Indo-Iranian Journal of Scientific Research (IIJSR)
Volume 1, Issue 1, Pages 111-113, October-December 2017

Evolution of Banking Sector in India: A Systematic Approach

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Article Received: 05 October 2017 *Article Accepted: 21 October 2017* *Article Published: 30 October 2017*

ABSTRACT

The banking system is classified into different banks such as private sector banks, foreign banks, regional rural banks, co-operative banks and public sector banks. These banks are controlled by Reserve Bank of India. To have growth in the economic condition of the nation, it is necessary to have an active participation of banks towards the nation. The present study focuses on evolution of banking sector in India, post – independence scenario of banking sector which led to liberalization and amalgamation, nationalization and liberalization of banks and the recent trends in Indian banking sector. This is a conceptual study done by considering the existing literature reviews. The outcome of the study depicts that technology have a dominating role in banking sector due to which there has been drastic improvement in the functioning of banks from manual banking to e-banking. It is made user friendly and focus on the quality of the service has been increased.

Keywords: Indian Banking system, Public sector banks, recent trends.

1. INTRODUCTION

The first bank which was established in India was the General Bank of India in the year 1786 but failed in 1791. The oldest bank still in existence, is the State Bank of India. It was started in 1806 in the name of Bank of Calcutta which was later renamed as Bank of Bengal. The other two Presidency Banks were the Bank of Madras and the Bank of Bombay. All three Presidency Banks were combined together and formed Imperial Bank of India in the year 1921. These banks upon independence in 1955, turn out to be the State Bank of India. Advances in technology has brought a drastic shift in the banking operations.(Singh B and Malhotra P, 1970). This study is undertaken to analyze the reason behind the shift in the banking operations and study the recent trends in the banking industry. The Banking Codes and principles Board of India is a free and self-sufficient saving money industry body that screens banks in India. To enhance the nature of keeping money benefits in India, S Tarapore (previous delegate legislative head of RBI) had the plan to frame this board. One of the recent trends in the banking industry is the online banking. The utilization of PCs has prompted the presentation of web based banking in India.

2. INDIAN BANKING – POST INDEPENDENCE

After the Independence in 1947, partition of India affected the economies of West Bengal and Punjab by paralyzing the banking activities which ultimately led to the end of Laissez-faire after the British rule for Indian banking sector. Soon after that, Government of India took some measures to active the economic condition of the nation. To monitor the activities and the functions of commercial banks, Indian government introduced Banking Companies Act in the year 1949. On January 1, 1949, the Reserve Bank of India was nationalized. Since there was a failure in the banking operations, Reserve bank of India took measures to eliminate the uneconomic and weaker banking units by resorting to compulsory mergers or amalgamation, relicensing and liquidation of such banks to strengthen those weaker units. (Priyadharshini S, 2012).

3. LIQUIDATION AND AMALGAMATION OF BANKS

In 1954, there were 14 banks which was failed and ultimately this number reduced to 4 banks in the year 1963. During this period from 1954-1963, there were almost 92 cases which dealt with bank failures. This included two scheduled banks, which was the Palai Central bank and the Laxmi Bank. This led to the inclusion of a new section in the year 1960 in Banking Companies Act. This section 45 portrayed that weaker banks should amalgamate with well managed banks. (Priyadharshini S, 2012).

4. NATIONALISATION IN BANKING

All India Rural Credit Survey Committee in the year 1954, submitted the report suggesting creation of integrated, strong, state partnered, state sponsored commercial banking institution with various branches that spread across the country. Dr. kavitha Natarajan (2015) stated that globalization and liberalization have made the willing small investors to invest in various investment avenues. It has also been studied that shares and mutual funds investments are becoming the most preferred investment avenues. The main reason for the nationalization was to make cheap finance for the Indian farmers and to extent banking organization in the rural India.

5. LIBERALISATION IN BANKING

Liberalization in common terms means that relaxing the Government restrictions mostly in the areas of economic or social policy. Liberalization was started during the period of 1992. During that period Narasimham Committee Report was passed. Various reforms have been made covering the areas of directed credit rules, entry deregulation for foreign and domestic banks, statutory pre-emptions and interest rate deregulation. Christian Roland (2006), focused on the three policies which are related with financial repression. The three policies were the interest rate control, directed credit and the statutory pre-emptions. The study resulted in increase in financial repression during the period between 1960 and 1980.

6. RECENT REFORMS IN INDIAN BANKING

Indian Banking system adopted the best practices in corporate governance, risk management and accounting by accepting the International prudential norms with greater transparency and higher disclosures. To meet the needs of the customers, banks are coming out with innovative services shedding their traditional functions. Indian Banking sector growth has been seen in retail credit demand, decreasing NPAs due to Securitization, proliferation of debit-cards and ATMs, improved macroeconomic conditions, interest rate spreads, regulatory and policy changes and diversification. (Karuppasamy, Arul Venkadesh, 2012).Banking system focus on the following aspects such as Core Banking Solutions, Electronic payment services and Customer Relationship Management. The major areas that banks covers are RTGS (Real time Gross Payment), Electronic Fund Transfer (EFT), Electronic Clearing System (ECS), ATM's, Mobile banking, Point Of Sale Terminal, Electronic Data Interchange (EDI), Foreign Direct Investment (FDI). Information Technology plays a key role in banking. It has make the banking functions so easier for both the bankers as well as the customers. (Sanjay Kumar Dhanwani, 2013).

7. CONCLUSION

The Indian Banking system is re-engineered and re-defined. The reason behind this is the usage of Information Technology. It is also sure that growth of Indian economy is due to rapid growth of banking sector. The customers are benefitted by having the access of banking services and perform banking transactions from anywhere and at any time. This also reduced the physical branches around the cities. The success of banks can be achieved through the development of new ideas, innovative products and services and complete focus on customers.

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