 1993, which permitted the entry of new private sector banks in the Indian banking sector. However there were certain criteria set for the establishment of the new private sector banks.

- The bank should have a minimum net worth of 100 crores.
- The promoters holding should be a minimum of 25% of the paid up capital.
- Within 3 years of the starting of the operations, the bank should offer shares to public.

The new private sector banks that were established in the private sector after the Second World War actually escaped from the conditions of nationalization. There are seven new generation private sector banks in India. They are Axis Bank, Development Credit Bank, HDFC Bank, ICICI Bank, Indusind Bank, Kotak Mahindra Bank and Yes Bank.

Rural Banking and Private Sector Banks

Commercial bank like ICICI Bank Ltd. is now expanding its business to rural Banking sector. The Bank is operating the small office in village to interact between villager and Banking business. The crop loans, housing loans, automobile loans, farm equipment loans, seed financing and insurance products are some of the private banking business priorities in rural sector. The Borrowers from private banks like ICICI Bank has increased to 97000 today from 45000 of the year ended 31.3.2012 and the rural loan amount has increased to Rs.32000 crores today from 17000 crores as on 31.3.2012. The rate of NPA is also as per the norms laid down by RBI. Thus the private banking business in India is helping to grow rural Indian economy.

Micro financing is one of the important tools for inclusive growth. The Banks like ICICI bank are trying to collaborate their services with Self Help Group in order to extend credit to these groups. Along with private banks the leading foreign commercial banks like Citibank, HSBC and the Standard Chartered Bank are also looking for the business in rural India. The Banks presently are moving on the line of Agent base model than branch base model. This helps banks to operate with economy. The banks are now introducing mobile based services concept for the rural sector also to reach to the rural customers directly.

Accordingly the private Banks and finance companies are becoming specialized to offer their financial services to the rural people and farmers. This is resulting in economic growth of the rural sector in India. The financial assistance to the farmers is the path of progress of the country like ours. The private Banks are hence to play important role in economic development of the country.

Bank Group wise Deposits and Advances

There has been noticeable variation in credit expansion across bank groups. The credit extended by public sector banks was much higher during 2013 as compared to 2012. As compared to public sector banks the credit extended by foreign and private sector banks was very lower. This does not mean private sector banks have not contributed to the economic development but it should be considered in terms of number of branches of public sector banks and the private sector banks. The relatively slower pace of credit expansion by foreign and private sector banks has also added the perception of inadequate credit flow in the system. The deposits of foreign and private sector banks however has been increasing and showing consistent growth.

Bank Group wise Deposits & Advances

| Bank Group | Annual growth (Y-o-Y% wise) | |
|------------|-----------------------------|-----------|
| | Jan. 2012 | Jan. 2013 |
| | | |

| | | |
|-----------------------------|------|------|
| A) Deposits | | |
| Public Sector Banks | 24.2 | 24.2 |
| Foreign Banks | 34.1 | 12.1 |
| Pvt. Sector Banks | 26.9 | 13.4 |
| Scheduled Commercial Banks* | 25.1 | 21.2 |
| B) Advances | | |
| Public Sector Banks | 19.8 | 28.6 |
| Foreign Banks | 30.7 | 16.9 |
| Pvt. Sector Banks | 24.2 | 11.8 |
| Scheduled Commercial Banks* | 21.4 | 24.0 |

* Including Regional Rural Banks

Source: R.B.I. Third Quarter Review of Monetary Policy 20.12.2013

The above table explains that the year to year wise growth in percentages related to Deposits and advances shows significant growth. The credit expansion by Private Sector banks and foreign banks is considerably increasing and also contributing for economic growth of the country.

Technology adopted by Private Sector Banks

The New Generation Private Sector Banks are experiencing the positive change in their work and performance. This change is welcome by the customers of the banks. Quick decisions, paperless transactions, Electronic media for transactions, core banking system are some of the areas which make private sector banking more relevant to the changing era of globalization.

Customer Relationship and Private Banks

The new generation private sector banks have with a view to increasing their profitability resorted to outsourcing of number of routine banking operations. The customers have no personal touch with the private banks. The staff cannot have direct relationship with the customers. The customers should get extra personalized services. This is now missing in the new generation banks. So even then there is competition the new generation private sector banks are showing good growth of the business.

