

Private Banking

The private-sector banks in India represent 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 stake or equity are held by the private shareholders and not by government. 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 1990s, old and new private sector banks have re-emerged. They have grown faster and bigger over the two decades since liberalization using the latest technology, providing contemporary innovations and monetary tools and techniques. The private sector banks are split into two groups by financial regulators in India, old and new. The old private sector banks 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.

Meaning

Private sector banks are those whose equity is held by private shareholders. For example, ICICI, HDFC, etc. Private sector bank plays a major role in the development of Indian banking industry.

In case of private sector banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. For example: The Jammu and Kashmir Bank Ltd., Bank of Rajasthan Ltd., Development Credit Bank Ltd, Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd., Global Trust Bank, Vysya Bank, etc.

Types of Private-Sector Banks

There are four types of Private Banks in India:

- 1) **Old Generation Private Banks:** The banks, which were not nationalized at the time of bank nationalization that took place during 1969 and 1980's are known to be the old private-sector banks. These were not nationalized, because of their small size and regional focus. Most of the old private-sector banks are closely held by certain communities their operations are mostly restricted to the areas in and around their place of origin. Their Board of directors mainly consists of locally prominent personalities from trade and business circles.

List of the old private-sector banks in India:

- a) Bank of Rajasthan Ltd.
- b) Catholic Syrian Bank Ltd.
- c) City Union Bank Ltd.

- d) Dhanalakshmi Bank Ltd.
- e) Federal Bank Ltd.
- f) ING Vysya Bank Ltd.
- g) Jammu and Kashmir Bank Ltd.
- h) Karnataka Bank Ltd.
- i) Karur Vysya Bank Ltd.
- j) Lakshmi Vilas Bank Ltd.

2) New Generation Private Banks: 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: The bank should have a minimum net worth of Rs. 200 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 and their net worth must increased to 300 crores.

List of the new private-sector banks in India:

- a) Bank of Punjab Ltd. (since merged with Centurian Bank)
- b) Centurian Bank of Punjab (since merged with HDFC Bank)
- c) Development Credit Bank Ltd.
- d) HDFC Bank Ltd.
- e) ICICI Bank Ltd.
- f) IndusInd Bank Ltd.
- g) Kotak Mahindra Bank Ltd.
- h) Axis Bank (earlier UTI Bank)
- i) Yes Bank Ltd.

- 3) **Co-operative Banks:** Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans. They have been organized under the provisions of the co-operative society's law of the states. People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts).

Mainly there are three types of co-operative banks working on different levels:

- a) State co-operative banks
- b) Central co-operative banks
- c) Primary credit societies

4) Foreign Banking

The banks engaged in international trade transactions have to receive or pay foreign currency funds. The payment or receipts of funds are made through accounts with their branches or other banks abroad. For example, a bank in Mumbai, India, has to pay US\$ 1 million to a supplier in the USA to import goods by an Indian importer. The Indian bank shall have an account with its New York branch, if any, or a correspondent US bank and shall arrange for funding that account adequately for making any payment.

After getting the instruction from the Indian bank, the New York branch or the correspondent bank will debit the account and pay the money to the US supplier. Similarly, for exports from India to the USA, the US buyer shall make payment by remitting the funds in the form of US\$ to the said account of the Indian bank, who will pay the equivalent amount in rupees to the Indian exporter.

Meaning

Foreign banks are those banks, which have their head offices abroad but operated through their branches in different countries. "A **foreign bank** is a type of International Bank that is obligated to follow the regulations of both the home and host countries. Because the foreign banks' loan limits are based on the parent bank's capital, foreign banks can provide more loans than subsidiary banks." Most of foreign banks in India are subsidiaries of foreign banks. They are owned and managed by foreign promoters.

Some foreign banks in India are – Citibank, Bank of America, Standard Chartered Bank, American Express, and Hong-Kong Bank.

Role of Foreign Banks in India

- Enhanced customer satisfaction
- Enhanced Provision of foreign currency to corporations
- Foreign banks participation in foreign exchange and money market contribute for deepening of financial system
- Introduction of new banking technology and financial innovations (for foreign banks it is relatively easy to introduce new products and services to the local market).
- Possible economies of scale and scope (foreign banks can help encourage consolidation of the banking system, they have knowledge and experience of other financial activities: insurance, brokerage and portfolio management services).
- Improvement of the competitive environment (foreign banks represent potential competition to local banks).
- Development of financial markets (foreign banks entry may help deepen the inter-bank market and attract business from customers that would otherwise have gone to foreign banks in other countries).
- Improvement of the financial system's infrastructure (transfer of good banking practice and know-how, accounting, transparency, financial regulation, supervision and supervisory skills).
- Attracting foreign direct investments (the presence of foreign banks may increase the amount of funding available to domestic projects by facilitating capital inflows, diversifying the capital and funding basis).

Advantages of Private-Sector Banks

- Improved quality of life
- Increased access to essential items
- Increased production opportunities
- Lowered prices of essential items
- Increased value of human capital
- Improved social life of the middle class Indian

- Decreased the percentage of people living below the poverty line in India
- Changed the age old perception of poor agriculture based country to a rising manufacturing based country
- Effected increased research and development activity and spending
- Effected better higher education facilities especially in technical fields
- Ensured fair competition amongst market players
- Dissolved the concept of monopoly and thus neutralized market manipulation practices.

Functions of Private-Sector Banks

(Same as commercial banks explained in the topic ‘scheduled commercial banks’)

