Journal of Advances and Scholarly Researches in Allied Education
Vol. 19, Issue No. 1, January-2022, ISSN 2230-7540

A Study the history and development of the banking sector of India

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Abstract - It's important to understand how India's banking system has evolved through time, also logic for why reform is necessary and which reforms are needed. Before India gained independence in 1947, there was a long history of banking in India. The study's aim is the development of Indian banks. Among the most crucial aspects of human life is banking. In today's fast-paced society, people may not be able to make the right transitions if they lack a bank network. Nationalized banks dominate the Indian banking system. Every country has a banking industry that serves as its foundation. As the financial system's hub and barometer, the banking industry is widely regarded.

Keywords - Banking, Technology, Economy, Banking Structure, Retail Banking System

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INTRODUCTION

Any modern economy relies heavily on the financial industry. In the financial sector, the most crucial pillars of the economies functioning. As a vital part of a country's economic growth, trade, industry & agriculture must be financed with a better degree of accountability. As a result, a country's progress is inextricably related to that of its financial sector. In today's economy, banks aren't only money lenders; they're also the driving force behind growth. Mobilizing deposits & disbursing loans to diverse economic sectors are both key functions performed by these institutions. The state of the economy is reflected in the state of the banking system. After India's independence, banks have played a crucial part in the country's socioeconomic development. Financial sector assets are dominated by banking, which accounts for more than half of the country's total. There has been a fascinating transformation in Indian banks as the country's financial sector reforms have been implemented in stages. Indian banking should be seen as an opportunity to transition into a solid, powerful, and dynamic system that can perform its function efficiently & effectively without placing any strain on the government during the current transformation process. India's government has implemented a number of reforms to the banking industry following the country's economic liberalization, based on the Narasimhan Committee's recommendations.

Several questions about the financial system's efficiency and stability have been raised in light of the present global crisis, which has impacted every country. Government of India & RBI officials are seeking to take lessons from the crisis, which is nearing its end.

EVALUATION OF INDIAN BANKING

India's macroeconomic development has changed dramatically during the past six decades. Many adjustments have been made to the monitoring, external, and banking policies. The evaluation of Indian banking has been influenced in various ways by changes in the Indian financial sector, particularly the banking system. Commercial banks have seen significant changes since their independence and implementation of banking reforms. It is necessary to look back at the significant changes in the Indian banking system in order to better comprehend the shifting role of commercial banks and the issues they face. Indian banking can be analyzed in four separate stages.

Evolutionary phase (Prior to 1947)

India's history of money loaning may be foundto the Vedic period, which lasted between 2000 - 1400 BCE, according to the Central Banking Enquiry Committee (1931). In India, professional banking dates back to the 5th century BC. References to creditors, lenders, and lending rates were found in Kautilya'sArthashastra, which dates back to around 400 BC. While serving as an advisor to the Royal Commission established in 1926 to study the Indian economy, Mr Preston noted that a system of banking which was well suited to India's needs was already being used there long before the science of banking was fully developed in England at the time. The primary means of exchange were inland bills of exchange, known as Hundis. Bundy dishonor was very uncommon at the period, as much banking relied on trust & confidence between customers and lenders. Bank of Bombay was the first western joint stock bank, opening its doors in 1720 in Bombay. In 1770, an agency firm created the Bank of Hindustan in Calcutta as a follow-up. 4 In 1932, this agency house and its banks were shut down. Twenty percent of the company's capital was pledged by the government, which also had voting rights in the company's board of directors. The bank was tasked with discounting Treasury notes in order to provide the government with accumulation. In 1823, the bank was given the authority to print money. The second presidential bank, the Bank of Bombay, was made in 1840 with a capital of Rs. 52 Lakh, while the third presidency bank, the Bank of Madras, was established in July 1843. Royal charters governed the presidency banks. Presidency banks issued currency notes until the Paper Currency Act of 1861, when this power was transferred to the government &performed by the government instead. There were some restrictionsforced on the three president banks by the presidency bank law, which came into effect in 1876. There was a 6-month ban on them dealing with the dangerous business of foreign bills and borrowing from overseas for longer than six months. When the presidency banks were merged into the Imperial Bank of India in 1921, it became the largest bank in India. Jaipur, Mysore, Patiala, & Jodhpur were only a few of the former princely nations whose banks were merged into the Imperial Bank of India. Before the RBI was established in 1935, also served as the country's central bank. These three functions were provided by the Imperial Bank of India during this time period, which was a three-pronged strategy. All of these financial institutions were started by individuals who owned them outright. A number of Indian commercial banks, including the Central Bank of India, the Bank of Baroda, the Bank of Canara, the Indian bank & bank of Mysore (all founded between 1906 and 1913), received a boost from the Swadeshi Movement of 1906. Banks that dealt primarily in the foreign exchange market, such as international bills of exchange and remittances, were known as "exchange banks." Neither Class A nor Class B was a public company. However, the Presidency banks dominated the banking market during this time period, as evidenced by their paid-up capital & deposits (Table 1).

