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A Survey of the Banking System in India

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Abstract- Bank is the most accessible means in India or other countries to keep money safe. The history of banks in India is very old which started around 1770. Earlier all the banks used to be private and they used to deposit people's money and earn profit by taking it on interest, but the government did not get any benefit from it because the profit on it used to be private persons. After government undertaking of banks, people's trust in the banks increased and all the business and transactions etc. started being done through banks, due to which the country's economy also started getting benefits. In this paper we have given a detailed description about the history of banks in India.

Key words: Bank, Money, Business, Deposit, Withdrawal, Loan etc.

History.

"Banking in India, is important for the economic prosperity of the country. With the development of technology, and considering the demands of the people, there have been major changes in the banking system and administration over time. Before India's independence, in 1947 banking in India had a long history. The development of the banking sector can be divided into three parts or periods:" (Byjus, N.D.).

1. The initial phase which started from 1770 to 1969.
2. Nationalization phase which started from 1969 to 1991 and
3. Liberalization or banking sector reform phase which started in 1991 and continues till date.

Pre-Independence Period, 1786–1947

India's first bank was the "Bank of Hindustan", which established in 1770 and based in Calcutta, which was the capital of India at that time. However, this bank failed to function and closed its operations in 1832. More than 600 banks were registered in the country during the pre-independence period, but only a few managed to survive. After the establishment of Bank of Hindustan, many other banks were established in India. They were as follows:

- The General Bank of India (1786 - 1791)
- Avadh Commercial Bank (1881–1958)
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843).

During the British rule in India, the East India Company had established three Presidency Banks: which was the Bank of Bengal, the Bank of Bombay and the Bank of Madras and were called the Presidential Bank. These three banks, were later merged into a single bank in '1921' which was called 'Imperial Bank of India'. Later in 1955, Imperial Bank of India, was nationalized and renamed as 'The State Bank of India' which is currently the largest public sector bank in India. (Byjas, ND).

Given below is a list of other banks that were established during the pre-independence period:

- Allahabad Bank (1865)
- Punjab National Bank (1894)
- Bank of India (1906)
- Central Bank of India (1911)
- Canara Bank (1906)
- Bank of Baroda (1908)

If we talk about the reasons why many major banks were failed to survive during pre-independence period, the following conclusions can be drawn:

- Indian account holders had become fraud.
- Shortage of machines, manpower and technology.
- It contained human errors and was time consuming.
- Fewer facilities which were not doing all types of services.
- Lack of proper management skills or proper monitoring.

"In the post-independence period, which has seen some significant changes in the landscape of the banking industry and has evolved a lot till now." (Byjas, ND).

Post-Independence Period (1947-1991)

At the time when India got independence, all the major banks in the country were privately headed, which was a major concern because the people of rural areas still depended on moneylenders for financial support and heavy interest rate was charged.

With the aim of solving this problem, the government decided to nationalize the banks. In this phase these banks were nationalized under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalized in the year 1949.

State Bank of India was formed in 1955 and another 14 banks were nationalized between 1969 and 1991 time frame. These were all banks whose national deposits were more than 50 crores. (Byjas, ND).

Given below is a list of all the 14 banks that 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. Dena Bank
7. Canara Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. UCO Bank
13. Union Bank
14. United Bank of India

Another 6 banks were nationalized in the year 1980, taking this number to 20 banks. These banks include:

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

Apart from the above 20 banks, SBI also had seven subsidiaries which were also nationalized in 1959:

1. State Bank Of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner and 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 into State Bank of India in 2017, except State Bank of Saurashtra and State Bank of Indore, which were merged in the year 2008 and 2010 respectively.

Regional Rural Banks were established in the year 1975 in India for the development of rural areas or rural areas in India. (Byjas, ND).

