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Banking in India- A Success Story

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Abstract:
Indian Banking system by and large has shown a very positive attitude towards various challenges which came up time and again. Be it the Great Depression or the sudden fall of some of the world's leading banks. An attempt in this article has been made to assess the positives of the core of Indian Banking System, which favored it to stand against the waves of time. Barring some of the critics we tried to analyze its strengths and quality features.

Keywords: *Attitude, Banking, Indian banking system*

1. Introduction

It all started in the eighteenth century that the concept of modern Banking system in India came into existence. Among others, Bank of Hindustan is primarily recognized as the first modern bank of India under the reins of Britishers, which are credited to take this lead. It was established in 1770, but somehow could not last for very long and liquidated during 1829-32. The second bank that is General Bank of India established in 1786, and the same went into liquidation in 1791. But there imprints can still be found on the modern setup of the Indian Banking system.

Whenever we talk about the Indian Banking we can never imagine it without a special mention for State Bank of India which took shape with the passage of time and during its long journey, now stand tall among many of its peers. As a well-known fact todays SBI (State Bank of India) started off as Bank of Calcutta on June 2, 1806 and in 1809 due to an external reconstruction was renamed as Bank of Bengal. Bank of Calcutta was among one of the three banks started by the Britishers, Bank of Bombay and Bank of Madras were the other two. All of these three banks were merged in to one bank which was named as, Imperial Bank of India in the year 1921, and post-independence it came to be known as todays State Bank of India. The Imperial Bank acted as the Central Bank for many years, but in 1934 with the establishment of Reserve Bank of India (RBI), the powers were transferred to RBI. During its long journey it took shapes and in 1960 came the landmark State Bank of India (Subsidiary Banks) Act, 1959, which entails SBI to have control over its 8 subsidiary banks. Today SBI has only 5 associate banks namely:

1. State Bank of Mysore (founded 1913)
2. State Bank of Patiala (founded 1917)
3. State Bank of Hyderabad (founded 1941)
4. State Bank of Travancore (founded 1945)
5. State Bank of Bikaner & Jaipur (founded 1963)

Apart from the SBI, Indian Baking system could never have been developed without the unending support of various small scale Banks, cooperative Banks, and other such banks. In 1969 under the then Prime Minister of India Mrs. Indira Gandhi, first wave of nationalization came and 14 major

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private banks were nationalised. In 1980 the second nationalization came and 6 more private banks were nationalised. As of now there are 19 nationalised banks and all of them together are the major lenders in the Indian Economy. They are collectively so large that they actually guide the Indian Banking System.


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14 TOP BANKS ARE NATIONALISED

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Nationalised banks

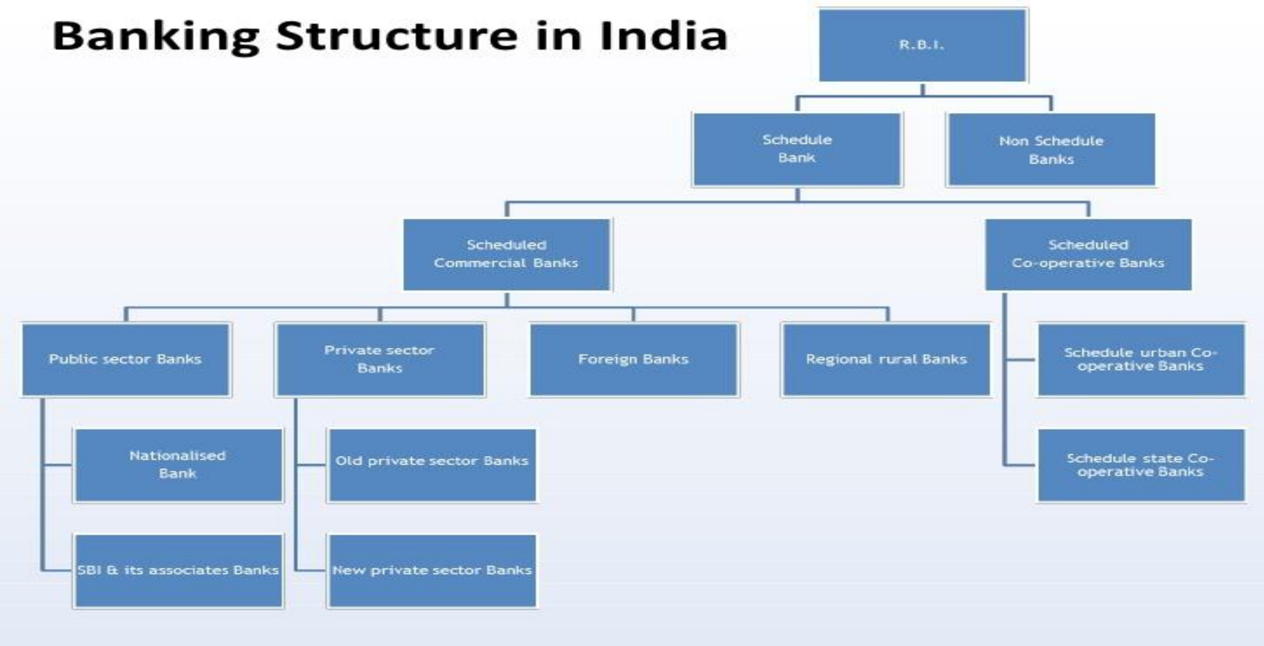
Nanda called to Delhi

Assam flood worsens: heavy havoc

P. M. to keep Finance

City bankers

In the present day, the structure of the Indian Banking has been classified broadly into Scheduled and Non Scheduled banks. A scheduled bank is the one which is mentioned in the Second schedule of the Reserve Bank of India, 1934, remaining others are non-scheduled banks.