Table 1: Number of Banks, Capital & Deposits

End. Dec.	Number of Reporting Commercial Banks					Paid Capital and Reserves				Deposists				
	Presidency/ Imperial Banks@	Class A*	Exchange Bank	Class B**	Total	Presidency/ Imperial Banks@	Class A*	Class B**	Total	Presidency/I mperial Banks@	Class A*	Exchange Bank	Class B**	Total
1870	3	2	3	0	8	362	12	0	374	1197	14	52	0	1263
1880	3	3	4	0	10	405	21	0	426	1140	63	340	0	1543
1890	3	5	5	0	13	448	51	0	499	1836	271	754	0	2861
1900	3	9	8	0	20	560	128	0	688	1569	808	1050	0	3427
1910	3	16	11	0	30	691	376	0	1067	3654	2566	2479	0	8699
1913	3	18	12	23	56	748	364	0	1112	4236	2259	3104	151	9750
1920	3	25	15	33	76	753	1093	81	1927	8629	7115	7481	233	23458
1930	1	31	18	57	107	1115	1190	141	2446	8397	6326	6811	439	21973
1934	1	36	17	69	123	1128	1267	149	2544	8100	7677	7140	511	23428

Table 2: Numbers of Co-operative Banks

	Class A*			Class B**			Total		
Year #	Number	Capital and Reserves	Deposit	Number	Capital and Reserves	Deposit	Number	Capital and Reserves	Deposit
1922-23	5	44	341	63	131	502	68	175	843
1925-26	10	91	538	104	203	930	114	294	1468
1928-29	18	163	901	140	277	1487	158	440	2388

Foundation Phase (1947-1969)

After the country's independence in 1947, India's banking sector was completely private. In addition to the Imperial Banks, the Central Bank of India Ltd., PNB Ltd., Bank of India Ltd., Bank of Baroda Ltd., & United Commercial Bank Ltd. each have public deposits totaling at least Rs.100 Cr. Domestic scheduled commercial banks were the banking structure in place at the time of independence. Despite their high number, non-scheduled banks only accounted for a modest percentage of the banking industry.

Table 3: Number & Deposits of Indian Banks-End-December 1947

	Category of Reporting Banks	Number	Deposits (Rs. Crore)
A	Scheduled Banks	97	1090
	Imperial Bank	1	287
	Other Banks (A1 Banks)	81	623
			-49.4
	Exchange Banks*	51	

The financial system was mainly urban-based and out of reach for the majority of the population. The majority of the rural population relied on money lenders as their primary source of credit. Rural access was severely limited since banks didn't view farming as a possiblecommercial model back then. Consequently, there was no assistance from the financial system for rural economies in general, & agriculture sector in particular, which is a critical element of the Indian economy. It is (Pramod Kumar) a fact

Establishment of SBI

The Imperial Bank of India & other commercial banks were urban-focused at the time of independence. As a result, rural areas urgently require access to banking services. For the neglected area, it was suggested that the Imperial Bank of India extend its branches to Taluka or Tehsil. Starting on July 1, 1951, Imperial Bank of India had a five-year deadline to open 114 offices across the country. Eight state-sponsored banks were taken over by SBI as subsidiaries under the SBI (Subsidiary Banks) Act, 1959, and are now known as Associate Banks. The number of these affiliate banks has been reduced to seven with the amalgamation of two of them (State Bank of Bikaner & Jaipur). Six banks are currently part of the state bank group.

Expansion Phase (1969-1990)

Even while deposit growth in the banking system was improving in the 1950s & 1960s, the banking system's reach was still mostly confined to metropolitan areas. Most of the banks were thought to have to be nationalized if they were to be used for quick economic expansion and social fairness. As a result, required the government to take over 14 banks with deposits totaling above Rs. 50 crore. They included the Central Bank of India, Bank of Maharashtra, Dena Bank, PNB, Syndicate Bank, Canera Bank, Indian Overseas Bank, Indian bank, BOB, Union Bank, Allahabad bank, UBI, UCO bank, & Bank of India. In order to achieve these goals, the banks were nationalized:

- Regional economic disparity should be reduced.
- Rural & semi-urban people should have access to the financial system.
- The goal was to bring a huge swath of economic activity into the financial system.

