



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 5.2  
IJAR 2018; 4(7): 302-306  
www.allresearchjournal.com  
Received: 09-05-2018  
Accepted: 12-06-2018

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## How banks evolved from custodian service to complete umbrella of financial services with special reference to state bank of India

**Sandeep Gandhi and Madhu Bhushan**

### Abstract

Banking system of a country is an important tool in its economy i.e. whether developed, underdeveloped or progressive economy. It is an indispensable institution and forms core of money market of a country. Indian money market is characterised by the existence of both organised and unorganised credit agencies, which meet the banking needs of the population of the country. Lenders and indigenous bankers constitute the unorganised money market. Private, Public, Foreign Banks, Cooperative banks constitute organised money market. Both the segments are not bitter competitors but supplementary to each other.

The present structure of organised banking in India is the outcome of a long process of expansion, reorganisation and consolidation. Before the enactment of Banking Regulation Act 1949 there was little control and regulation over the activities of banking companies. It was felt that banking system should be made sound and strong so that aspiration of general public can be fulfilled.

**Keywords:** Custodian, FCNR, CASA, FATCA, KCC

### Introduction

#### Banking in India

In India banking has been prevalent in some or other form since long and is reflected in the works of Kautilya i.e. Arthashastra.

#### Pre-Independence Phase (1806-1947)

The birth of the Banking system in India can be followed with the establishment of Bank of Calcutta in 1806.

- Three presidency banks Bank of Bengal, Bank of Bombay and Bank of Madras set up in the nineteenth Century under the charter of the British East India Company.
- In 1935, the presidency banks merged and named as Imperial Bank of India.
- The first Indian-claimed Allahabad Bank was set up in 1865 in Allahabad.
- In 1895, the Punjab National Bank was set up.
- The Bank of India established in 1906 in Mumbai.
- Many more business banks, for example, Canara Bank, Indian Bank, Central Bank of India, Bank of Baroda and Bank of Mysore were set up in the vicinity of 1906 and 1913 under Indian proprietorship.
- The national Bank of India, RBI set up in 1935 on the proposal of Hilton-Young Commission.

#### Post-Independence Phase (1947 to till)

- Government of India nationalized the Reserve Bank of India in 1949.
- In 1955 the Imperial Bank of India was nationalized and named the State Bank of India.
- The Banking Regulation Act established in 1949.
- Ongoing Development in Indian Banking Sector:
- Kotak Mahindra Bank and Yes Bank got a permit from RBI in the year 2003 and 2004.
- On 19 August 2015, the Reserve Bank of India gave "in-principle" licenses to 11 entities to launch payments banks.

1. Aditya Birla Nuvo
2. Airtel M Commerce Services
3. Cholamandalam Distribution Services
4. India Post
5. Fino PayTech
6. National Securities Depository
7. Reliance Industries
8. Vodafone M-Pesa
9. Paytm
10. Tech Mahindra
11. Sun Pharmaceuticals

Today, Indian Banking industry is most growing industry in terms of services and career. Managing an account frameworks of any nation should be compelling and effective as it plays dynamic role in the monetary advancement of the nation.

### Definition of Banking

As per section 5(b) of the Banking Regulation Act, 1949, "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.

### Two functions

1. Accepting of deposit
2. Lending and investment

### Functions of a bank

#### (A) Main functions

1. The borrowing, raising or taking of money;
2. The lending or advancing of money either upon security or without security;
3. The drawing, making, accepting, discounting, buying, selling, collecting and dealing bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures and other instruments and securities whether transferable or negotiable or not;
4. The granting and issuing of letters of credit, traveller's cheques and circular notes;
5. The negotiating of loans and advances;
6. The buying, selling and dealing in bullion.

#### (B) Other Functions

1. It may act as an agent of the government, local authority or person and can carry on agency business but it cannot act as secretary and treasurer of a company.
2. It may effect, insure, guarantee, underwrite, participate in managing and carrying out of any issue of state, municipal or other loans or of shares, stock, debentures stock of companies and may lend money for the purpose of any such issue.
3. It may carry on and transact every kind of guarantee and indemnity business.
4. It may manage, sell and realise any property which may come into its possession in satisfaction of any its claims.
5. It may acquire and hold and deal with any property or any right, title or interest in any such property which may form the security for any loan or advance.
6. It may undertake and execute trusts and undertake the administration of estates as executor, trustee or otherwise.

