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A PERSPECTIVE STUDY ON INDIAN BANKING SYSTEM

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ABSTRACT

The banking sector plays a vital role in the development of one country's economy. The growth of banking sector depends upon the services provided by them to the customers in various aspects. The growing trend of banking services is found significant after the new economic reforms in India. India is significantly different from other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy frame work combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth held exports rather than the "export led growth" of other Asian economies, with emphasis on self-reliance through import substitution. These features are Financial sector plays a pivotal role in the economic development. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Banks in India have been undergoing major challenges in the dynamic environment over the past few years reflected in the structure, size, and diversity of the country's banking and financial sector.

KEY WORDS: *Dynamic, Financial system, Reforms, Services.*

I.INTRODUCTION

Worldwide acquaintances have acknowledged globalization as their first vital decision. Improvement in technology has encouraged globalization also. E-commerce, e-marketing, e-banking are today's buzzwords. Banks have transformed them and are offering services through the Internet. Remarkably overriding element in the Indian economy and the financial sector was assumed by overseeing an accounting industry.

In India, the significance of the business of saving money has been made accessible in the Banking Regulation Act, (BR Act), 1949. As stated in Section 5_ (c) of the BR Act 'a banking company is a corporation which transacts the business of banking in India.' Further, Section 5_ (b) of the BR Act defines banking as, 'accepting, with the end goal of giving or venture, of accepting from the public, repayable with interest or generally, and withdrawal, with check, draft, order or otherwise.'

Evolution of Banking in India

Charan Singh et. al.5 (2014) Banking sector in India dates back to 18th century with the establishment of Bank of Hindustan in 1770 followed by the General Bank of India in 1786. There was a number of Public sectors.

First generation Narasimham committee – Reforms:

The Government of India appointed a committee called 'The Committee on Financed System' under the chairmanship of Sri M. Narasimham, ex-Governor of Reserve Bank of India which made recommendations in November 1991. The Committee laid down a blue print of financial sector reforms, recognized that a vibrant and competitive financial system was central to the wide ranging structural reforms. In order to ensure that the financial system operates on the basis of operational flexibility and functional autonomy, with a view to enhance efficiency, productivity and profitability, the Committee recommended a series of measures aimed at changes according greater flexibility to bank operations, especially in Pointing out statutory stipulations, directed credit program, improving asset quality, institution of prudential norm, greater disclosures, better housekeeping, in terms of accounting practices.

II.OBJECTIVES OF THE STUDY

1. To examine recent trends and developments in banking sector.
2. To present the technological developments in Indian banking sector.
3. Implications of Some Recent Policy Measures.
4. Banking Industry Vision 2010.
5. To study the emerging trends in banking technology.

III.RESEARCH METHODOLOGY

Data collection and sources of data:

The study is based on secondary data collected from the select bank records and other secondary sources like research papers, review papers, published papers of related Banks,. Banks' websites, periodicals, Bank's publications, newspapers etc. A list of the related articles from various journals is also used to develop the basic idea about the particular topic.

IV.REVIEW OF LITERATURE

Over the past decade, there has been a considerable growth in studies addressing the profile of the banks. Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of banks. Some of the studies are as follows:

[i] Indian banking sector was also working in the close economy scenario. Indian banking system was not sound at the time of independence. In 1949, 2 major act ions were taken with a view of structural reforms in the banking sector. Banking regular ion Act , which provided extensive power to RBI over the commercial l banks and another was the nationalized ion of RBI . Banking regulation act provided excessive power the RBI . In a free enterprise economy, commercial banks operate like any other business entity and gain private profit so at the time of independence it was viewed that the freedom of commercial bank was not in the harmony of the socialistic pattern of society, so they were nationalized in 1969 to establish the control over these banks. This study at tempt s to study the banking reforms in India and their impact on Indian Banking System.

[ii]Public sector banks, old private sector banks, new private sector banks and foreign sector banks. We know that in the service sector, it is difficult to quantify the output because it is intangible. Hence different proxy indicators are used for measuring productivity of banking sector. Segmentation of the banking sector in India was done along the following basis: number of banks, offices, number of employees, business per employees, deposits per employee, advances per employee, bank assets size, non-performing assets etc. Overall, the analysis supports the conclusion that foreign owned banks are on average most efficient and that new banks are more efficient that old ones. The public sector banks are not as profitable as other sectors are. In terms of size, the smaller banks are globally efficient, but large banks are locally efficient.