However, even in rural areas, the amount of credit offered to society's most vulnerable members was not adequate. In 1974, the Narasimham Committee examined these issues and suggested the creation of RRBs under the "Regional Rural Banks Act, 1975". In areas with a poor cooperative structure and few commercial banks, the Federal Reserve and state governments worked together to establish Regional Rural Banks. As of April 15, 1980, there were 27 public sector banks & six private sector banks were nationalized.

Consolidation & liberalization Phase (1990 to till)

The Indian economy faced a variety of challenges in the early 1990s. The current state of affairs was out of control on every level. The fiscal imbalance was escalating, and the country's balance of payments was in perilous shape. The foreign sector was putting pressure on the home economy to improve. Significant emphasis was placed on the necessity of implementing major structural transformations. As a result of structural reforms, barriers that hampered the market mechanism and caused inefficiency & suboptimal resource allocation have been eased. To promote economic liberalization, privatization, & globalization in a selective staged way within this time period. Structural reforms included, among other things, changes to the financial system. It was the main goal of these changes to create a financial sector that was diverse, efficient, or competitive in order to develop the effectiveness of available savings, increase investment profitability, and speed up real-economy growth. It used a three-pronged approach under these reforms. Incorporating the domestic financial system gradually into the global economy while improving the general framework of monetary policy & strengthening financial institutions.

The Narsimham Committee's approval and execution of numerous proposals with far-reaching financial sector ramifications was a major policy endeavor during this phase. SEC was established as a statutory organization and granted adequate powers to properly deal with numerous fraudulent acts and scams in the securities industry simultaneously. Later, the Insurance Regulatory & Development Authority (IRDA) was established to regulate and promote the insurance industry in a competitive manner.

Two high-level committees, chaired by former RBI Governor M. Narshimham, were formed by the Indian government in order to observe all features of structure, organization, function, & procedure in order to achieve financial strength & profitability of public sector banks while also strengthening the Indian financial system as a whole. There were two committees: one was established in 1991 & other a few years later; both produced reports in 1998. These papers suggested a number of extreme actions that should be implemented. The primary goal of the report's recommendations was to improve the competitiveness & strength of banks so that they could better support financial system stability. Branches and subsidiaries of foreign banks are both permitted in India. It was proposed that there be no distinction in treatment between public & private sector banks in order to encourage a competitive banking culture. It was highlighted that banks must be encouraged to give up their conservative & traditional system of banking and take on new progressive functions, such as merchant banking & underwriting, retail banking, mutual funds, and so on. Newer financial services should be allowed for joint ventures between Indian banks and those from abroad, according to the committee. Despite tough opposition from Indian banks unions & political parties, the Indian government adopted all of the major recommendations of the Narsimham Reports and immediately began implementing them.

Modern development in Indian Banking Sector

The banking industry has seen dramatic transformations in the last year, which are reflected in banking reforms. These two areas, telecommunications & information technology, have seen the most rapid transformation. Many financial activities have been lowered in cost because of the rapid dissemination of financial information. Credit cards, ATMs, Tele-Banking, Electronic Fund Transfer (EFT), Internet Banking, Mobile Banking, etc. have all been presented in the banking sector in the previous few years. By reducing transaction costs, these new solutions develop the efficacy of banks.

Retail Banking Concept

The introduction of retail banking in the country is a significant step in the banking sector. Banks are currently focusing more on retail banking by providing depositors with a range of credit options. Non-banking institutions are increasing their pressure on the banking sector. Various financial products (deposit accounts, home loans, auto loans, credit cards, demat facilities) catering to various customer groups, offering a variety of financial services, primarily to private individuals, are included in retail banking. Retail banking also includes stock brokerage & payment of utility bills. It's a one-stop shop for all of a person's financial demands. K. Bhandri&Gupt As a result of retail banking, banks have been able to boost their overall revenue dramatically.

Information Technology

Businesses all over world are now completely different because of the impact of information technology (IT). New goods & services have been introduced into Indian banking as a result of IT innovation. By establishing new delivery channels to clients, such as shared payment networks, internet banking, core banking solutions, mobile banking and so on, banking sector has benefited from information technology.