Effect of Nationalization

Nationalization of banks was justified for several reasons. The impact of nationalization of banks in India is outlined below:

- As a result, finances increased or positive trend, improving the economic condition of the country.
- New rules and regulations have increased efficiency.
- To aid and encourage the rural and agricultural sectors of the country.
- It created and opened up a large number of employment opportunities for Indians.
- Bank profits were used by the government for the benefit of the people and social benefits.
- Work efficiency was improved.

This period after independence saw a lot of changes in the banking industry of India as well as the development of banking sectors. (Byjas, ND).

Liberalization period (1991-till date)

Once banks are formed in the country, they must be regularly monitored and regulated to maintain control over their operations. The current phase of the banking sector is critical for both banking and economic development.

The Government decided to constitute a committee under the direction of Shri. M.Narasimham To oversee or supervise various changes in the Indian banking industry to give stability, profitability and control functions to nationalized public sector banks.

The most important development during this period was the establishment of private sector banks in India. The Reserve Bank of India (RBI) has granted licenses to ten private sector banks to operate in the Indian banking industry. These banks include:

1. Global Trust Bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd Bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Vikas Credit Bank

Other measures taken include:

- Establishment of branches of various foreign banks in India.

- Banks cannot be nationalized anymore.
- The committee announced that the Reserve Bank of India and the government would treat both public and private sector banks in India equally.
- Any foreign bank can enter into joint venture with Indian banks in India.
- Payment banks were introduced with developments in the field of banking and technology or people's need.
- Small finance banks were set up and allowed to set up their branches all over India.
- A major part of Indian banking growth goes online with apps available for internet banking and fund transfers.

Thus, the history of banking in India shows that with the times and the needs of the people, major developments have been made in the banking sector with the aim of developing the banking sector, the customer and the nation. (Byjas, ND).

Acts and Reforms in the Banking Sector

As a part of the growing trends towards globalization, and economic liberalization, various banking reforms and acts have been made and initiated in India to upgrade the health and financial strength of banks and to improve the operational efficiency of banks, so that, Indian banks can meet globally accepted performance standards.

List of Important Banking Reforms and Acts:

The introduction of reforms in the Indian banking sector was based on the recommendations of various committees. The committees proposing reforms in the banking sector are as follows:

- Narasimhan Committee I - 1991
- Verma Committee - 1996
- Khan Committee - 1997
- Narasimhan Committee II - 1998

The reforms in the banking sector were carried out in the following two phases;

The first phase of reform focused on strengthening the policy framework, institutional framework and financial health-

- Reforms in the policy framework, including deregulation of interest rates, lowering the cash reserve ratio, phasing out the statutory liquidity ratio, and expanding the scope of priority sector lending by tying lending rates to the quantum of advances is included.
- Enhancement of the institutional framework: This includes recapitalization, improving the supervisory system and promoting a competitive environment within and outside banks.
- In order to enhance the financial health of the banking sector, the committee implemented conservative standards and made efforts to reduce the number of non-performing assets (NPAs).

The second phase of banking sector reforms focuses on rehabilitating the infrastructure of the banking industry, human resource development and technological progress to strengthen the basic foundation of the banking system.

Functions of Banks

A bank is a legal entity that takes deposits that can be withdrawn or invested at any time. Banks assist the public in managing their finances by allowing them to deposit their savings in banks so that they can be used whenever they need it.

Banks take deposits from both the general public and businesses. It provides two security measures to the depositors -

1. Security of deposits.
2. Withdrawal of deposits as and when required.

Banks also pay interest on deposits to entice customers to deposit money with them. This interest is added to the principal deposit amount and acts as a significant incentive for the depositor. In addition, it encourages people to save money. The bank also provides loans or overdrafts on the basis of deposits, which contribute to the economic progress of the country and the well being of the general public.

