

# *Evolution of Indian Banking System and SWOT Analysis of PNB and HDFC*

**Sundeep Kumar**

(M.Com., M. Ed., JRF-Commerce and NET-Education)

Research Scholar, Department of Commerce, Meerut College, Meerut.

---

## **Abstract**

*For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process. The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. Long time ago; an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are days when the most efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dials a pizza. Money has become the order of the day.*

*The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach. The unleashing of products and services through the net has galvanized players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. These suggestions may contradict to the development policy of the banks. But, these are presented here only after a high voltage SWOT Analysis.*

**Keyword :** Banking, SWOT, PNB, HDFC.

---

## **1. HISTORY OF BANKING IN INDIA**

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process. The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. Long time ago; an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own

money. Today, he has a choice. Gone are days when the most efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dials a pizza. Money has become the order of the day.

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

- ❖ Early phase from 1786 to 1969 of Indian Banks
- ❖ Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- ❖ New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

## Phase I

The General Bank of India was set up in the year 1786. Next come Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly Europeans shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian.

Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India. During those days public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Aforementioned the savings bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.

## Phase II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July, 1969, major process of

nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. India Gandhi major commercial banks in the country were nationalized. Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking:

- ❖ 1949: Enactment of Banking Regulation Act.
- ❖ 1955: Nationalization of State Bank of India.
- ❖ 1959: Nationalization of PNB subsidiaries.
- ❖ 1961: Insurance cover extended to deposits.
- ❖ 1969: Nationalization of 14 major banks.
- ❖ 1971: Creation of credit guarantee corporation.
- ❖ 1975: Creation of regional rural banks.
- ❖ 1980: Nationalization of seven banks with deposits over 200 cores.

After the nationalization of banks, the branches of the public sector bank India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

## Phase III

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M. Narasimham, a committee was set up by his name which worked for the liberalizations of banking practices.

The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more .

Importance than money the financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external

macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks.

## 2. BANKING SYSTEM IN INDIA

The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institutions. The Reserve Bank of India acts a centralized body monitoring any discrepancies and shortcoming in the system. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and has since then seen tremendous progress. The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach. The unleashing of products and services through the net has galvanized players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. Conservative banking practices allowed Indian banks to be insulated partially from the Asian currency crisis. Indian banks are now quoting al higher valuation when compared to banks in other Asian countries (viz. Hong Kong, Singapore, Philippines etc.) that have major problems linked to huge Non Performing Assets (NPAs) and payment defaults. Co-operative banks are nimble footed in approach and armed with efficient branch networks focus primarily on the 'high revenue' niche retail segments. The Indian banking has finally worked up to the competitive dynamics of the 'new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization. Banks that employ IT solutions are perceived to be 'futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base. Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Internet has emerged as the new and challenging frontier of marketing with the conventional physical world tenets being just as applicable like in any other marketing medium. The Indian banking has come from a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely

brought about by the large dose of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams (i.e. borrowing and lending). The banking in India is highly fragmented with 30 banking units contributing to almost 50% of deposits and 60% of advances. Indian nationalized banks (banks owned by the government) continue to be the major lenders in the economy due to their sheer size and penetrative networks which assures them high deposit mobilization. The Indian banking can be broadly categorized into nationalized, private specialized banking institutions The Reserve Bank of India act as a centralized body monitoring any discrepancies and shortcoming in the system. It is the foremost monitoring body in the Indian financial sector. The nationalized banks (i.e. government-owned banks) continue to dominate the Indian banking arena. Industry estimates indicate that out of 274 commercial banks operating in India, 223 banks are in the public sector and 51 are in the private sector. The private sector bank grid also includes 24 foreign banks that have started their operations here. Under the ambit of the nationalized banks come the specialized banking institutions. These co-operatives, rural banks focus on areas of agriculture, rural development etc., unlike commercial banks these co-operative banks do not lend on the basis of a prime lending rate. They also have various tax sops because of their holding pattern and lending structure and hence have lower overheads. This enables them to give a marginally higher percentage on savings deposits. Many of these cooperative banks diversified into specialized areas (catering to the vast retail audience) like car finance, housing loans, truck finance etc. in order to keep pace with their public sector and private counterparts, the co-operative banks too have invested heavily in information technology to offer high-end computerized banking services.

