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Research Article

STATUS OF PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

Banks are financial intermediaries, lend money to borrowers to generate revenue. They are typically regulated heavily, as they provide market stability and consumer protection. It plays important role for any country. Considering the liberalized economy of India which began in 1991 onwards, activity of banking sector is vast in nature, providing different types of financial products catering the needs of rural as well as urban customers. Using modern infrastructure and latest Information technology private banks providing customized solution and maintaining relationship with customers. Compare to public sector banks private sector banks are maintaining leading role to provide best services to the customers with affordable cost.

INTRODUCTION

The private-sector banks in India represent a significant part of the Indian banking sector that is made up of both private and public sector banks. The "private-sector banks" are banks where greater parts of state or equity are held by the private shareholders and not by government. Role of private sector banks is very much significant in present scenario as far as privatization is concerned.

Banking in India has been dominated by public sector banks since the 1969 when all major banks were nationalized by the Indian government. However, since liberalization in government banking policy in the 1990s, old and new private sector banks have re-emerged. They have grown faster & bigger over the two decades since liberalizations using the latest technology, providing contemporary innovations and monetary tools and techniques and till now contributed significantly to Indian Economy[1].

The private sector banks are divided into two groups by financial regulators in India, old and new. The old private sector banks are those which existed prior to the nationalization in 1969 and kept their independence because they were either too small or specialist to be included in nationalization. The new private sector banks are those that have gained their banking license since the liberalization in the 1990s.

The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "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, some of those criteria being:

1. The bank should have a minimum net worth of Rs. 200 crores.
2. The promoters holding should be a minimum of 25% of the paid-up capital.
3. Reliance Capital, India Post, Larsen & Toubro, Shriram Transport Finance are companies pending a banking license with the RBI under the new policy, while IDFC & Bandhan were given a go ahead to start banking services for 2015.
4. Within 3 years of the starting of the operations, the bank should offer shares to public and their net worth must increase to 300 crores.

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Private Sector Banks in India

Private Banks are banks like HDFC bank, ICICI Bank, UTI bank and IDBI bank. The concept of private banking was introduced about 15 years ago. These are the banks that do not have any government stakes. [1]

Private Banks have gained quite a strong status in the Indian banking industry over the last few years especially because of optimum use of technology. As on 31st March 2014, Private banks holds 15.9% market share. IDBI which is ranked as the tenth largest global development bank is counted as one of the finest financial institutions in the subcontinent.

Scheduled Commercial Banks (Private Banks) In private sector banks, most of the capital is in private hands. There are two types of private sector banks in India viz. Old Private Sector Banks and New Private Sector Banks.

Old Private Banks

There are 13 old private sector banks as follows: [2]

1. Catholic Syrian Bank
2. City Union Bank
3. Dhanlaxmi Bank
4. Federal Bank
5. ING Vysya Bank
6. Jammu and Kashmir Bank
7. Karnataka Bank
8. Karur Vysya Bank
9. Lakshmi Vilas Bank
10. Nainital Bank
11. Ratnakar Bank
12. South Indian Bank
13. Tamilnad Mercantile Bank

Out of the above banks, the Nainital Bank is a subsidiary of the Bank of Baroda, which has 98.57% stake in it. Some other old generation private sector banks in India have merged with other banks. For example, Lord Krishna Bank merged with Centurion Bank of Punjab in 2007; Sangli Bank merged with ICICI Bank in 2006; Centurion Bank of Punjab merged with HDFC in 2008.[2]

New Private sector banks in India

There are 14 new private sector banks as follows: [3]

1. Axis Bank (earlier UTI)
2. Bank of Punjab (actually an old generation private bank since it was not founded under post-1993 new bank licensing regime)
3. Centurion Bank Ltd. (Merged Bank of Punjab in late 2005 to become Centurion Bank of Punjab, acquired by HDFC Bank Ltd. in 2008)
4. Development Credit Bank (Converted from Co-operative Bank, now DCB Bank Ltd.)
5. ICICI Bank (previously ICICI and then both merged; total merger SCICI+ICICI+ICICI Bank Ltd)
6. IndusInd Bank
7. Kotak Mahindra Bank
8. Yes Bank
9. Capital Local Area Bank Ltd.
10. Global Trust Bank (India) (Merged with Oriental Bank of Commerce)
11. Balaji Corporation Limited - Private Loan Company, not a Bank
12. HDFC Bank
13. Bandhan Bank
14. IDFC Bank

Private Sector Banks' Status

Rural banking and private sector banks

Commercial bank like ICICI Bank Ltd. is now expanding its business to rural areas to cater the needs of farmers and villagers. 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 areas. These banking products cater the needs of rural customers. The Borrowers from private banks like ICICI Bank has increased to 97000 today and the rural loan amount has increased to nearly Rs.32000 crores today. 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 as rural economy plays important role for the economic growth of the country. Micro financing is one of the important tools for inclusive growth. Micro financing is a popular tool to eradicate poverty from rural areas. The Banks like ICICI bank are trying to collaborate their services with Self Help Group in order to extend credit to the rural areas. Along with private banks the leading foreign commercial banks are also looking for the business in rural India. The banks introduced 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.

Technology adopted by private sector banks

The New Generation Private Sector Banks are experiencing the positive change in their work and performance. Banking today is a flourishing industry, focused on technological innovation. Internet banking has emerged as the biggest focus area in the "Digital Transformation" agenda of banks. This change is welcome by the customers of the banks. Mobile banking is very much popular today. In 2012-13, Indian banks deployed technology-intensive solutions to increase revenue, enhance customer experience, optimize cost structure and manage enterprise risk. However, there is a wide variation in the technology agendas and implementation capability across different players of the banking industry. 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. Providing optimum customer service using information technology is the determining factor of success of private banks in India. Today internet banking is very much popular today. Customers are now largely dependent on Internet banking. It is true that private banks have utilized the same and excellent infrastructure of private banks have helped to gain the confidence of customers. Due to this reason, it has been observed customers already started to shift from public sector banks to private sector banks. 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. These are the criteria to achieve excellence in banking and few new generation private sector banks have achieved the same. Though there is a competition, the new generation private sector banks are showing growth of the business.

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. It is true that Private Banks have gained 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

In the competitive age of globalization, banking is a challenging business and customers have high expectations from the banks. The private sector banks already used modern technology and ensured top most customer service is rendered. In India, private sector banks have an opportunity to prove themselves in globally challenged financial sector. 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. 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. It is evident that private sector banks are more efficient that public sector banks due to the adoption of latest technology with special emphasis to information technology. The economic reforms implemented from 1990 must be linked with the structural financial institution where private sector banks will play very important role in near future.

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