Abstract

The Banking system in India has a glorious history, bright future and pleasant present which can be observed by sustaining the recession period from last five years. The Banks are the important organizations in society which require faith of customers to keep their assets in terms of money and gold in banks. The banks have to follow strict policies in terms of asset and liabilities management. The banks are using ICT facilities to provide better service to the account holders. The authors have done decent effort to find out the major issues of the banks in India to the readers to update their knowledge. The banks in future will be very sensitive to the changing environment of the world wide customer.

The Finance in terms of deposits and advances will depend on the bank policies to lend and take deposits with interest rate which will attract the account holders. The paper deals with the banking history, future and finance safety to customer.

Keywords: Banking System, ICT, Credit Card, ATM, Loan Process, Lockers, NPA.

History of Banking in India

Definition of Banking

The business of the banking has been defined in Section 5(b) of the Act as follows:
"Accepting for the purpose of lending or investment of deposit of money from public, repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise."

The Narasimham Committee

The banking sector reforms in the 1990s in India were based on the report of the committee headed by Mr. M. Narasimham in 1991. Major recommendations of the committee were as follows:

1) There should be speedy computerization of the banking Industry. It suggested to trace on the computerization of banking operations.

The Narasimham Committee –II

The Narasimham Committee, in its second report on banking sector reforms, submitted in April 1998, made a series of sweeping recommendations which are being used as a launching pad to take India banking into future. The report covers following points related with computerization and it mainly traces on strengthening the Management Information System within the banks and financial institutions so as to sensitize them to the market risk assumed by them.

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 reason of India's growth process.

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
• Nationalisation 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.

To make this write-up more explanatory, I prefix the scenario as Phase I, Phase II and Phase III.

Phase I

The phase one is banking beginning with respect to customers. The Indian banks have also gone from beginning in short to long changes with advancements in polices and rules to make banks strong.

The General Bank of India was set up in the year 1786. Next came 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 as the Central Banking Authority.

During those days public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Abreast of it 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 nationalised Imperial Bank of India with extensive banking facilities on a large scale specially 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 nationalised in 1960 on 19th July, 1969, major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country was nationalised.

Second phase of nationalisation 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 Institutions in the Country:

- 1949 : Enactment of Banking Regulation Act.
- 1955 : Nationalisation of State Bank of India.
- 1959 : Nationalisation of SBI subsidiaries.
- 1961 : Insurance cover extended to deposits.
- 1971 : Creation of credit guarantee corporation.
- 1975 : Creation of regional rural banks.
- 1980 : Nationalisation of seven banks with deposits over 200 crore.

After the nationalisation 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

The Phase is recent which involves following points, 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 liberalization 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.

Banks In India

In India the banks are being segregated in different groups. Each group has their own benefits and limitations in operating in India. Each has their own dedicated target market. Few of them only work in rural sector while others in both rural as well as urban. Many even are only catering in cities. Some are of Indian origin and some are foreign players.

One more section has been taken note of is the upcoming foreign banks in India. The RBI has shown certain interest to involve more of foreign banks than the existing one recently. This step has paved a way for few more foreign banks to start business in India.

Major Banks in India

- ABN-AMRO Bank
- Abu Dhabi Commercial Bank
- American Express Bank
- Andhra Bank
- Allahabad Bank
- Axis Bank (Earlier UTI Bank)
- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Bank of Punjab
- Bank of Rajasthan
- Bank of Ceylon
- BNP Paribas Bank
- Canara Bank
- Catholic Syrian Bank
- Central Bank of India
- Centurion Bank
- China Trust Commercial Bank
- Citi Bank
- City Union Bank
- Corporation Bank
- Dena Bank
- Deutsche Bank
- Development Credit Bank
The indigenous bankers occupy an important place in the Indian Financial system from ancient times. The business of the indigenous bankers is generally a family concern. With their own capital, they grant loans against securities such as gold, jewellery, and promissory Notes, etc. They also buy and sell remittances and discount hundies. The indigenous bankers do not have contact with other sections of the Banking world. They combine banking with trading and commission business. They generally deal with agriculturists and small traders. The interest rate charged is lower than the commercial banks. Banks, Co-operative Banks, Primary Co-operative Credit Societies, Central Co-operative Banks, State Co-operative Banks, Land Development Banks, State Bank of India. The State Bank of India was formed on 1 July, 1955, with the passing of the State Bank of India Act, 1955, by taking over the assets and liabilities of the Imperial Bank of India.