## 3. EVOLUTION OF PNB

Punjab National Bank is an Indian multinational banking and financial services company. It is a state-owned corporation based in New Delhi, India. Founded in 1894, the bank has over 6,968 branches

and over 9,935 ATMs across 764 cities. It serves over 80 million customers. It has a banking subsidiary in the UK (PNB International Bank, with seven branches in the UK), as well as branches in Hong Kong, Kowloon, Dubai and Kabul. It has representative offices in Almaty (Kazakhstan), Dubai (United Arab Emirates), Shanghai (China), Oslo (Norway) and Sydney (Australia). In Bhutan it owns 51% of Druk PNB Bank, which has five branches. PNB owns 20% of Everest Bank Limited, which has 50 branches in Nepal. Lastly, PNB owns 84% of JSC (SB) PNB Bank in Kazakhstan, which has four branches.

Punjab National Bank was registered on 19 May 1894 under the Indian Companies Act, with its office in Anarkali Bazaar, Lahore present day Pakistan. The founding board was drawn from different parts of India professing different faiths and a varied background with, however, the common objective of providing country with a truly national bank which would further the economic interest of the country. PNB's founders included several leaders of the Swadeshi movement such as Dyal Singh Majithia and Lala Harkishan Lal, Lala Lalchand, Shri Kali Prosanna Roy, Shri E.C. Jessawala, Shri Prabhu Dayal, Bakshi Jaishi Ram, and Lala Dholan Dass. Lala Lajpat Rai was actively associated with the management of the Bank in its early years. The board first met on 23 May 1894. The bank opened for business on 12 April 1895 in Lahore.

PNB has the distinction of being the first Indian bank to have been started solely with Indian capital that has survived to the present. (The first entirely Indian bank, Oudh Commercial Bank, was established in 1881 in Faizabad, but failed in 1958.)

PNB has had the privilege of maintaining accounts of national leaders such as Mahatma Gandhi, Jawahar Lal Nehru, Lal Bahadur Shastri, Indira Gandhi, as well as the account of the famous Jalianwala Bagh Committee.

#### 4. SWOT ANALYSIS

SWOT Analysis of Punjab National Bank with USP, Competition, STP (Segmentation, Targeting, Positioning) - Marketing Analysis

Punjab National Bank	
Parent Company	Government of India
Category	Banking services
Sector	Banking and finance
Tagline/ Slogan	The name you can bank upon
USP	Punjab National Bank is one of the Big Four banks of India
STP	
Segment	Urban and rural banking
Target Group	International Banking
Positioning	Complete Banking solutions
SWOT Analysis	
Strengths	<ol style="list-style-type: none"> <li>1. Diversified operations with 5100 branches</li> <li>2. Strong I. T support with "best fit" approach</li> <li>3. Schemes for small and medium scale businesses</li> <li>4. It is the second largest state-owned commercial bank in India with about 5000 branches across 764 cities</li> <li>5. Its 56,000+ workforce serves over 37 million customers</li> </ol>
Weaknesses	<ol style="list-style-type: none"> <li>1. Less penetration in the urban areas</li> <li>2. Inadequate advertising and branding as compared to other banks</li> <li>3. Legal issues regarding employees caused a bad name of PNB</li> </ol>
Opportunities	<ol style="list-style-type: none"> <li>1. Small scale business banking across India</li> <li>2. Expansion in other countries for international banking</li> <li>3. Installation of more ATM's and better customers services</li> </ol>
Threats	<ol style="list-style-type: none"> <li>1. Economic crisis and economic fluctuations</li> <li>2. Highly competitive environment</li> <li>3. Stringent Banking Norms by the RBI and the Govts</li> </ol>
Competition	
Competitors	<ol style="list-style-type: none"> <li>1. Indian bank</li> <li>2. Andhra Bank</li> <li>3. Canara bank</li> <li>4. ICICI Bank</li> <li>5. HDFC</li> <li>6. SBI</li> </ol>

#### 5. OVERVIEW OF HDFC BANK

HDFC Bank began operations in 1995 with a simple mission: to be a "World-class Indian Bank". They realized that only a single-minded focus on product

quality and service excellence would help them to get there. HDFC Bank, one amongst the firsts of the new generation, tech-savvy commercial banks of India, was set up in August 1995 after the Reserve Bank of India allowed setting up of Banks in the private sector. The Bank was promoted by the Housing Development Finance Corporation Limited, a premier housing finance company (set up in 1977) of India. Net Profit for the year ended March 31, 2006 was up 30.8% to Rs 870.8 cores. Currently (2007), HDFC Bank has 583 branches located in 263 cities of India, and all branches of the bank are linked on an online real-time basis. The bank offers many innovative products & services to individuals, corporate, trusts, governments, partnerships, financial institutions, mutual funds, insurance companies. Bank also has over 1471 ATMs. In the next few months the number of branches and ATMs should go up substantially. The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite. The bank is committed to maintain the professional integrity, corporate governance and regulatory compliance. HDFC Bank's business philosophy is based on four core values Operational Excellence, Customer Focus, Product Leadership and People. The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. Incorporated in August 1994 as HDFC Bank Limited, as of December 31, 2006.