7. It may establish, support and aid associations, institutions, funds, trusts, etc., for the benefit of its present or past employees and may grant money for charitable purposes.
8. It may acquire, construct and maintain any building for its own purpose.
9. It may sell, improve, manage, develop, exchange, lease, mortgage, dispose of or turn into account or otherwise deal with all or any part of the property and rights of the company.
10. It may acquire and undertake the whole or any part of the business of any person or company when such business is of a nature described in section of Banking Regulation Act.
11. It may do all such things which are incidental or conducive to the promotion or advancement of the business of the company or any other business specified by the central government as the lawful business of a banking company.

### Pre 1990 period

#### Functions of banks

1. Accepting of deposits from individuals, associations & corporate. In the form of Savings A/C's, Current A/C's, Trust A/C's i.e. (as custodian of public deposits).
2. Loans and advances to people against security and security to be kept as custodian.
3. Issue of cheques/drafts for easy money transfer and funds.
4. Drawing, making, buying, selling and discounting of bill of exchange, legal relationship may be different but possession of instruments custodian duty-responsibility always exists.
5. Extending safe custody and deposit and locker services.
6. Guarantee & indemnity service.
7. Establishment of Letter of Credit and negotiation of export and import bills.
8. Issue of traveller cheques.

#### Features of services

1. There was no classification of customers as per their professional or their economic activity. Account opening on the personal introduction of either existing customer or public reputed person.
2. Beyond certain limit withdrawals with prior intimation to bank. No additional benefits for maintaining different nature of accounts.
3. Only the secured loans and advances i.e. under lock and key. Without 3<sup>rd</sup> party interference no security can be disposed off i.e. civil courts.
4. As banks were working for urban people in the early days later on rural people were also covered.
5. Safe custody lockers services were extended only to well to do citizens not to ordinary persons.
6. Guarantee & indemnity services were only for reputed business class people not to general public.
7. Issue of traveller cheques and circular note only to a very limited persons.
8. Service of FCNR (Foreign Currency Non Resident Account) & NRE A/C (Non Resident External) was available only to NRI customers not with residents jointly.

We can say that before nationalisation i.e. 1969 the variety of banking services and products were limited and these

services were extended to a limited section of the society, hardly 20%-30% population was covered. An ordinary citizen does not collect energy to visit a bank and avail service whether of deposit or advances. Loans & advances were 100% secured i.e. lock & key. In short words banking services were available to competent citizen not to ordinary person.

### **Present situation of banking services-after-1990**

The present services rendered by banks with special focus on State Bank of India reason being largest & global Indian bank, we should ponder for a while why liberalisation or reforms of banking were considered necessary. There may be two reasons either needs of individual as well as society felt a change or alternative model of services was the need of the hour to consider Indian banking sector as competent as foreign banks as well as new generation private banks with the sharp changes in society i.e. demography (young customers), fast services (technology), home banking (home banking), blockage of own funds (fast movement of funds) and physical currency (plastic currency) besides there are so many others. Secondly is the present services rendered by Indian banks are not sufficient to fulfil the needs of the individual as well as of society.

**State Bank of India** has the largest business vehicle of the bank. It is also the largest vehicle in terms of branch network and human resources. A steady stream of technology driven innovations and changing consumer preferences is rapidly transforming retail banking. Bank has a multi channel delivery system. The initiatives taken after post liberalisation revamped the bank's process and re-engineered the banking policy and system. Retail banking specially Current A/C's and Savings A/C's (CASA) is essential for bank.

The modern products and services rendered by Indian Banks specially State Bank of India which signifies that modern Indian banks offer complete umbrella of financial products.

### **(A) Core Operations**

**1. Savings Account**-Any individual, even minor, parda nasin, physically disabled, singly or jointly can open his/her saving account. Savings account opening forms have been made fully complete with FATCA (Foreign Account Tax Compliance Act), CRS (Common Reporting Standard) and key digitalisation know your customers, registry norms. No frill accounts are also opened and small account under Jan Dhan scheme of Government of India are also opened.

A special account known as Holidays Account (with online end to end capabilities) in partnership with Thomas Cook service was launched during Feb 2016.

SBI quick missed call banking facility for balance enquiry, blocking ATM card, car/home loan enquiry is also available to customers. Saving accounts can be linked with DMAT A/C to avail 24 x 7 services related to transfer, pledge and unpledge securities on time.

**2. Non-Resident accounts**- FCNR, NRE and NRE/NRO account facility is available, overdraft facility against NRE/NRO deposit account through internet banking. Other value added facilities i.e. debit card, remittance facility through international banking channel.

**3. Salary A/c tie-ups**-Salary package account of private, public undertakings, state/center/UT Government departments salary accounts are also opened with ATM, debit card and internet banking services.

