Indian Banking Sector @75: Developments, Structure and Recent Trends

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Abstract'-

Banking sector is considered as the back-bone of any economy and India is no exception to this. Banks mobilize deposits from the people of the country and gives loans and advances to the industry, agriculture, government and common people. With its primary function of accepting deposits and giving loans and advances, pbanks on one hand encourage saving habits among the people, tap savings in the hands of people and on the other hand channelize these savings into the industry by proving loans and advances. Apart from accepting deposit and advances, now banks in India are entering into various sectors like insurance and mutual funds to raise their profits. Banking in India have played vital role in the economic development of the country. Indian banking sector have gone through phases. With every phase, the banking sector has adapted and diversified itself to make customers' financial lives easier and smoother while sustaining itself in the global economy. Over the years, the banking system has seen significant changes and improvements to meet the evolving needs of the people. In the present paper aims to developments that have taken place in Indian banking sector, its present structure and recent trends

Key Words: Banking sector, economic development, deposits, Loans and advances, Insurance, Mutual Funds.

Introduction

Bank is a financial institutes which accept money in the form of deposits for the purpose of lending. Accepting deposits and giving loans and advances are the basic functions of banks. With this function, banks inculcate saving habit among the people, mobilizes savings, offer secured rate of return on the deposits to the depositors further convert these savings into investments by giving loans and advances to the industry, agriculture and common people. Thus banks facilitates capital formation in the country. Industry gets capital from the banks. It leads to industrial growth which further facilities employment generation in the country. Government gets funds for initiating socio economic development activities in the country. Indian economy is known as agrarian economy. In India more than 60% people directly or indirectly depends on the agricultural for employment. Like industry agriculture needs finance to undertake various agriculture activities. This finance are mostly provided by banks. Hence Banks in Indian economy plays crucial role for socio economic development of the country. Apart from the primary functions of accepting deposit and giving loans and advances, banks provide several other services like transfer of funds, credit creation, investments in equities and debts market, consultancy services, underwriting services, research, training etc. All these services are much needed services without which it would be difficult to spin the wheels of the development. Indian banking sector have gone through phases. With every phase, the banking sector has adapted and diversified itself to make customers' financial lives easier and smoother while sustaining itself in the global economy. Over the years, the banking system has seen significant changes and improvements to meet the evolving needs of the people. In the present paper aims to developments that have taken place in Indian banking sector, its present structure and recent trends.

Objectives

The objectives of the present paper are

1. To review the history of Indian Banking
2. To know the present structure of Banking Sector in India.
3. To understand the recent trends in banking in India.

Research Methodology

The present research paper is based on the secondary data. The data is collected from various books, journals, research articles and web-sites form internet. The inferences are based on the analysis of the secondary data.

History of Indian Banking System

The evolution of the banking industry has played an indispensable role in the development of the Indian economy. With every phase, the industry has adapted and diversified itself to make customers' financial lives easier and smoother while sustaining itself in the global economy. The changes in banking over time can be looked at in the following phase.

1. Pre-independence Phase (1770-1947)

This is initial phase of Indian banking history. This period stared in 1770 and lasted upto 1747. In this phase, the primary goal was to establish new banks and make the banking sector a relevant presence in Indian society. During this period nearly 600 banks were registered, however most of them were failed to survive. However these banks have set the platform of Indian banking sector. Bank of Hindustan is the first bank to exist, marking the foundation of India's banking system. But it ceased to exist in 1932.

Under British rule, the East India Company set up three banks known as the Presidential Banks: Bank of Bengal, Bank of Bombay, and Bank of Madras. In 1921, these were merged into one bank called the "Imperial Bank of India." Later, in 1955, this bank was nationalized and became The State Bank of India, which is now the largest public sector bank in the country.

Other banks established during the pre-independence period include Allahabad Bank (1865), Punjab National Bank (1894), Bank of India (1906), Central Bank of India (1911), Canara Bank (1906), and Bank of Baroda (1908).

Several factors contributed to the failure of many banks during this period, such as fraud by account holders, lack of technology, human errors, time-consuming processes, fewer facilities, and inadequate management skills.

2. Post-independence Phase (1947-till date

Post-independence phase is further classified into following phases

2.1 Nationalisation Phase (1947-1991)

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalised in 1949. Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

I) Banks Nationalization in 1969

Following 14 banks were nationalized in 1969

1. Allahabad Bank
2. Bank of India
3. Bank of Baroda
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Overseas Bank
9. Indian Bank
10. Punjab National Bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank
14. UCO Bank

II) Bank Nationalization in 1980

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Comm.
5. Punjab & Sind Bank
6. Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which merged in 2008 and State Bank of Indore, which merged in 2010.