**Distribution Network:** HDFC Bank is headquartered in Mumbai. The Bank at present has an enviable network of over 684 branches spread over 316 cities across India. All branches are linked on an online real-time basis. Customers in over 120 locations are also serviced through Telephone Banking. The Bank's expansion plans take into account the need to have a presence in all major industrial and commercial centers where its corporate customers are located as well as the need to build a strong retail customer base for both deposits and loan products. Being a clearing/settlement bank to various leading stock exchanges, the Bank has branches in the centers where the NSE/BSE have a strong and active member base. The Bank also has a network of about over 1,740 networked ATMs across these cities. Moreover, HDFC Bank's ATM network can be accessed by all domestic and international Visa/MasterCard, Visa Electron/Maestro, Plus/Cirrus and American Express Credit/Charge cardholders. HDFC Bank operates in a highly automated environment in terms of information technology and communication systems. All the bank's branches have online connectivity, which enables the bank to offer speedy funds transfer facilities to its customers. Multi-branch access is also provided to retail customers through the branch network and Automated Teller Machines. The Bank has made substantial efforts and investments in acquiring the best technology available internationally, to build the infrastructure for a world class bank. In terms of software, the Corporate Banking business is supported by Flex cube, while the Retail Banking business by Fin ware, both from I-flex Solutions Ltd. The systems are open, scalable and web-enabled. The Bank has prioritized its engagement in technology and the internet as one of its key goals and has already made significant progress in web-enabling its core businesses. In each of its businesses, the Bank has succeeded in leveraging its market position, expertise and technology to create a competitive advantage and build market share.

**Activities:** HDFC Bank mainly provides three kinds of banking services:

- a. Personal Banking
- b. NRI Banking

c. Wholesale Banking

**Product and Services:** The following are the products and services provided by the HDFC bank-

- ❖ HDFC Bank provides loans like Personal Loans , Home Loans , Educational Loans , Two Wheeler Loans , New car Loans, Used Car Loans, Overdraft Against Car, Express Loans, etc.
- ❖ HDFC Bank provides Credit, Debit and Prepaid Cards to help you meet your financial objectives.
- ❖ HDFC Bank provides facilities like Mutual Funds, Insurance , General & Health Insurance, Bonds , Financial Planning, Knowledge Center, Equities & Derivatives, Mudra Gold bar.

If you need to deal in foreign currency and keep tabs on exchange rates every now and then, transfer funds to India, make payments etc., HDFC Bank has a range of products and services that you can choose from to transact smoothly, efficiently and in a timely manner

**6. SWOT ANALYSIS**

SWOT Analysis of HDFC with USP, Competition, STP (Segmentation, Targeting, Positioning) - Marketing Analysis

HDFC	
Parent Company	HDFC
Category	Banking, Financial Services
Sector	Banking
Tagline/ Slogan	We understand your world
USP	One of the Big four banks in India
STP	
Segment	For people who wish to invest their money in banks
Target Group	Corporates, HINs, Middle income group etc
Positioning	A bank that puts the customer first
SWOT Analysis	
Strengths	<ol style="list-style-type: none"> <li>1. One of the leading new age private sector bank</li> <li>2. HDFC Bank has over 1700 branches and over 5000 ATMs, in 780 cities in India</li> </ol>

Weaknesses	<ol style="list-style-type: none"> <li>3. Existing CBS across its branches</li> <li>4. Huge employee base i.e more than 51000 employees</li> <li>5. Large collaborations with corporate for employee salary accounts</li> </ol>
	<ol style="list-style-type: none"> <li>1. Rural penetration is low</li> <li>2. Lesser no. of branches when compared with its competitors</li> </ol>
Opportunities	<ol style="list-style-type: none"> <li>1. Mobile banking, Internet banking</li> <li>2. Venturing into rural areas</li> <li>3. Providing more complex products to the ever increasing demands of the industry</li> </ol>
Threats	<ol style="list-style-type: none"> <li>1. Competitors</li> <li>2. New banking licenses</li> <li>3. Foreign banks that offer complex products</li> </ol>
Competition	
Competitors	<ol style="list-style-type: none"> <li>1. SBI</li> <li>2. ICICI Bank</li> <li>3. Bank of Baroda</li> <li>4. <b>Punjab National bank</b></li> </ol>

**7. CONCLUSION**

After conducting a SWOT analysis of HDFC bank and Punjab National Bank, we came to know different strengths, weaknesses, challenges and threats of these Banks as a comparative analysis. With this information , it is clear that both the banks are doing well in their respective fields. Following are some suggestions as a whole. These suggestions may contradict to the development policy of the banks. But, these are presented here only after a high voltage SWOT Analysis. Both the banks are in the list of competitors in each other's SWOT Analysis.