**4. Premier Banking**-A special section under personal banking for high network individuals has been created and even HNI (High Net Worth Individual) branches have been opened to extend single counter services. Investment avenues in various mutual funds, cross selling i.e. insurance and various credit card facility is provided.

### **(B) Other Operations**

**1. Sovereign gold bonds/Electrol bonds/coins/Govt bonds/NCD (Non convertible Debenture) of Public Sector Units**-State Bank of India is extending facilities for investment in Government of India scheme with an intention to reduce the demand for physical gold as an investment asset. During the budget for 2017-18 electrol bond scheme was announced and selective branches have been designated for sale of electrol bonds. These bonds for general public who want to give donations to recognised political parties.

### **2. Anytime delivery channel**

Bank is providing debit card i.e. ATM card, POS/cash deposit machines, e-commerce at various centres where customer can avail entire services from this channel i.e. cash withdrawal cash deposit, mini-statement, balance, passbook printing. Bank has recently introduced Dynamic Currency Conversion (DCC) a value added facility for foreign master card holders whereby the card holder get the market currency conversion rate while withdrawing money from domestic ATMs. A new self service known as Swayam (barcode based passbook printing kiosk's) with this facility customer can get printing his/her passbook with any banks staff help/interference.

### **3. Mobile APP**

A mobile app State Bank No Queue, this app enables customers to self-generate e-token for availing selected banking services. This helps in reducing waiting time and also reduces customer crowds in bank branches.

### **4. SBI in Touch**

SBI in Touch branches are equipped with state of the art i.e. devices/ Kiosks allowing customers to self service mode. Besides on site support and advisory services through video conferences.

### **5. Cross-Selling and Wealth Management**

SBI is a corporate agent of SBI Life Insurance Limited. SBI General Insurance which extends life and non life insurance services at branch level and also has distribution agreements with SBI mutual funds, SBI cards and payment services and SBI cap(capital) Securities Limited to distribute their product.

### **6. Loan services**

**a. Home loans** for individual or with spouses with various facilities like, flexi pay home loan, Greeha Tara campaign, project tatkal (construction of finishing) corporate, home loans to employees of corporates.

**b. Auto loans-** For purchase of new 1st & 2nd hand (not old more than four years), facilities are provided to individuals, employees of corporates, agriculturist and other person.

**c. Education loan-** To continue study in India and abroad, to improve education level, to complete technical or professional qualification and to enhance skills loan on easy repay terms as per RBI instructions is extended. SBI has launched the scheme named Vidya Laxmi portal to get first hand information about education loan.

**d. Personal Loan-** Personal loan to salaried people, state and central government pensioners, employees of public sector corporates. Even online overdraft against fixed deposit, end to end digitised process for loan against shares and debentures and without visiting the branch, gold loan and loan against property are also provided by the bank.

**e. Professional advance-** Lawyers, CAs, doctors, architectre and other individuals can avail loans for their office construction, renovations, furniture purchase, establishing library on easy repay terms.

**f. MSME-** The traders i.e. wholesalers, public distributors, retailers and small scale manufacturing units are provided loans on very easy terms and conditions even without any collateral by way of mortgage or third party guarantee simply or hypothecation basis. Mudra loans for which SBI has been considered pioneer by providing financial help to entrepreneurs under Shishu Scheme upto rupees fifty thousand, Kishore Scheme above 50 thousand upto 5 lakh and Tarun Scheme above 5 lakh upto 10 lakh.

**g. Agriculture finance-** As we are well aware that our 70% population depends upon agriculture activities i.e. farming, horticulture, dairy farming, forestry, bee keeping which require investment in machinery and save themselves from any natural calamity can avail loan from Indian banks. State Bank of India has formulated various schemes i.e. KCC (Kisan Credit Card) ATM, Rupay Card, Kisan gold card, tatkal tractor loan scheme i.e. Stree Shakti Tractor Loan scheme are available. Bank has opened customer services points have been set up in cluster of villages where opening of a branch or extension counter is not viable empowering of rural youth who are unemployed or under employed by providing comprehensive training which is free of cost, residential training in personality and skill development is being imparted through banks RSETI (Rural Self Employment Training Institute). To provide gainful employment to unemployed youth for debt recovery agents training is also provided by bank. To reach unbanked rural area SBI has set Regional Rural Banks which are 100% computerised which have initiated RTGS, NEFT, rupaycards, IMPS, Kiosk banking, Adhar enabled payment system, National Automated Clearing House and cheque truncation system which have been implemented in same sense as implemented by public sector & private sector banks. RRBs also whole heartedly implements Jan Dhan scheme for implementing financial inclusion in letter & spirit.