Impact of Nationalizations

Bank nationalization was the major step of Indian Government for growth of banking sector and the economy. It leads to several benefits as below

- **More Money, Better Economy:** By nationalizing banks, the government brought in more funds. This, in turn, improved the country's economic condition.
- **Increased Efficiency:** The move made banks more efficient in their operations.
- **Boost for Rural Areas:** Nationalization played a role in boosting the rural and agricultural sectors of the country.
- **More Jobs:** It created a significant number of job opportunities for people.
- **Using Profits for the People:** The government used the profits earned by banks to benefit the public.
- **Reduced Competition, Improved Efficiency:** With less competition, banks became more efficient in their work.

This post Independence phase was the one that led to major developments in the banking sector of India and also in the evolution of the banking sector.

Post-nationalization

In India, nationalizing banks marked a turning point toward financial stability, particularly in rural areas where there were no big banks. The efficiency of the financial sector in India was enhanced by the nationalised banks.

The step has a huge impact on the financial system of the country-

- When branches were established in the farthest reaches of the nation, bank access improved.

- Since more people had access to banks as a result of the opening of new branches, the average domestic saving increased by two times.
- A comparable rise in public deposits resulted from the expansion of banks' reach, which aided the expansion of export-related sectors, agriculture, and small businesses.
- Improved effectiveness and more public confidence were the results of greater accountability.
- The economy expanded significantly as a result of the small-scale industries' boost.
- After being nationalised, RBI had already established a precedent by ranking among the biggest employers. As more banks followed the lead, this continued.
- Banks provide financing to marginal farmers at reasonable rates, which significantly boosted India's agricultural industry.

2.2 Liberalisation Phase (1991-till date)

Since 1991, the Indian banking industry has gone through some radical changes. To make sure government-owned banks stay stable and make money, the government formed a committee led by Shri. M Narasimham. This committee was in charge of making various changes in the Indian banking industry. One big change was allowing private banks in India. The RBI gave licenses to 10 private banks to start operating in the country. Some of these banks were Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank, and Development Credit Bank. There were other remarkable changes seen during this phase. The Indian government approved foreign investment, paving the way for international banks to open their branches in India. Small finance banks received permission to open branches throughout the country, and payment banks also came into existence. With these changes, important developments in technology have emerged and continue to evolve the banking industry.

Present Structure of Banking Sector in India

Reserve Bank of India is the central bank of India and the apex institution in banking sector in India. RBI is regulating and controlling authority of banks in India. It was established in 1935 and operates as per RBI Act 1934. As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones. Standard & Poor's estimates that credit growth in India's banking sector would improve to 11-13 per cent in FY17 from less than 10 per cent in the second half of CY14.

Recent Trends in Banking in India

1. Payment Banks and Small Banks :

The central bank granted in-principle approval to 11 payments banks and 10 small finance banks in FY 2015-16. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

2. **Capital Infusion** As of now, the PSBs are adequately capitalized and meeting all the Basel III and RBI norms. To meet the norms government of India have infused capital in the nationalized banks.

3. Digitization of Payment System

At present India is witnessing rapid changes in its payment system. India is moving towards digital of payment system. Electronic payment system includes Electronic Clearing Service (ECS), National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), Pre-paid Payment Systems, ATMs / Point of Sale (POS) Terminals / Online Transactions.

4. Internet Banking and Mobile Banking

Due to invention of new and advanced technology, banks are forced to use new technology in order to remain in competition and giving better services to their customers. Out of many new technology based services offered by banks, internet banking and mobile banking are been the area of focus for banks.

5. New Services

Apart from the traditional functions like accepting deposits, giving loans and advances, locker facility, funds transfer, in the present days banks are offered many services like insurance, mutual funds, selling gold coins, opening DMAT Account, E-broking services.

6. De-stressing the banking sector

As decline in asset quality has been a key area of concern for the banking sector in general and PSBs in particular, several regulatory measures to de-stress banks' balance sheets have been taken in the recent years, including in the year 2014-15.

7. Recruitment

The Banking and Financial Services Industry is expected to recruit about 8.4 million people as per the growth rate each year. BSFI workforce requirement between 2008 and 2022 is expected to be about 4.2 million and sector may create up to 20 lakh new jobs in the next 5-10 years.

8. Demonetization

On 8th November 2016 Govt. of India have taken the decision of demonetization of Rs. 500 and Rs. 1000 notes. Banking sector will have direct impact of this decision.

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