

Role of Private Banks in Indian Economy

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Abstract :

Private banking in India was practiced since the beginning of banking system in India. All the banks in India were earlier private banks. They were started in the pre-independence era to cater the banking needs of the people. But after nationalization of banks in 1969 public sector banks occupied dominant role in the banking structure. PSBs and old private sector banks realized their new role and also welcomed the new generation in 1994 when Reserve Bank of India encourage setting up of private banks as part of its policy of liberalization of the Indian banking industry. HDFC was among the first to receive an in principle approval from the Reserve Bank of India (RBI) to set up a bank in private sector. Among the 29 private sector banks in India today, we have 21 old and 8 new banks, which are able to sustain the competition. These new private banks have the advantage of starting with a clean state, adequate capital resources, well-trained professional manpower, and absence of non-performing loans in their books, computerization, and lean organizational system handful of branches in chosen centers, a new variety of products and services etc.

In this paper an attempt is made to through light on role of private banks in shaping up the Indian economy, private banks are providing satisfactory services to his customers and thereby playing a key role in the development of Indian economy.

Introduction :

Historically, private sector banks played a crucial role in the growth of joint stock banking in India. The first half of the 20th century witnessed phenomenal growth of private sector banks. As a result in 1951, there were 566 private banks of which 474 were non-scheduled and 92 scheduled classified on the basis of their capital size. The role of private sector banking started declining when the Government of India entered banking business with the establishment of State Bank of India in 1955 and subsequently two rounds of bank nationalization one in July 1969 (14 major

banks), another in April 1980 (takeover of 6 banks). Consequently, the presence of public sector banks has increased. At present, there are 32 private banks comprising of 24 old banks, which existed prior to 1993-94 and eight new private banks, which were established during 1993-94 onwards after the RBI announced guidelines in January 1993 for establishment of new banks in private sector following the recommendations of Narasimham Committee-I (1991). Compared to New private sector banks, the old banks are smaller in size. The OPBs are essentially

regional in character although some of them have scattered presence in areas other than in and around the areas of her origin. The Number of branches of the NPBs as 999 at the end of March 2003, while those of OPBs 3491. The NPBs are extremely cautious in expanding their branch network and business because their managers, mostly drawn from the public sector banks, know very well the ills of unbridled expansion of branches by public sector banks in the post nationalization era.

Private Sector Banks in India:

Private-sector banks have been functioning in India since the very beginning of the banking system. Initially, during 1921, the private banks like bank of Bengal, bank of Bombay and bank of Madras were in service, which all together formed Imperial Bank of India.

Reserve Bank of India (RBI) came in picture in 1935 and became the center of every other bank taking away all the responsibilities and functions of Imperial bank. Between 1969 and 1980 there was rapid increase in the number of branches of the private banks. In April 1980, they accounted for nearly 17.5 cent of bank branches in India. In 1980, after 6 more banks were nationalized, about 10 percent of the bank branches were those of private sector banks. The share of the private bank branches stayed nearly same between 1980 and 2000.

Then from the early 1990s, RBI's liberalization policy came into picture and with this the government gave licenses to few private banks which came to be known as new private-sector banks. There are two categories of the private sector banks: "Old" and "New". 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, and all those banks that have commenced their business after 1991 are called as new private-sector banks.

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Among the 29 private sector banks in India today, we have 21 old and 8 new banks, which are able to sustain the competition. These new private banks have the advantage of starting with a clean state, adequate capital resources, well-trained professional manpower, and absence of non-performing loans in their books, computerization, and lean organizational system handful of branches in chosen centers, a new variety of products and services etc.

Housing Development Finance Corporation Limited was the first private bank in India to receive license from RBI as a part of the RBI's liberalization policy of the banking sector, to set up a bank in the private sector banks in India. In India till eighties, banks

operated in a protected environment characterized by administered interest rates, high levels of pre-exemption in the form of reserve requirements and directed credit. In the process, strategies of certain banks, especially Public Sector Banks are aiming to divide customers into different segments on the basis of the type of service they would like to render and also trying to segregate their service in counters in their respective branches to enable customer to have easy access to a particular transaction. The last decade has seen many positive developments in the Indian banking sector.

Private sector Banks in India:

Catholic Syrian Bank, City Union Bank, Dhanlaxmi Bank, Federal Bank, ING Vysya Bank, Jammu & Kashmir Bank, Karnataka Bank, Karur Vysya Bank, Lakshmi Vilas Bank, Nainital Bank Limited, Ratnakar Bank Limited, South Indian Bank, Tamilnad Mercantile Bank Limited, Axis Bank, Development Credit Bank, HDFC Bank, ICICI Bank, IndusInd Bank, Yes Bank, Kotak Mahindra Bank are the private banks operating in India.

Challenges faced by private banks:

India is a developing country. In India still there are huge numbers of people who do not use banking services due to their locations. But if we say about the people who generally use banking services, their expectations are raising due to the emergence of information technology and competitions in these industries. In India there are many foreign banks working since many years. They provided the best services to the customer and fulfill the expectations of customer. Now, the current situation has

created many opportunity and challenges for Indian new private sector banks.

Rural Market :

India is a developing country. There are many villages and remote location in India. To reach in rural and village area there is big task for any bank. New private sector banks in India have developed very well. But still it remains a challenge for them to give adequate banking service. Out of new private sector banks ICICI Bank merged the Bank of Rajasthan in order to increase its reach in rural market and also market share very significantly. Rest of the bank also done some strategies to capture rural market but not get full success in India.

Risk Management:

Risk management is an important task of any bank. Type of risk is fundamentally changing with today's age of competition. There are different types of risk management related with bank.

Global Banking:

It is practically possible for any nation to exclude itself from world economy. So far the sake of development, any country has to adopt integration process in the form of liberalization and globalization process. And India has also adopted liberalization and globalization process since 1991.

Asset Quality management:

Asset quality management is also very much important parameter. In this element bank has to maintain NPAs as a part of asset quality management. They have to ascertain the component of net NPAs as percentage to total assets/net advances. But all the bank have to take very good care

about their NPA as this ratio indicates what type of assets bank is having.

Employee Retention:

Employee retention always starts with better recruitment of employee. To retain the good employee is big question for human resource manager as banking industry has transformed rapidly in the last decades. Shifting from one sector to another is very normal here as competition is on the top priority.

Service quality in private banks:

Service quality can be define as the difference between customers expectations for service performance private to the service encounter and their perception of the service received if expectations are greater than performance then perused quality is less than satisfactory and hence customer dissatisfaction occurs.

In the following table critical dimension of service quality are given as compared to public sector banks, private sector banks service quality is up to the mark and customer are satisfied.

Service Quality Dimensions	Description
Tangibles	Appearance of Physical facilities, equipment, personnel and communication.
Reliability	Ability to perform the services accurately and dependably, as promised.
Responsiveness	Willingness of the firms staff to help customers and provide prompt service.
Assurance	Knowledge and courtesy of employees and their abilities to instill trust and confidence.
Empathy	Ability of the service provider to provide a caring and personalized attention to each customer.
Accessibility	Convenient branch location and working hours for safe Net and Mobile banking.

Conclusion :

Banks play a crucial role in economic development. Primarily, the participation of banks in economic development focus around providing credit and services to generate revenues, which are then invested back in to a local, national, or international community. For the local community, banks provide access to funding and financial services to both local business and

citizens, as well as the money banks invest back into the community through employee payroll, business investments, and taxes. On a larger scale, national banks offer similar access to credit and financial services to larger businesses, local governments, and in some cases international customers. Investments made by national banks are spread widely across the nation, therefore influencing economical development across an entire country or geographic region.

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