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Progress Of The Indian Banking

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ABSTRACT:

The banking system in India has rich history, balanced present and incredible future prospects in competitive world. Indian Banks have developed them gradually as per dynamic needs of customers. Banks are one of the most vital organizations for proper health of the economy and GDP of the country. It also has a significant role in keeping the faith of customers making them to feel their belongings like gold and money are safe in banks. In today's world, Banks has to offer all significant facilities to maintain healthy Customer – Banker relationship.

The study also covers varied topics that clearly specify how banking institutions evolved themselves in India. Such topics are the History of Indian Banks, Nationalization of Indian Banks, Banking System in the British Era, Banking after Independence, Globalization of Banks and Banks in the Modern Era.

Keywords: Banking System, Loan Processing, Credit Cards, ATM, and NPA.

INTRODUCTION:

Some scholars believe that the word 'Bank' is derived from the Greek word 'Banque; which means 'Bench'. In ancient times the Jews entered the money trade sitting on the benches in the market place .When the businessman was not in a position to fulfill his 'Bench' obligation where he sits, does business and it broke into pieces and he was considered Bankrupt. So both the word 'Bank' and 'Bankrupt' are said to have their origin in this word 'Banque'.

There are others, who do not believe that the word 'bank' is derived from a German word 'Back' means a joint-stock fund. As the Germans occupied Italy, the name was Italized, the The word 'back' became 'banco' and eventually became 'Bank' under English.

Banks are considered to be the backbone of the country's financial system. They also play an important role in the economic development of the nation. The primary function of the banks is to include receipts, deposits and use these deposits for a binding purpose. It serves as a link between people with more money and people in need of money. Generally, the national banking system enhances economic growth of the nation.

The current global crisis has raised various issues regarding efficiency and the solvency of the banking system in the presence of policy makers. Now, the problem is almost gone, The Government of India (GoI) and the Reserve Bank of India (RBI) are trying to draw some lessons. RBI made the necessary changes to its policy to ensure price stability in the economy. Main purpose of these changes is to increase the efficiency of the banks as a whole and individual institutions .Therefore, it is important to measure the efficiency of the Indian Banks in order to improve the health of the banking system.

BRIEF PAST OF INDIAN BANKS:

The bank existed in India during the Vedic period (from 2000 BC to 1400 BC). Loans and usury were rampant in those days. Borrowing money was considered an old art. During Aryan's era, money lending was a common practice. In those days, borrowing was viewed as a commodity one of the four honest callings, the other three are 'plowing, trading and harvesting'.

There are references to lending and banking in two epics namely Mahabharata and Ramayana

relating to daily life that occurred between 1000 and 700 BC. In between then banking has become a full-fledged business. Nowadays, the work is done by banks where most of these activities are located already done by the bankers during the Smriti period, such as; accepting deposits, giving secured and unsecured loans, which serve as bail for their clients, provide kings with regular loans. The biggest problem, acting as a treasurer and bank manager in the government, issuing and controlling the type of money of the world.

By the time of Mughal, 'traditional banks' were still very much in vogue. There was no village in India without its financier or Sharoff who funded trade and commerce. Currency notes and coins that were in operation at the time provided loans to a highly profitable business. This was a time when traditional banks enjoyed a prominent position in society, to be which the only source of funding for its community. Rulers and governments also relied heavily on them, appointed them as tax ore revenue collectors. However, a major collapse in the banks occurred at that time as Muslims considered taking interest as a sin.

Modern banks originated in India only from the beginning of the Nineteenth century. The first commercial banks were set up in India by East India Company employees. These banks were known as the 'Agency House'. In particular it has been the commercial crisis involving bank's business and other activities like trading and speculation.

Subsequently, Indian Banking began transforming in the last decade of the 18th century when the Bank of Hindustan was first founded in 1770. Three Presidential Banks namely, Bank of Calcutta, Bank of Bombay, and the Bank of Madras were established in 1806, 1840 & 1843 respectively.

Bank of Calcutta, later renamed as Bank of Bengal in 1809. Later, all Presidency Banks merged and established as the Imperial Bank of India on 27thJanuary 1921. After Independence, The Imperial Bank of India was renamed as the State Bank of India in 1955. Consecutively, the State Bank of India became India's largest and oldest bank.