## 7. Services to Corporates

Corporates & institution segment contributed major portion of GDP and national income. It constitutes public and private sector units and institutions engaged in various economic activities i.e. trading, manufacturing and advisor, asset reconstruction companies, export & import houses, large scale hire purchase service providers, data providers, oil exploration firms, vehicle manufacturing units, defence related machinery manufacturers, heavy earth movers, venture capital, high way infrastructure projects, ship building industry etc so many other units which are backbone of Indian economy besides the gem & jewellery, food processing industry, power generation units, chemical and engineering and heavy metal & non metal product company can avail finance from bank. SBI is a leader to finance such heavy finance need units under consortium advance portfolio.

## 8. International Operation

SBI provide service to borrowers deal with foreign currency who are engaged in international operation i.e. opening letter of credit, discounting and collection of bills and foreign currency loans, international bank guarantees are also extended to persons, institutions who deal in international market.

### (C) Non Banking Services

Some functions does not fall under banking services with a view to retain, add existing as well as new customers specially young customer on behalf of them bank perform various non banking functions but the law of the land relating to banking i.e. Banking Regulation Act and RBI does not permit, still

#### a. SBI non banking subsidiaries

1. SBI Capitals Limited (for primary market functions and capital creation and management functions)
2. SBI Funds Management (wealth / funds management of its constituents and its customers)
3. SBI Factors and Commercial Services Private Limited (credit bills requirement and commercial services i.e. project study reports etc.)
4. SBI cards and Services Private Limited (debit/credit cards and rupay cards etc and management of payments services)
5. SBI DFHI limited (bill & discount and financing service provision)
6. SBI Life Co. Limited (life insurance)
7. SBI General Insurance (non life insurance)

#### b. General non banking services and products

1. Banks provide and extend guarantee services on behalf of its corporate and MSME i.e. from mid corporate clients to government departments.
2. Bank also confirm letter of credits so that its customer can import goods and services as well as raw material for trading and manufacturing.
3. For corporate clients bank arranges foreign currency loan and direct investment related services.
4. Bank tie up with foreign entities for external commercial borrowing to fully fill the requirement of its corporate clients.
5. SBI manages treasury operation of Government of India and state government.

6. SBI arranges in collaboration with RBI for currency chest related functions i.e supply of fresh currency to general public, storage facility for soiled notes for further deposit with RBI from general public, from the tax payers on behalf of various Government departments. Taxes are collected i.e income tax, GST, property tax and excise duty etc
7. On behalf of central government contribution from tax payers as well as non tax payers for national pension system, public provident funds are also collected.
8. Demat accounts are being opened for individual who interested to invest their surplus funds in various, mutual funds, NCDs and primary/secondary markets.
9. Advisory functions through dedicated team of experts for increasing efficiency, improvement in technology solution to NPAs.
10. SBI through its special institution i.e SBIRD (State Bank of India Rural Development Institute, staff college of SBI and SBITI(State Bank information Technology institute) provides training not a bank staff besides executives sponsored by various other government institution even some specialized university tie up for training to their students and faculty.
11. Banks provide basic knowledge to customer about i.e financial knowledge about its products deposit as well as credit products. Through financial literacy and financial education knowledge base is enhanced. SBI is a leading bank for providing such knowledge.
12. Banks are providing four type of currencies to public i.e physical currency, plastic currency, virtual currency created by banks and departmental stores in the forms of reward and fourth currency is known as cryptocurrency through in India it has not been popularised crypto currency is one created through computer programming this currency is also known as bitcoin units.
13. Under corporate social responsibility, SBI keep aside 1% of their net profit to be used to
  - i. supplement health & education
  - ii. supplement with disabilities section of society.
  - iii. supplement skill development & livelihood creation
  - iv. supplement to environment protection.
14. SBI provide better service to all customers through fair treatment and redress customer grievances which lead to good customer relationship.

#### **SBI and other banks are facing challenges from-**

- a) Specially from small finance banks and payment banks.
- b) Technology upgradation.
- c) Cyber security.

To mitigate these challenges and risks State Banking of India is playing leading role.

#### **Conclusion**

We can conclude that financial products, delivery system, improvement from various risks i.e fraud, cyber security, cost benefit prove that banks are not only custodians of public funds rather complete umbrella of financial services in Indian banking industry in which State Bank of India has a special and prime position with large branch network, variety of services, technology driven, updated financial products, dissemination of information to customers and grievances redressal system.

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