1. Both the customers from PNB and HDFC bank have suggested that the bank should open one of its branches in industrial area like focal point.
2. One of the most common suggestions was to lower down the minimum balance required in the saving s account.
3. Staff should be more co-operative to the customers.
4. Customers were not fully aware of the services and the various charges which they have to pay. Therefore Banks should try to give some more information to its existing customers ○

## REFERENCES

1. Bedi, M. (2010), "An integrated framework for service quality, customer satisfaction and behavioural responses in Indian banking industry: a comparison of public and private sector banks", *Journal of Services Research*, Vol. 10 No. 1, pp. 157-72.
2. Choudhury, K. (2008), "Service quality: insights from the Indian banking scenario", *Australasian Marketing Journal*, Vol. 16 No. 1, pp. 48-61.
3. Cui, C.C., Lewis, B.R. and Park, W. (2003), "Service quality measurement in the banking sector in South Korea", *International Journal of Bank Marketing*, Vol. 21 No. 4, pp. 191-201.
4. Gee, R., Coates, G. and Nicholson, M. (2008), "Understanding and profitably managing customer loyalty", *Marketing Intelligence & Planning*, Vol. 26 No. 4, pp. 359-74.
5. Gounaris, S.P., Stathakopoulos, V. and Athanassopoulos, A.D. (2003), "Antecedent to perceived service quality: an exploratory study in the banking industry", *The International Journal of Bank Marketing*, Vol. 21 Nos 4/5, pp. 168-90.
6. Jamal, A. and Naser, K. (2002), "Customer satisfaction and retail banking: an assessment of some of the key antecedents of customer satisfaction in retail banking", *International Journal of Bank Marketing*, Vol. 20 No. 4, pp. 146-60.
7. Jamal, A. and Naser, K. (2003), "Factors influencing customer satisfaction in the retail banking sector in Pakistan", *International Journal of Commerce & Management*, Vol. 13 No. 2, p. 29.
8. Jham, V. and Mohd, K. (2009), "Customer satisfaction and its impact on performance in banks: a proposed model", *South Asian Journal of Management*, Vol. 16 No. 2, pp. 109- 26.
9. Kumar, M., Kee, F.T. and Charles, V. (2010), "Comparative evaluation of critical factors in delivering service quality of banks: an application of dominance analysis in modified SERVQUAL model", *International Journal of Quality & Reliability Management*, Vol. 27 No. 3, pp. 351-77.
10. Kumar, M., Kee, F.T. and Manshor, A.T. (2009), "Determining the relative importance of critical factors in delivering service quality of banks: an application of dominance analysis in SERVQUAL model", *Managing Service Quality*, Vol. 19 No. 2, pp. 211-28.
11. Ladhari, R. (2008), "Alternative measure of service quality: a review", *Journal of Managing Service Quality*, Vol. 18 No. 1, pp. 65-86
12. Lassar, W.M., Manolis, C. and Winsor, R.D. (2000), "Service quality perspectives and satisfaction in private banking", *The Journal of Services Marketing*, Vol. 14 No. 3, pp. 244-71.
13. Lovelock, C. (2001), "Loyalty in private retail banking: an empirical study", *IUP Journal of Management Research*, Vol. 9 No. 4, pp. 21-38.
14. Manrai, L.A. and Manrai, A.K. (2007), "A field study of customers' switching behavior for bank services", *Journal of Retailing and Consumer Services*, Vol. 14, pp. 208-15.
15. Mishra, A.A. (2009), "A study on customer satisfaction in Indian retail banking", *IUP Journal of Management Research*, Vol. 8 No. 11, pp. 45-61.
16. Naeem, H. and Saif, I. (2009), "Service quality and its impact on customer satisfaction: an empirical evidence from the Pakistani banking sector", *The International Business and Economics Research Journal*, Vol. 8 No. 12, p. 99.
17. Prabhakaran, S. and Satya, S. (2003), "An insight into service attributes in banking sector", *Journal of Services Research*, Vol. 3 No. 1, pp. 157-69.
18. Sangwan, D.S. (2009), *Human Resource Management in Banks*, National Publishing House, New Delhi.

## **WEBSITES USED**

1. [http:// www.punjabnationalbank.com](http://www.punjabnationalbank.com)
2. [http://www.banknetindia.com/banking/index\\_1.htm](http://www.banknetindia.com/banking/index_1.htm)
3. <http://www.asiatradeshub.com/india/banking/finance.html>
4. [http://www.finance.indiamart.com/investment\\_in\\_india/standard\\_chartered\\_bank](http://www.finance.indiamart.com/investment_in_india/standard_chartered_bank).