In accordance with the provisions of the State Bank of India (Subsidiary Bank) Act, 1959, SBI became subsidiaries of eight banks belonged to princely states prior to their nationalization and operational takeover that occurred between September 1959 and October 1960. The government integrated these banks into the State Bank of India system to expand its rural outreach. In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est.1944).
On 26th August 2010, State Bank of Indore officially merged into State Bank of India. On 1st April 2017, State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides Bharatiya Mahila Bank (BMB), merged with SBI. After the merger, SBI was ranked 52 in the world in terms of assets in 2015 according to Bloomberg Report. As on the April, 2020 S&P Global Market Intelligence reports the hundred largest banks in the world, State Bank of India placed at 55th rank and the ranking was based upon assets as reported.

At present, only 12 Public Sector Banks are into operation past the formulated merger on 01st April 2020. Currently around 21 Private Banks are operating in India.

CRISIS IN INDIAN BANKS:
Banks in India experienced a severe recession during 1913-1917, as 108 banks failed again another 373 banks failed in 1922-1936, which was followed by the failure of 620 banks in 1937- 1948.

Co-operative banks began operating in India in 1904 for the sole purpose of financing agriculture. The co-operative banks are now in three categories, namely, (a) Primary

Cooperative Banks at the Rural level; (b) Central Cooperative Banks at the district level; (c) State Cooperative Bank at State level.

The establishment of the Reserve Bank of India in 1935 marked as a new beginning in the history of the Indian banking system. The Banking Regulation Act 1949 gave greater power Reserve Bank of India to control, govern and strengthen the banking system. Subsequently, the RBI's efforts were largely focused on establishing savings, inclusive banking structure and redesign of the credit system for the growing economic need of the nation.

BRITISH AGE:

During the British time, merchants began the Union Bank of Calcutta in 1869, which was initially started as a joint stock association but over time it moved into Partnership. Allahabad Bank started in 1865, was oldest Joint Stock Bank in India, still not the first one though, the first bank was India's top bank, founded in 1863 and survived until 1913. But due to financial failure, it was transferred to Alliance Bank of Simla later.

With the beginning of the 20^{th} Century, the Indian economy went beyond a period of relative stability. Almost 50 years have passed since the Indian revolution, improving the social, industrial, and other infrastructures. The Indians had established small banks, many of which worked for certain ethnic and religious communities.

The Presidency Banks had monopoly, but there were also exchange banks and a number of joint stock Indian banks. All of these banks operated in different parts of the economy. Exchange banks, mostly European focused on financing foreign trade. India's Joint Stock Banks often lacked the experience and maturity to compete with the presidency and exchange banks. This section allows Lord Curzon to note, "In terms of banks it seems to be behind the times. We are like an old sailing ship, divided by solid wooden heads into separate and heavy compartments."

The period between 1906 and 1911 saw the establishment of banks inspired by the Swadesi movement. The movement encouraged local businessmen and politicians to establish banks for the Indian community. Several established banks of the past such as Catholic Syrian Bank, South Indian Bank, Bank of India, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India exist to this day.

The head of the first office was British, Sir Osborne Smith (1 April 1935), and CD Deshmukh (11 August 1943) was the first Governor of India. On 12 December 2018, Shaktikanta Das, a former Finance Secretary in the Indian Government, began his journey as the new Governor of the RBI, taking over from Urjit R Patel.

The Indian banks were faced a lot of challenges during the First World War (1914-1918) Second World War (1939-1945) until India gained independence. The years of the First World War were turbulent, and they suffered greatly as banks collapsed despite the fact that India's economy was growing indirectly because of war-related economic activities. At least 94 banks in India failed between 1913 and 1918 as shown in the following table:

Years	Number of banks that failed	Authorised Capital (Lakhs)	Paid-up Capital (Lakhs)
1913	12	274	35
1914	42	710	109
1915	11	56	5
1916	13	231	4
1917	9	76	25
1918	7	209	1

POST-INDEPENDENCE

Between 1938 - 1946, branch offices of Banks doubled to 3,469 and deposits quadrupled to Rs. 962 crore. Nevertheless, the division of India in 1947 had a devastating effect on the Punjab and West Bengal economies, crippling banking operations for months. The independence of India marked the end of the Laissez-faire regime of Indian banks. The Indian government took steps to make a significant contribution to the nation's economic life, and the Industrial Policy Decision adopted by the government in 1948 considered a mixed economy. This has led to significant state involvement in various economic sectors including banking and finance. Major bank control measures include:

1. The Reserve Bank of India, India's central banking authority, was established in April 1935, but was nationalized on 1 January 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 (RBI, 2005b).
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.

