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Overview of Banks in India

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Abstract – In India banking sector is one of the most regulated sectors in Indian Economy. When Indian Government allowed private banks to operate in the nation many banks established and a tough competition was observed among players. Private Banks won over most nationalized banks because of differ in quality of services they offer to their customers. With years, banks are also adding value added services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have choices in choosing their banks.

Key Words – Banking, Customers, Banks, Players

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I. INTRODUCTION

A bank accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers having capital deficits to customers of capital surpluses. Due to their critical status within the financial system and the economy generally, banks play important role for any country.

Framework of Indian Banking As per Section 5(b) of the Banking Regulation Act 1949: “Banking” means the accepting, with the objective of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise.” All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are known as scheduled banks. These include Scheduled Commercial Banks and Scheduled Cooperative Banks. Scheduled Commercial Banks in India are divided into five different groups as per their ownership and / or nature of operation. These bank groups are- State Bank of India and its Associates, Nationalized Banks, Regional Rural Banks, Foreign Banks and Other Indian Scheduled Commercial Banks.

II. BANKS IN INDIA:

The Government of India issued an ordinance and nationalized the 14 largest commercial banks from the midnight of July 19, 1969. Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it got the presidential approval on 9 August 1969. The importance for the nationalization was felt due to private commercial banks were not in a position to meet the social and developmental objectives of banking, required for any industrializing country. Despite the enactment of the Banking Regulation Act in the year 1949 and the nationalization of the largest bank, the State Bank of India, in the year 1955, the expansion of commercial banking had largely excluded rural areas and small-scale borrowers. A second phase of nationalization of 6 more commercial banks followed in the year 1980. The stated reason for the nationalization was to provide the government more control of credit delivery. With the second phase of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks that resulted in the reduction of the number of nationalized banks from 20 to 19. Till the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. The financial sector is one of the sectors of the economy that has gained attention in recent years. In the wide spectrum of the financial industry, the attention of academics and decision makers has been on the banking sector. With concerns about financial stability that are at the forefront of central banks' global policy challenges, the promotion of healthy financial institutions, and especially banks, in Southern Part of Andhra Pradesh recognized for quick and inclusive development of our country and economic growth.

Banking is recognized as one of the primary contributors to a country's economic development. This is the main outlet for all economic activities. Since independence, the banking sector in India has experienced profound changes. The economic expansion in the 1990s and the government's decision to privatize banks by growing public investment resulted in financial reforms focused on

Narasimham Committee's recommendations. Madhok and Zaveri have claimed that since colonial times the banking industries were the protagonists of a change in the sea. This shifted instead to the communist period of the 1970s and 1980s, where helping the needy became the primary focus in the far corners of India. During this time, nationalized banks worked in order to provide as many citizens as possible access to organized banking. Bank policies were primarily intended to accomplish the common aims of creating jobs and social welfare. The desire for gains takes a back seat.

Functions of Banks

The major functions of banks are almost the same but the set of people each sector or type deals with may differ. Given below the functions of the banks in India:

1. Acceptance of deposits from the public
2. Provide demand withdrawal facility
3. Lending facility
4. Transfer of funds
5. Issue of drafts
6. Provide customers with locker facilities
7. Dealing with foreign exchange

Apart from the above-mentioned list, various utility functions also need to be performed by the various banks.

a) Central Bank

The Reserve Bank of India is the central bank of our country. Each country has a central bank that regulates all the other banks in that particular country.

The main function of the central bank is to act as the Government's Bank and guide and regulate the other banking institutions in the country. Given below are the functions of the central bank of a country:

- Guiding other banks
- Issuing currency
- Implementing the monetary policies
- Supervisor of the financial system

In other words, the central bank of the country may also be known as the banker's bank as it provides assistance to the other banks of the country and manages the financial system of the country, under the supervision of the Government.

b) Cooperative Banks

These banks are organised under the state government's act. They give short term loans to the agriculture sector and other allied activities.

The main goal of Cooperative Banks is to promote social welfare by providing concessional loans

They are organised in the 3 tier structure

- Tier 1 (State Level) – State Cooperative Banks (regulated by RBI, State Govt., NABARD)
- Funded by RBI, government, NABARD. Money is then distributed to the public
- Concessional CRR, SLR applies to these banks. (CRR- 3%, SLR- 25%)
- Owned by the state government and top management is elected by members
- Tier 2 (District Level) – Central/District Cooperative Banks
- Tier 3 (Village Level) – Primary Agriculture Cooperative Banks

a) Commercial Banks

- Organised under the Banking Companies Act, 1956
- They operate on a commercial basis and its main objective is profit.
- They have a unified structure and are owned by the government, state, or any private entity.
- They tend to all sectors ranging from rural to urban
- These banks do not charge concessional interest rates unless instructed by the RBI
- Public deposits are the main source of funds for these banks

The commercial banks can be further divided into three categories:

1. **Public sector Banks** – A bank where the majority stakes are owned by the Government or the central bank of the country.

2. **Private sector Banks** – A bank where the majority stakes are owned by a private organization or an individual or a group of people

3. **Foreign Banks** – The banks with their headquarters in foreign countries and branches in our country, fall under this type of bank.

III. CONCLUSION:

The biggest factor for banks today is income, which provides reflection of growth. The whole purpose of banking has been redefined with the recent shift in the technical orientations of banks. The banking industry, however, is going through difficult yet exciting times in most developing economies, and India is no exception.

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