An important role has been done by the RBI in implementing information technology into the banking sector. A reduction in bank operating costs and an increase in transaction efficiency within the same network are two of the key benefits of technological adoption, according to the RBI.

RBI has increased the importance of technology in bank operations during the past year. Banks' IT vision document for 2011-17 outlines the steps necessary to implement important IT applications, with an emphasis on ensuring smooth supply of financial services through the use of Business Continuity Management (BCM). Reengineering of business processes and implementation of information security policies (BPR). In March 2012, public sector banks accounted for more than 60% of the total ATMs, while new private sector banks accounted for close to a third of the total ATMs.

On New private sector banks have the most off-site ATMs established in 2011-12, while public sector banks have the most on-site ATMs. More ATMs are located off-site than on-site by foreign banks in the entire financial sector.

Table 4: ATMs of Scheduled Commercial Banks (As at end – March 2012)

Sr. No.	Bank Group	On –site ATMs	Off-site ATMs	Total Number of ATMs
1	**Public Sector banks**	**34012**	**24181**	**58193**
1.1	Nationalised Banks	18277	12773	31050
1.2	SBI Group	15735	11408	27143
2	**Private Sector Banks**	**13249**	**22830**	**36079**
2.1	Old Private Sector Banks	3342	2429	5771
2.2	New Private Sector Banks	9907	20401	30308
3	**Foreign Banks**	**284**	**1130**	**1414**
	All SCBs	**47545**	**48141**	**95686**

Source: Trend & Progress Report of RBI, 2011-12

BANKING STRUCTURE IN INDIA

- There are "non scheduled banks" & "scheduled banks" in the Indian financial system. A non-scheduled bank is a bank not included in the second schedule of the Banking Regulation Act of 1965 and so does not meet the requirements of that schedule. Second Schedule banks are those that meet the following requirements:
- Have paid up capital & reserve of not less than Rs. 5 lakh
- Satisfy the RBI that its affairs are not accompanied in a manner harmful to the interests of the deposits.

"Scheduled commercial banks" & "scheduled cooperative banks" are the two types of scheduled banks. There are four types of public sector banks: "Nationalized Banks" and "SBI banks"; "Old Private Sector Banks" & "New Private Sector Banks" that emerged after 1991; "Foreign Banks in India" and "Regional Rural Banks." The former are considered into 4types (that operate exclusive in rural areas to provide credit and other facilities to small & marginal farmers, agricultural workers and small entrepreneurs). Except for foreign banks, all of India's scheduled commercial banks are ruled by the Companies Act.

Only 4% of scheduled commercial banks' total assets are held by regional rural banks. The subsequent is a list of scheduled banks as of the end of March 2001: There are 19 government-owned banks, 8 state-owned banks, 23 private sector banks, 8 new private sector banks, 42 foreign banks, 196 rural regional banks, & 67 cooperative banks in India. However, as of October 31, 2012, the following is the total number of scheduled commercial banks in India: Private sector banks make up 20 of the total 26.

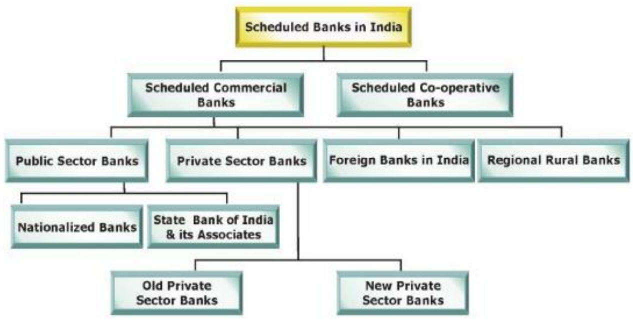

Figure 1: Banking Structure in India

CONCLUSION

Indian banking sector performed better than it did before to reform and impacted by the IT revolution. The adoption of internet banking in India was made possible by the widespread usage of computers. As a result of the economic liberalization of 1991, the banking sector of India has seen a dramatic growth in the usage of modern innovation & computerization. When it came to customer service, Indian banks couldn't compete with international banks since they didn't have computers or information technology. The most significant areas of attention for banks is the usage of technology in the expansion of banking. IT is being used by banks in India not just to better their internal processes but also to provide more services & facilities to its clients. The growing volume of transactions handled by banks has been made easier & more accurate thanks to the effective application of new technology. Banks are able to bring happiness to their customers by providing simple, safe, & secure technologies.

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