FIRST ROUND OF NATIONALIZATION IN 1969

Despite the terms, control and regulations of the Reserve Bank of India, banks in India except the State Bank of India (SBI), remain owned and operated by private authorities. By the 1960s, the Indian banks had become an important source of Indian economy. Subsequently, it had emerged as a large employer, which followed a debate of nationalization of Indian banks. Ms. Indira Gandhi, the then Prime Minister of India, expressed the intention of the Government in the annual conference of the All India Congress Meeting in a paper entitled Stray thoughts on Bank Nationalization.

Subsequently, the Parliament unanimously passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill and presidential approval on 9 August 1969. In 1969, fourteen banks were nationalized that contained 85 percent of bank deposits in the country. Below is the list:

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

SECOND ROUND OF NATIONALIZATION IN 1980's

In 1980, six more banks were nationalized, in order to give the government major control of credit delivery. With the second round of nationalizations, the Government of India controlled around 91% of the banking business of India.

The following banks were nationalized in 1980:

- Punjab and Sind Bank
- Vijaya Bank (Now Bank of Baroda)
- Oriental Bank of Commerce (now Punjab National Bank)
- Corporation Bank (now Union Bank of India)
- Andhra Bank (now Union Bank of India)
- New Bank of India (now Punjab National Bank)

LIBERALISATION POLICY IN THE 1990's

In early 1990s, the government launched Liberalization Policy of licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank, which later merged with Oriental Bank of Commerce, IndusInd Bank, UTI Bank (renamed as Axis Bank), ICICI Bank and HDFC Bank. The move - along with India's rapid economic growth - has revitalized India's banking sector, which has seen rapid growth with strong contributions from all three banking sectors, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up, with proposed relaxation of norms for foreign direct investment. All foreign investors in banks may be given voting rights that could exceed the present cap of 10% at present. In 2019, Bandhan Bank specifically, increased the foreign investment percentage limit to 49%. It has gone up to 74% with some restrictions.

The new policy shook the banking sector in India completely. Bankers, to present day are used to the 4–6–4 method (borrow at 4%; lend at 6%; go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People demanded more from their banks and received more.

MERGER OF PUBLIC SECTOR BANKS BETWEEN 2000s AND 2010s

State Bank of India

SBI merged with its associate bank State Bank of Saurashtra in 2008 and State Bank of Indore in 2009. Later, the Five remaining associate banks, (viz. State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore); and the Bharatiya Mahila Bank) merged with the SBI on 1stApril 2017.

Bank of Baroda:

On 1st April 2019, Dena Bank and Vijaya Bank merged into Bank of Baroda

Punjab National Bank

On 1st April 2020, Oriental Bank of Commerce and United Bank of India merged into Punjab National Bank. Post-merger, Punjab National Bank has become the second largest public sector bank in India.

Canara Bank

Canara Bank assumed control over Syndicate Bank on 1stApril 2020.

Union Bank of India

Andhra Bank and Corporation Bank merged into Union Bank of India with effect from 1st April 2020.

Indian Bank

Allahabad Bank merged into Indian Bank on 1st April 2020.

DIGITALIZATION OF INDIAN BANKS

Banks are constantly putting efforts to ensure maximum customer satisfaction. With continued improvement in online banking services including mobile banking, the banking system in India is getting streamlined.

This rapid digitalization of banking services along with the prudent operating models will play a crucial role. By accepting digital, banks can provide improved customer services. This helps customers to save time. Using digital personal errors are reduces and thus builds customer loyalty.

Today, people can access banks day and night because of online banking. Managing a large amount of money is also easier. This digitalization has also benefited customers by facilitating free transactions. Customers no longer need to keep cash yet can do tasks at any time and place.

With enhancement in technology, customers now have new age banking like Payments Bank. This is a new type of bank in India that can accept limited deposits. These banks are allowed to provide savings and current account services. They can also issue debit cards. But as per RBI norms, they are not eligible to offer credit cards or loans. Payment Banks are said to play a key role in the growth of e-banking in India. Airtel Payments Bank, Paytm Payments Bank and Fino Payments Bank are a few examples of payments banks in the country.

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