Consequently, it is important to know what the main functions of a bank are. There are two types of major functions of banks:

1. Primary functions.
2. Secondary work.

Primary Functions of the Bank

All banks are required to perform major or critical basic services, such as:

1. Accepting Deposits
2. Giving Loans and Advances

1. Accepting Deposits

A very basic but important function of all commercial banks is to manage public funds. To provide safe custody of savings and to pay interest on savings to the depositors. The bank accepts various types of deposits from the public such as:

Saving Deposits: Encourages savings habits among the masses. It is suitable for common people. The interest rate on this account is low. There is no restriction on the number and amount of withdrawals but now some banks have introduced some restrictions. Savings deposit accounts can be opened in the same name or in joint names. Depositors are only required to maintain a minimum balance which varies among different banks. Also, the bank offers ATM cum Debit Card, Check Book and Internet Banking facility on these types of accounts.

Fixed Deposit: It is also known as Fixed Deposit. Money is deposited for a fixed period or period. No withdrawal of money during this period allowed, although it may be a premature break if necessary. Banks levy penalty for premature withdrawal if depositors make premature withdrawals and the penalty varies from bank to bank. Since the lump sum amount is paid in one go for a fixed period, the rate of interest is high but it varies according to the tenure of the deposit.

Current Deposit: This type of account is opened by businessmen. In this type of account, the account holders get the facility of overdraft. These deposit acts as a short-term loan to meet regular or urgent needs. In order to maintain reserve for undisclosed demands for overdraft, the bank charges a higher rate of interest along with charges for overdraft facility on such accounts.

Recurring Deposit: A fixed amount is deposited in the bank regularly at fixed intervals or fixed times. Depositor can be withdrawn money only after the expiry of a certain period. Higher interest rates are paid on recurring deposits as it offers the advantage of compounding rate of interest and enables depositors to collect larger amounts later. This account type is operated by salaried individuals, housewives, and small businessmen.

2. Giving Loans and Advances

Deposits accepted from the public are used by banks to grant advance loans to customers or businesses to meet their uncertainties or need for funds. Bank charges higher interest rate on loans and more advance, than given to FD. This difference of interest rate between the lending interest rate and the interest rate for deposits is basically the banks' profit. The bank provides the following types of loans and advances to the customer:

- Bank overdrafts,
- Cash Credit,
- Loan,
- Discounts in Bills of Exchange.

Secondary functions of the bank

Secondary functions of banks are divided into two categories:

1. Agency Functions
2. Utility Functions

1. Agency Functions of the Bank

Banks are agents for their customers; Hence it has to perform various agency functions as given below:

- **Transfer of Funds:** Transfer of funds from one branch/location to another account or from one account to another.
- **Periodic collection**: To collect periodic collection of dividend, salary, pension and so on on behalf of the customers.
- **Periodic Payment:** To make periodic payment of rent, electricity bill, salary etc. on behalf of the customer.
- **Collection of cheques:** Like collecting money from bills of exchanges, the bank collects check money through its customers' clearing section which is now a day's electronic clearing system.
- **Portfolio Management:** It deals with buying and selling of shares and debentures of clients and other related facilities.
- **Other Agency Functions:** The Bank acts as the representative of its customers to other institutions. It acts as an executor, trustee, administrator, advisor or many other functions for the client.

2. Utility Functions of the Bank

- Issuance of letters of credit, demand drafts, travelers checks etc.
- To provide custodian service to the customer such as safe custody of valuables, important documents and securities. By providing safe deposit vault or locker.
- To provide foreign exchange transaction facilities to the customers.
- Underwriting service of shares and debentures.
- Transactions in foreign currency.
- Social Welfare Programme.
- Project Report.
- Permanent guarantee from our customers. (Bank Functions, n.d.)

List of different types of banks in India

Banks can be classified into different types. Types of Bank in India are given below:-

- Central bank
- Cooperative bank
- Commercial Bank
- Regional Rural Banks (RRBs)
- Local Area Banks (LABs)
- Specialized Banks
- Small Finance Banks
- Payment Bank

Central bank:

Reserve Bank of India is the central bank of our country, which is in charge of the entire financial sector of the country. Each country has a central bank that supervises and operates all other banks in that country.