[iii]The success of economic development depends essentially on the extent of mobilization of resources and investment and on the operational efficiency and economic discipline displayed by the various segments of the economy. Banks play a positive role in the economic development of a country as they not only accept and deploy large funds in a

fiduciary capacity but also leverage such funds through credit creation. A commercial bank is a financial intermediary which accepts deposits of money from the public and lends them with a view to make profits. A post office may accept deposits but it cannot be called a bank because it does not perform the other essential function of a bank, i.e. lending money. The banking system forms the core of the financial sector of an economy. The role of commercial banks is particularly important in underdeveloped countries. Through mobilization of resources and their better allocation, commercial banks play an important role in the development process of underdeveloped countries. A commercial bank accepts deposits which are of various types like current, savings, securing and fixed deposits. It grants credit in various forms such as loans and advances, discounting of bills and investment in open market securities. It renders investment services such as underwriters and bankers for its issue of securities to the public.

[iv]The need for improvements in NPA management in Indian public sector banks. Though the PSBs were able to curtail their NPA during the first half of the study period, the trend has reversed in the second half especially since the global financial crisis during 2007. The analysis revealed significant linkages between NPA and selected bank performance indicators and macroeconomic indicators. In a highly competitive, diverse, sophisticated banking environment, NPA can be effectively managed through incorporating more proactive measures, notably an improvement in the credit evaluation, appraisal and monitoring system of banks.

[v] Financial sector plays a pivotal role in the economic development. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Banks in India have been undergoing major challenges in the dynamic environment over the past few years as it is evident from several parameters, including No. of offices, No. of employees, Business per employee, Profit per employee, Net Worth, Deposits, Investments, Advances, Interest income, Other income, Interest expended, Operating expenses, Cost of Funds (CoF), Return on advances adjusted to CoF, Wages as % to total expenses, Return on Assets, CRAR and Net NPA ratio In order to resist negative shocks and maintain financial stability, it is important to identify the profile of the banks. The current study is mainly concerned with the analysis of comparative profiles of Public Banks, Private Banks and Foreign Banks in India during the period of 2006-13 that reflects the impact of new competitive environment on the bank's performance in terms of various selected parameters.

[vi]This sector has become the foundation of modern economic development and lynchpin of development strategy. Any economy can develop by channelizing economic resources towards productive investment. Banks are special as they not only deploy large amounts of uncollateralized public funds in fiduciary capacity, but also leverage such funds through credit creation. The banking system forms the core of the financial sector of an economy. The role of commercial banks is particularly important in underdeveloped countries. Through mobilization of resources and their better allocation, commercial banks play an important role in the development process of underdeveloped countries. By offering attractive saving schemes and ensuring safety of deposits, commercial banks encourage willingness to save among the people. These banks provide a meeting ground for the customers and investors.

[vii]A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers that have capital deficits to customers with capital surpluses. Due to their critical status within the financial system and the economy generally, banks are highly regulated in most countries. They are generally subject to minimum capital requirements which are based on an international set of capital standards, known as the Basel Accords.

[viii]The banking industry in India has a huge canvas of history, which covers the traditional banking practices right from nationalization to privatization of banks and now to multinational banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. However, with the changing dynamics, banking business has brought a new kind of risk exposure. Majority of the banks are successful in keeping with the confidence of the shareholders as well as other stakeholders but not all the banks are able to live up to the expectation of the shareholders. In order to grow and gain the faith of shareholders, organizations should try to improve the long-term financial performance and create wealth for the shareholders.

