
ROLE OF PRIVATE SECTOR BANKS IN INDIAN ECONOMY

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ABSTRACT

The working results of the Private Sector Banks are commendable. Private Sector Banks are offering the best customer service to its clients. In the field of management of funds, deployment of manpower, meeting social obligations and contributing to the regional development the Private Sector Banks play a dominant role in the economic development of the country. While a good number of big, Public Sector Banks are for better in profit making and client service and pay high dividend to its shareholders.

KEY WORDS: Private Sector Banks, Corporate Banking, Retail Banking, NPA

HISTORICAL REVIEW OF PRIVATE SECTOR BANKS

After independence of the country in 1947, keeping in view the necessity of regulating rapidly growing business of banking institution and their regulation problems. In the country Banking Regulation Act 1949 was passed, this act has extensively enlarged the control Reserve Bank over the banking industry. In 1965, Imperial Bank of India was nationalized and was renamed as 'State Bank of India'. For more equitable and purposeful distribution of bank credit 14 major banks was nationalized on 19 July 1969 by the Government of India. Further nationalization of 6 more banks in 1990.

As certain rigidity and weaknesses were found to have developed in the banking system during the late eighties, the Government of India felt that these had to be addressed to enable the financial system to play its role in ushering in a more and competitive economy. Accordingly, a high-level committee on the financial system was set up on 14 August 1991 to examine all aspects relating to the structure, organization, function and procedures of the financial system. Based on the recommendations of the committee (Chairman: Sh. M. Narsimhan), a comprehensive reforms in the banking system was introduced in 1992-93.

In 1993, in recognition of the need to introduce greater competition, which can lead to higher productivity and efficiency of the banking system, New Private Sector Banks was allowed to be set up in the Indian Banking System. These new banks had to satisfy certain requirements, In this direction, the first New Private Sector Bank was promoted by Unit Trust of India, Life Insurance Corporation of India and General Insurance Corporation was inaugurated on 2nd April 1994 with the name of U.T.I. Bank Ltd. With its head quarter at Ahmadabad.

GROWTH OF PRIVATE SECTOR BANKS IN INDIA

With the onset of liberalization era in 1990's the survival of the banks has become more difficult. The opening of economy has resulted into lot of competition from Foreign Banks and Private Banks these banks would start with the advantage of a lean organizational structure and necessary technology back up. These banks are setting standards in marketing of banking services to general as well as corporate clients.

Till end of February 1994 the RBI received 140 applications for setting up New Private Sector Banks. However only 19 applicants have fulfilled all formalities and applied in the prescribed format. The Reserve Bank has given "in principal" approval only to 10 applicants after processing their application. In this direction, the first Private Sector Bank was promoted by Unit Trust of India, Life Insurance Corporation of India and General Insurance Corporation was inaugurated on 2nd April 1994 with the name of U.T.I. Bank Ltd. With its head quarter at Ahmadabad. The IndusInd Bank, which was sponsored by the Hinduja's started

as the second Private Sector Bank and become operational from 12th April' 1994. Which was followed by several other private sectors Private Sector Banks such as ICICI Bank, HDFC Bank, IDBI Bank, Global Trust Bank, Centurion Bank, Bank of Punjab Ltd.

In January 2001, the Reserve Bank issued revised guidelines for entry of new banks in the private sector and stipulated a period for submission of applications. In all 10 applications were received within the stipulated period. The Reserve Bank granted "in principle" approval for setting up two new banks to 'Kotak Mahindra Finance Ltd.' and to three banking professionals with 'Robo Bank' in February 2002

IMPORTANCE AND NEED OF PRIVATE SECTOR BANK IN INDIA

Great emphasis on banking efficiency and better customer service is the key recommendations of the Narasimhan Committee has resulted in the entry of new players in the banking arena. The Private Banks, which their customer friendly approaches have been able to win many clients and have started making profits in the very first year of operations. These banks operate in a highly sophisticated environment and their presence is confined to the metros and semi-metros. Now a day's these banks started to follow various marketing strategies. The branch managers of these banks are held responsible to the goals, targets set by their service, and thus they are the prime marketers of bank services for the development of bank branches.

The NPA level of these banks is negligible. No wonder the market share of Private Banks is consistently going up.