The central bank's major role is to serve as the government's bank, guiding, regulating and controlling other financial institutions in the country. Some of the functions of the central bank of the country are listed below:

- Advising other banks
- Release money
- Executing monetary policies
- To supervise the banking sector

To put it another way, the country's central bank is also described as a banker's bank because it assists other banking institutions and controls the country's banking sector under the direction of the government.

Cooperative bank:

These banks are organized and controlled by an Act of the State Government. They give short term loans for agriculture sector and other allied activities which do not do all kinds of work done by other commercial banks. The main goal of co-operative banks is to promote social welfare by providing concessional loans to the needy. They are arranged in a 3-tier structure-

- **Tier 1-State Level** - State Co-operative Banks regulated by RBI, State Government, NABARD
- **Tier 2 - District Level** - Central/District Co-operative Banks
- **Tier 3 - Village Level** - Primary Agriculture - Co-operative Banks

Commercial Bank:

- Established and organized under the Banking Companies Act, 1956
- They work on commercial basis and its main objective is to earn profit.
- They have an integrated structure and are owned by the government or a private entity.
- They work in all areas from rural to urban
- These banks generally do not charge concessional interest rates unless directed by the RBI or the government.
- Public deposits are the main source of funds for such banks.

Commercial banks can be divided into three categories:

1. **Public Sector Bank** - A bank where the government or the central bank of the country holds majority of the shares.
2. **Private Sector Bank** – A bank where majority of the shares are owned by a private organization or by an individual or group of people
3. **Foreign Banks** - Banks that have their headquarters abroad and branches in our country come under this type of bank.

Regional Rural Banks (RRBs):

- These are the special type commercial banks that provide concessional loans to the agricultural sector and rural sector.
- RRBs, were established in the year '1975' and are registered under an Act, "the Regional Rural Banks Act, 1976".
- RRBs are a joint venture between the central government (50% share), state government (15% share), and a commercial bank (35% share).
- From the year 1987 to the year 2005, 196 Regional Rural Banks have been established.
- From 2005 onwards the government started merging RRBs thus reducing the number of RRBs from 196 to 82

- An RRB cannot open its other branches in more than 3 geographically connected districts.

Specific Banks:

Some banks are established for specific purposes only. Such banks are called specialized banks. Some specialized banks are:

- **SIDBI:** Small Industries Development Bank of India for providing loans to small scale industries or businesses. With the help of this bank small scale industries are financed with latest modern technology equipments
- **EXIM Bank:** Export and Import Bank. This type of bank generally facilitates loan or other financial assistance to an exporting or importing firm.
- **NABARD:** National Bank for Agriculture and Rural Development People can visit NABARD to get any kind of financial assistance for rural, handicrafts, village and agricultural development.

Small Finance Banks:

As the name suggests, this type of bank looks after the micro industries, small farmers and the unorganized sector of the society by providing them loans and financial assistance. These banks are governed by the central bank of the country. Given below is the list of small finance banks in our country:

- AU Small Finance Bank
- Equitas Small Finance Bank
- Jana Small Finance Bank
- Northeast Small Finance Bank
- Capital Small Finance Bank
- Fincare Small Finance Bank
- Suryoday Small Finance Bank
- Ujjivan Small Finance Bank
- Esaf Small Finance Bank
- Utkarsh Small Finance Bank

Payment Bank:- A new form of banking, Payments Bank has been envisioned by the Reserve Bank of India. People having an account with a payments bank can only deposit an amount up to Rs.1,00,000/- and cannot apply for a loan or credit card under this account. Payments can be made through banks with the options of online banking, mobile banking, ATM issuance and debit cards. Some of the payment banks in our country are listed below:

- Airtel Payments Bank
- India Post Payments Bank
- Fino Payments Bank
- Jio Payments Bank