**The Banking Regulations Act, 1949.**

Banks are public service institutions dealing with the funds of the public. The act was introduced in March 1948 and was passed in the parliament in February 1949. It covers the following points related to Banking:

1. **Definition of Banking**
2. **Business of Banking company and Prohibited Business**
3. **Capital Requirement**
4. **Management of Banks**
5. **Maintenance of Liquid Assets**
6. **Licensing of Banks**
7. **Opening of new branches**
8. **Provisions Regarding Loans and Advances**
9. **Inspection of Banks**
10. **Powers of the Reserve Bank of India**
11. **Returns to be submitted**
12. **Acquisition of Business**
13. **Winding up of Banking Companies**
14. **Amalgamation of Banking Companies**
15. **Miscellaneous – Penalties**
16. **Application of Act to Co-operative Banks.**

**PRESENT MAIN SERVICES PROVIDED BY MAJOR BANKS IN INDIA**

Deposits, advances, lockers facility, payments and settlements, other financial services.

We can study the main aspect of advances and loan with respect to the following points:

Profit is the pivot on which the entire business activity rotates. Banking is essentially a business dealing with money and credit. Like every other business activity, banks are profit-oriented. A bank invests its funds in many ways to earn income. The bulk of its income is derived from loans and advances.

Banks make loans and advances to traders, businessmen, and industrialists against the security of some assets or on the personal security of the borrower. In either case, the banks run the risk of default in repayment. Therefore, banks have to follow a cautious policy and sound lending principles in the matter of lending.

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**Banking services in India**

With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers' market. The customers have more choices in choosing their banks. A competition has been established within the banks operating in India.

With stiff competition and advancement of technology, the services provided by banks has become more easy and convenient. The past days are witness to an hour wait before withdrawing cash from accounts or a cheque from north of the country being cleared in one month in the south.

This section of banking deals with the latest discovery in the banking instruments along with the polished version of their old systems.

**Indigenous bankers**

The indigenous bankers occupy an important place in the Indian Financial system. The indigenous banking system has been in Existence in India. The indigenous bankers lend money, act as money changers, and finance internal trade by means of internal bill of exchange. With their own capital, they grant loans against securities such as gold, jewellery, and promissory Notes, etc. They also buy and sell remittances and discount hundies. The indigenous bankers do not have contact with other sections of the Banking world. They combine banking with trading and commission business. They generally deal with agriculturists and small traders. The interest rate charged is lower than the commercial banks. Banks, Co-operative Banks, Primary Co-operative Credit Societies, Central Co-operative Banks, State Co-operative Banks, Land Development Banks, State Bank of India.
Principles of Sound Lending

The banks have to follow three basic principles of sound lending: 1) safety, 2) liquidity, and 3) profitability. Other points like security, purpose of loan, sources of repayment, and diversification of risks are also important.

Secured and Unsecured Advances

Loans and advances may be made either on the personal security of the borrower or on the security of some tangible assets. The former is called unsecured or clean or personal advance, and the latter is called secured advances.

Unsecured Advances

The unsecured advances are granted to customers of integrity with sound financial backing, high business reputation, and capacity to manage the business. Confidence in the borrower is the basis of unsecured advances. A banker pins his faith on the ability and willingness of the borrower. The confidence is judged by three considerations: 1) Character, 2) Capacity, and 3) Capital.

As per the formula evolved by Dr. C. B. Memoria:

FUTURE OF BANKS

The banks in India have to trace on following points in future to cope with the global challenges:
1) Customer Service
2) Online banking with core banking facility
3) ATM locations at prominent places
4) Security in Financial Transactions
5) Safe Deposits
6) Use of Advanced tools and software’s to provide service to customers
7) Regulatory framework for compliance
8) Need for asset–liability Management
9) Different types of products and services offered by banks
10) Chaining nature of banking operations.
11) New channels to provide banking services like Phone banking, Tele banking, Internet Banking and Mobile Banking

Conclusion

The Banking in India is becoming the major player in India economy by which the strict policies to safeguard the assets of the customer in terms of deposits, lockers, and other facilities and services provided by the banks in India. The banks have sustain their profits in present recession by which it is implied that the banks can further use advance technology to serve the customers. The paper highlights the need and basic concepts of the banks with future scope in terms of reaching to the large masses.

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Annexure

Formula evolved by Dr. C. B. Memoria

1) Character + Capacity + Capital = Safe Credit
2) Character + Capacity + Insufficient funds = Fair credit risk
3) Character + Capacity – Capital = Limited Success
4) Character + Capacity – Impaired Character = Doubtful Credit risk
5) Capital + Capacity – Character = Dangerous risk
6) Character + Capital – Insufficient capacity = Fair credit risk
7) Character + Capital – Capacity = Inferior Credit Risk
8) Character – Capital – Capacity = Fraudulent one