PRODUCT PORTFOLIO

CORPORATE BANKING

- Corporate Solutions
- Government Solutions
- Capital Market Services
- Agriculture Finance
- Structured Finance
- Project Finance
- Infrastructure Finance
- Term Loans
- Working Capital Finance
- Cash Management Services
- Trade Finance Services
- International Banking
- Treasury Services
- Corporate Internet Banking
- Corporate Advisory
- Custodial Services
- Professional Clearing
- Membership Services

RETAIL BANKING

Home Loans
Car & Two Wheeler Loans
Consumer/Personal Loans
Saving & Term Deposits
Salary Accounts
Roaming Current Accounts
Investment Products
Private Banking
NRI Services
Demat Services
Credit/Debit Cards
Smart Cards
Bill Payment Services
E-Cheques
Branches
ATMs
Internet Banking
Phone Banking

Besides modern banking has seen the banks diversifying along products and business lines. The product and business diversification has considerably enlarged the operation of the Private Sector Banks. Thus, the activities of Private Sector Banks have grown in multidimensional way.

ROLE OF PRIVATE SECTOR BANKS IN INDUSTRIAL DEVELOPMENT

Functions of Private Sector Banks are now wide and diverse. Creation of customer services involves offering a range of products and services to suit all segments of customers, designing the products with customer convenience. The vital role in mobilization of resources in the term of savings and their deployment for the industrial growth and economic development of the country.

Role of Private Sector Banks in Industrial finance in India has been phenomenal. Timely and adequate availability of credit is the main problem for enterprises. Private Sector Banks cater the working capital requirements of industrial and commercial sector. The present Industrial policy of Government of India has emphasized to set up small-scale industries. Private Sector Banks plays an important role to set up these industries.

Apart of this industrial sickness is a serious malady affective large and small industrial unit. The Private Sector Banks has assist rehabilitation of those units. Private Sector Banks has also take up task of helping industrial units in backward districts by granting soft loan. Thus, the Private Sector Banks plays an important role in the development of industrial sector.

The table given below gives a comparative position of flow of credit to industrial sector from public, private and Foreign Banks for the period from 2011-12 to 2015-16.

FLOW OF CREDIT TO INDUSTRIAL SECTOR FROM PUBLIC, PRIVATE SECTOR AND FOREIGN BANKS

(Balance Outstanding as at the end of March)

(Rs. In Crore)

	March 2011	March 2012	March 2013	March 2014	March 2015
Public Sector Banks	42674	46045	48400	49743	52988
Private Sector Banks	5848	6421	8096	8613	9054
Forgein Banks	2084	2460	3646	4561	3809
Total	50606	54926	60142	62917	65851

SOURCE: Reserve Bank of India Annual Report 2015-16

Private Sector Banks and Foreign Banks contributed to credit deployment to industrial sector. Private Sector Banks constituted over 12% of total assets of all scheduled commercial banks (SCB's) as at end of the year March'2015, had extended advances of the order of Rs. 9054 crores to SSI's at the end to the March'2015. The amount represented 10.3% of their Net Bank Credit.

PROSPECTS

Commercial banks both public sectors as well as private sector have come a long way. Economic growth rests on the growth of economy in two important sectors: Agriculture and Industry. Similarly, the twin problems affecting the country are Poverty and Unemployment.

Banks have by and large been successful in tacking vital economic issues controlling the nation be it in the matter of removal of poverty and provisions of unemployment. They have exerted in full measure by designing suitable schemes to meet the growing needs of the community. Private Sector Banks have trying their best to improve the financial viability and operational efficiency. The innovative schemes and new business ventures have to be given proper shape and viable banking system can accomplish the task and face

challenges. Bankers have the capacity to anticipate, adapt and innovative. Banks have to overcome their shortcomings. They have to display high degree of resilience in adapting to changing times. Private Sector Banks of have a role to play in nation building process.

CONCLUSION

The Private Sector Banks, which constitute an important part of our banking system, account for about 35% to 45% of business while they have a slightly higher share of branches. These banks with different sizes, levels of business, competence, professionalization and regional orientation should also be unable to play an effective role in the economic development of the country. It has to be recognized that there are certain environmental limitations and other constraints on their present working. Effective and personalized service alone can help them to maintain and increase their market share. They have to develop into professionally competent modern banking institutions with a board outlook and serve as effective instruments to promote regional development with an area development approach. Strategies have to be developed with individually or by a group of banks working together to bring better result of the services rendered by them to assist development of specific areas of activities. Private Sector Banks should be able to play a significant role as regional development agencies. These banks have to think of ways and means of achieving these objectives.

- Private Sector Banks must compete with nationalized banks for survival with the supremacy of quality in service.
- They have to play the role of regional development agencies.
- Viability of Private Sector Banks cannot be forsaken.



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