- Paytm Payments Bank
- NSDL Payments Bank

Role of banks in the development of economy in India- Banks have an important or essential part in economic development in today's economic structure. Commercial banks, which are an essential element of the global financial system, perform important functions. Customers are motivated to save by commercial banks. They are mobilizing savings to invest in different sectors of the economy. Commercial banks facilitate capital generation and channelization by acting as a coordinating role between savings and investment, or the flow of money. When credit is used for manufacturing, it greatly expands production and therefore supports economic growth. Foreign commerce and foreign trade promotion are greatly facilitated by commercial banks. Commercial banks contribute to the regional development of the country by providing critical financial infrastructure and funding to underdeveloped areas. Agricultural financing is provided through various programmes. Commercial banks also help in promotion of primary industries. Commercial banks are always ready to assist businesses in growing and increasing their market share. Commercial banks help the government achieve almost every goal of planned economic development. (Hantal, n.d.)

1. Capital Formation- Banks play a vital role in the formation of capital, which is essential for the economic progress of any country. They use their nationwide network of branches to channel and encourage small savings from people across the country and make them available to creative causes. If banks do not perform this duty, the savings either remain dormant or are used to create assets that are low on the priority scale of planning priorities and are bad for the development of the nation.

2. Building Credit- Credit is created by banks to provide more finance for project development. Credit expansion leads to higher production, employment, sales and other related activities, resulting in faster economic growth.

3. Channelizing Funds into Productive Investments- The primary function of commercial banks but not their only function is, 'capital formation'. Along with boosting the production of the country, the accumulated savings should be allocated to different sectors, occupations and sectors. Then and only then it can be argued that the bank had an important part in the economic development of the country. Commercial banks contribute to the economic development of the country by the creation and channeling of capital.

4. More Resource Utilization- The accumulated savings of banks can be better utilized for progress in various areas of the country. This guarantees that resources are used more efficiently and effectively.

5. Promoting growing and right type of industries- Banks contribute to the growth and development of industries by providing loans to the right people at the right time and at the right rate of interest. They can contribute not only to the industrialization of the country but also to its economic development in this way. They provide loans and advances to businesses whose products are in high demand and popular. Manufacturers, in turn, boost their production by introducing new and innovative manufacturing processes, thereby contributing to the development of the country.

6. Bank Rate Policy- In our country, RBI regulates the rate of interest paid on deposits received by customers, as well as the rate of interest that banks charge customers on loans taken by them. Sanctions can limit the inflow and outflow of funds using this method.

7. Bank Monetized Loans- Manufacturers and wholesalers cannot increase their sales unless they offer goods on credit, yet credit sales can result in capital lockup. As a result, the company's output may decrease. Banks are now able to lend money to businesses by discounting their bills of exchange, allowing them to conduct their operations without any hassles or working capital stress.

8. Finance to Government- Governments act as promoters of industries in developing countries that need or need financial support. Banks provide long-term loans to the government by investing some of their money in government securities, as well as short-term loans by purchasing Treasury bills or bonds.

9. Banker as Employer- The banking industry in India has grown significantly since the nationalization of large banks. Branches of the bank have opened up in practically all villages and surrounding areas, resulting in establishment of new job prospects and economic growth.

10. Banks are entrepreneurs- In recent years, banks have been engaged in a variety of secondary functions, such as entrepreneurship development. Entrepreneurship development is a long and difficult process. This includes creation of new projects, identification of specific projects suitable for local conditions or environment, encouraging new entrepreneurs to take up these well-planned tasks, projects, and the provision of consultancy services such as technical, managerial, and other guidance. Banks provide 100% credit for initiatives that have proven to be useful, technically feasible, sound and financially sustainable. As a result, commercial banks play a vital role in the development of entrepreneurship in the country.

Conclusion- So it can be said that the more powerful the banking system in any country, the more powerful that country will become, because the economy of the country is dependent on the banking system itself. Bank is the backbone of the economy of any country because all the business, savings schemes etc. are deposited in the bank itself and this deposited money is used to improve the economy of the country, so the more prosperous the country's banking system will be. The stronger the country's economy will be and the more that country will progress.

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