[ix]Effective banking system, no country can have a healthy economy. Banks play a vital role in the economic development of a country. They accumulate the idle savings of the people and make them available for investment. They also create new demand deposits in the process of granting loans and purchasing investment securities. They facilitate trade both inside and outside the country by accepting and discounting of bills of exchange. Banks also increase the mobility of capital. For the past three decades, India's banking system has several outstanding achievements to its credit. It is no longer confined to only the metropolitans, but has reached even to the remote

corners of the country. This is one of the reasons of India's growth process. Today, the banking sector is one of the biggest service sectors in India. Availability of quality services is vital for the well-being of the economy. The focus of banks has shifted from customer acquisition to customer retention. With the stepping in of information technology in the banking sector, the working strategy of the banking sector has seen revolutionary changes. Various customer-oriented products like internet banking, ATM services, Tele-banking and electronic payment have lessened the workload of customers. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and credit/debit cards has revolutionized the choices available with the customers. Banks also serve as alternative gateways for making payments on account of income-tax and online payment of various bills like the telephone, electricity and tax. In the modern-day economy where people have no time to make these payments by standing in queue, the services provided by banks are commendable. Among the institutions whose role in the development of the less developed regions is well recognized but inadequately emphasized are the development banks. Playing multiple roles, these institutions have helped promote, nurture, support and monitor a range of activities, though their most important function has been as drivers of industrial development.

[x]Today in India the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India. The significant role of banking industry is essential to speed up the social economic development. Banks plays an important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. The economic reforms have also generated new and powerful customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks). The emerging competition has generated new expectations from the existing and the new customers. There is an urgent need to introduce new products. Existing products need to be delivered in an innovative and cost-effective way by taking full advantage of emerging technologies. The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer. The Indian consumer now seeks to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. This is leading to a growing demand for competitive, sophisticated retail banking services. This paper explains the changing banking scenario, the impact of economic reforms and analyses the challenges and opportunities of national and commercial banks.

Evolution of banking industry Trigger events- Beginning of institutional banking with 3 joint 1.stock banks Nationalization of Imperial Bank and 20 other.
2. Scheduled Commercial Banks Acceptance of recommendations of the Narasimham Committee Hike in the FDI ceiling for banking sector and declaration of roadmap for liberalization Phases of evolution
1. Pre-Nationalization phase (prior to 1955) Birth of joint stock banking companies.
Introduction of deposit banking and bank branches, Presidency banks and other joint stock banks formed setting the foundation of modern banking system.
2. Era of Nationalization and consolidation (1955-1990) State Bank of India formed out of Imperial Bank 20 SCBs nationalized in two phase. Directed credit programmes on the rise. Introduction of social banking.
3. Introduction of Indian Financial and Banking sector reforms and partial liberalization (1990-2004) Major changes in prudential regulations.
Major changes in prudential regulations. Interest rates deregulated. Statutory preemption of resources eased more. private sector players came in strengthened the system as a whole.
4. Period of increased liberalization (2004 onwards) FDI ceiling for the banking sector increased to 74%.from 49% Roadmap for inclusion of foreign banks declared. More liberal branch licensing policy followed.

V.CONCLUSIONS

A. Future Hopes To conclude, we can say that the modern economies of the world have developed primarily by making best use of the credit availability in their systems. India is on the march; far reaching socio-economic changes are taking place and Indian banks should come forward to play this role in the process. The role of banks has been important, but it is going to be even more important in the future. The primary growth drivers that will help transform the Indian banking sector include financial inclusion, enhanced payment systems, internet and mobile systems which will lead the banking sector to achieve its aim of expansion and growth. With one of the reform measures i.e.

B. Passing of the Banking Laws (Amendment) Bill, 2011, there will be way for more banks and foreign investments to enter the banking industry. Establishment of new banks will create competition enabling banks to improve their operational efficiency and technology. Given the under penetration of banking services in India, new bank licenses to be issued will also contribute towards financial inclusion and development.

C. Indian banks have to operate in an increasingly globalised environment due to regulatory factors, technological factors; cross-border financial flows over which they may not have any control.

D. The banks should be efficiently mobilizing required amount of capital from the market for meeting their current and future business growth and prudential requirements.

E. The banks should be able to enlarge their outreach in terms of customer base and product choices by leveraging technology enabled payment systems in affordable, accessible, acceptable and assured manner. There is enormous scope for increasing for increasing the size and capacity of the banking structure.

F. There is a need for reorienting the banking structure to make it more dynamic and flexible while ensuring safety and systemic stability. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies.

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