Competition Among Private & Public sector Banks

The banks are presently having the stiff competition as private, public and foreign banks. The banks are now reaching to the door steps of the customers and yet there is a very stiff competition and every organization has to be competitive in nature and well equipped with efficient staff members.

Apart from various modern technologies used, the private sector banks are approaching for debit and credit cards, wide product range, suitable for customers (need base products), infrastructure and other facilities are thus available. The E-Banking facilities are provided by the banks.

Although there is phenomenal improvement in the services offered by these banks there is abnormal growth in transaction cost.

Problems of Growth (Spread up) of private sector banking

1. These private banks are asking for abnormal minimum balance in the savings and current accounts, which an ordinary customer finds it difficult to maintain. The ordinary customers are in impression that these are for rich class and he shifts himself to cooperative banks working in urban areas.
2. To some extent public sector banks and old generation banks offer personalized services to its customers. So in spite of competition new generation private sector banks and the public sector banks are showing better growth in their business.
3. The Banking sector policies pursued by the Finance Ministry and the reserve Bank of India are as per the overall framework of the economic policies of privatization and liberalization as well as globalization. The policy framework does not take into consideration the special type of task performed by private banks.
4. All the financial factors are mounting pressure on performance of banks and in their quest to remain competitive, Indian banks are now more concerned for enhanced profitability and they have become even more accountable to their stakeholders.
5. As a result of globalization there is emergence of new banks, new financial institutions, new instruments and new opportunities in the environment. The mergers of banks have also resulted in the various problems to be faced by the existing private banks. Even the Indian Banking industry is one of the best in Asia in terms of efficiency the industry has to go long way to compete with other New Asian Banks.

Product Innovations (suited to satisfy local needs)

Because of the great competition in the market the banking sector, it has become the need of bankers for innovative new financial products. Banks are facing competition from many and varied financial institutions. Accordingly the financial products suited to the local needs are to be innovated. New products and services include opportunities in credit cards, consumer finance and wealth management as a retail business and fee based revenue and investment banking as a wholesale banking business. The products must suit individual requirement, banks hence must opt for the product innovations. Thus banks especially private banks are to get engage in product innovation concept to become customer friendly working in the changing banking scenario.

Utilization of Skillful and Technically Qualified

As compared to public sector banks where staff recruitment process is rigid and the structured framework is complex, private sector banks have an advantage to recruit skill & technically sound personnel. So the private sector banks can get efficient and good quality human resources for them. However, they are to face the problem of sustaining the quality human resources in their banks for longer time.

Retaining the Customers

Customer Relationship Management is the tool to acquire new customers and to retain old customers and to provide the quality service to new as well as existing customers. Banks are to gain customer's loyalty as it becomes a positive strength of the bank. Consistent study of market by market survey and study of customer behavior will help the banks to assess the needs of customers. This will further help in retaining the customers. It will further grow the banking business.

Conclusion

1. In the competitive age of globalization, banking will be a challenging business. The customers are having very high expectations from the banks.
2. The private sector banks will have to use modern technology and ensure that the top most customer service is rendered at a reasonable cost. This will increase their sustainability in the market.
3. In the light of the fact that the considerable population of India being still illiterate the personal relation and better service is still important factor for private banking sector.
4. The Private sector banks have an opportunity to prove themselves in globally challenged financial sector. The banks should go for earning moderate and reasonable profits by providing better financial services.
5. Indian banking sector has witnessed the working of new generation private sector banks. The private sectors banks are viewed as brand new approach. In Indian economy in the context of increased population this change is necessary.
6. Indian economy will be 4th largest economy in the world by 2025 with a GDP growth rate of 7 to 8 percent per year. This economic growth can only be possible if the private banking sector along with other players in financial market work together and efficiently.
7. The economic reforms implemented from 1990 must be linked with the structural financial institution where private sector banks will play very important role.
8. Capital adequacy norms, product innovation, use of modern technology, risk management, skill and efficiency of Human resources, application of corporate governance, CRM, customer orientation, asset management are some of the challenges emerged which are to be focused by the private sector banks.

Thus in the developing economy like ours the private sector banks will help country grow and prosper. The cost reduction techniques and application of modern technology will help the growth of private banking sector.

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