Scheduled banks are further classified in to Scheduled commercial and scheduled cooperative banks. It must be noted that the term commercial banks includes both scheduled and non-scheduled banks which are regulated under the Banking Regulations Act, 1949.

All together there are:

1. 52 Urban Cooperatives
2. 16 State Cooperatives.
3. 40 Foreign Banks
4. 196 Regional Rural Banks

5. 27 Public Sector Banks, out of which 8 are State Bank of India and associate Banks and 19 Other Nationalised Banks
6. 30 Private Sector Banks out of which 22 are Old and 8 are New.

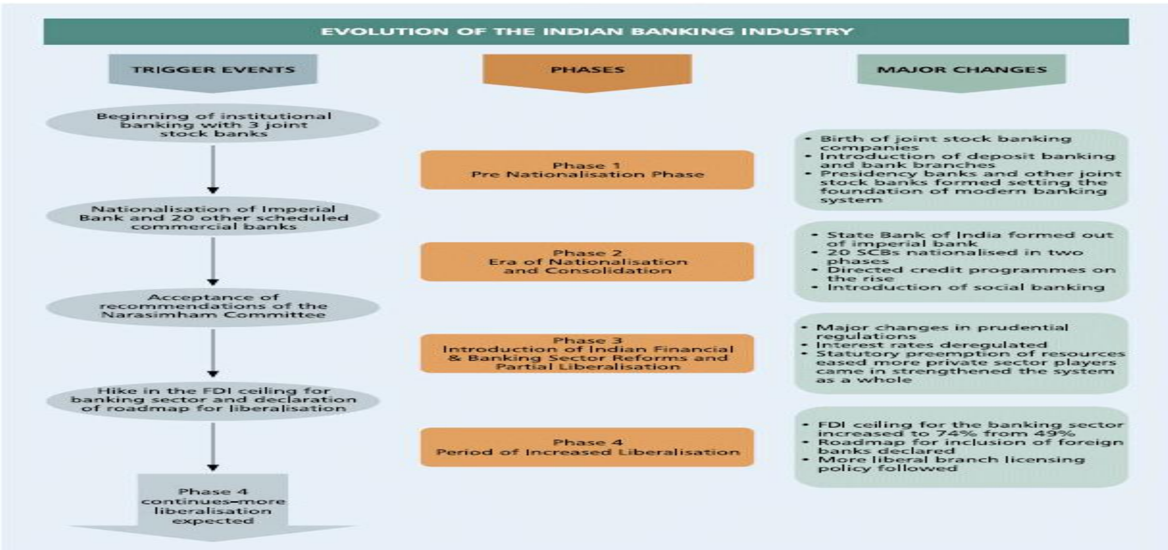
2. Banking Chronology History

Tracing back the history of Banking system in India the ancient text mentions the concept of "usury"; even the sutras and Jatakas have its mention. But it was during the Britishers that the modern concept of banking came in with the establishment of Union Bank of Calcutta in 1859, by the British traders, initially as the private joint stock bank and then as partnership. The oldest joint stock bank in India, which is still operating is the Allahabad Bank. During the same period some foreign banks also started their operations in India particularly in Calcutta, as it was at that time the focus for every colonial power.

The "Comptoir d' Escompte de Paris" opened a branch in Calcutta in 1860, followed by a branch in Bombay in 1862, and then branches in Madras and Pondicherry, and after that the French possession, followed. HSBC also spread its roots and established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking centre.

Oudh Commercial Bank was the first entirely Indian Joint Sector Bank which was established in 1881 in Faizabad, but the same went into liquidation in 1958. Then came Punjab National Bank in Lahore in 1894, which survived the highs and lows of time and is now one of the largest banks in India. When Swadeshi Movement took place it inspired many local businessman and political figures to create Indian banks, and during this period that we saw a wave of banks coming into picture in between 1906 and 1911. The major among them which are still prevailing in present days are The South Indian Bank, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank, and Central Bank of India. After the independence Indian Economy went into a great turbulence, and during this time government of India decided to establish India as a mixed economy. The government at that time took some major decisions to reform the banking sector. Among many others, following are the major steps taken by them:

1. The Reserve Bank of India, India's central banking authority, was established in April 1935, but was Nationalised on January 1, 1949 under the statute "Reserve Bank of India (Transfer to Public Ownership) Act, 1948".
2. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India".
3. The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.



3. Effect of New Economic Policy

During the years beginning 1991-92, a process of liberalization, privatization and globalization began. Its main impact on the banking sector was to raise the allocative efficiency of available savings, promoting accelerated and equitable growth of the real sector and improving the return on investments. Towards this end, a multi-pronged reform strategy was initiated encompassing all areas of economic activity. In the financial sector specifically, the thrust of the reforms was to promote a competent, diversified and efficient financial system. While these reforms were underway, the world economy also witnessed significant changes, coinciding with the movement towards global integration of financial services.

After the two waves of Nationalization, i.e. in 1969 & 1980, and when the then Indian government embarked a brand new policy of liberalization, privatization and globalization, it paved the way for licensing of some private sector banks. These were known as "New Generation tech-savvy banks", which later amalgamated with HDFC bank, ICICI Bank, Axis Bank (formerly UTI Bank) and Oriental Bank of Commerce. After sometime the foreign Direct Investment in the Indian Banks was also relaxed and now stands at even 74% in some areas with some restrictions.

4. Credit system and its Outreach

Since beginning and during the recent times, it is being recognized that large segments of the rural population face 'financial exclusion' from the advanced formal banking sector, and continue to depend upon the traditional informal sector, mainly upon the zamindari and sahukari system. Policy makers have pointed out two main areas which are of due concern: timely flow of credit to the needy and deserving and priority sector lending.

As regards the first issue of credit delivery, the 'lending inertia' on the part of a midsized commercial bank has been well documented in an influential study. While recognizing this fact, the contemporary policies have placed major emphasis on streamlining credit delivery through scores of measures, including, among others:

1. the scope of infrastructure lending has to widen;
2. revamping the rural credit delivery system by envisaged restructuring of the rural banking segment;
3. giving due recognition to the priority sector lending;
4. introduction of many other innovative instruments like the Kisan Credit Cards adding those with various value-added features; and
5. providing all possible encouragement.

As regards to the second issue, the motive of priority sector has been substantially enlarged and has been defined in the modern context, interest rates on this priority sector lending are now free flowing on the market forces (except for a cap on small loans) and substitute avenues of investment permitted, which in turn makes the priority lending even more flexible than it used to be, in line with the major recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System.

5. Technology in Indian Banking

The decades of 1900 and 2000's is seen, till today as the tech boom in the economy. The IT revolution has had a great impact on the banking system in India. Many banks took the initiative and went online. SBI has developed a system of online banking and termed as CBS (Core Banking Solution), which integrated all its branches with one online real time software. The success story is followed by all other banks, and now every bank is online, which indeed is the call of the hour.

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RBI has taken a number of steps to modernize the banking in India and have also set up a number of committees to co-ordinate and define banking technology. Among others it includes the following:

1. Committee on Mechanization in the Banking Industry (1984): In 1984 this committee was formed under the esteemed guidance and chair of Dr. C Rangarajan, Deputy Governor, Reserve Bank of India. The major recommendations of this committee were introducing MICR technology in all the banks in the metropolises in India. This provided for the use of standardized cheque forms and encoders.
2. Committee on Computerization in Banks (1988): In 1988, this committee was again formed under the chairmanship of Dr. C Rangarajan. It emphasized that settlement operation must be computerized in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It further stated that there should be National Clearing of inter-city cheque at Kolkata, Mumbai, Delhi, Chennai and MICR should be made operational. It also focused on computerization of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerization began from 1993 with the settlement between IBA and bank employees' associations.
3. Committee on Technology Issues relating to Payment systems, Cheque Clearing and Securities Settlement in the Banking Industry (1994): In 1994, the committee was set up under Chairman W S Saraf. It emphasized Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier. It also said that MICR clearing should be set up in all branches of all those banks with more than 100 branches.
4. Committee for proposing Legislation on Electronic Funds Transfer and other Electronic Payments (1995): This committee also emphasized EFT system.

6. Merger and Acquisitions in recent times

Some banks have grown pretty large in recent times, and Mergers and acquisitions has taken place a lot. Some of the major:

S. No.	Year of M&A	Banks Merged	New Bank
1	2000	Times Bank with HDFC Bank	HDFC Bank
2	2001	ICICI Bank with ICICI Bank of Madura	ICICI Bank
3	2002	Banaras State Bank with Bank of Baroda	Bank with Bank of Baroda
4	2002	ING bought stake in Vysya Bank	ING Vysya Bank
5	2003	Nedungadi Bank with Punjab National	Punjab National Bank

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		Bank	
6	2004	Global Trust Bank with Oriental Bank of Commerce	Oriental Bank of Commerce
7	2005	Bank of Punjab with Centurion Bank	Centurion Bank of Punjab
8	2007	Lord Krishna Bank with Centurion Bank of Punjab	Centurion Bank of Punjab
9	2008	Centurion Bank of Punjab with HDFC Bank	HDFC Bank
10	2010	Bank of Rajasthan with ICICI Bank	ICICI Bank
11	2014	ING Vysya Bank with Kotak Mahindra Bank	Kotak Mahindra Bank

7. Conclusion

With the passage of time and the maturity of progress, Indian Banking system has actually surpassed the expectations. It has also shown an unprecedented growth to the world at large. Some of the Indian banks are now among the best in the world, and the transparency they have shown is indispensable.

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