



## AN ANALYSIS OF BANKING SYSTEM IN INDIA

Dr. G. A. Naidu<sup>1</sup> and Prof. M. Chandraiah<sup>2</sup>

1. Teaching Associate, Dept. of Rural Development  
Dr.B.R.Ambedkar University, Srikakulam, Andhra Pradesh  
2. Professor, Dept. of Rural Development  
Dr.B.R.Ambedkar University, Srikakulam, Andhra Pradesh

**Abstract:** According to M. K. Gandhi, in the banking sector, customer is a god. Of course, the customer plays a vital role in the market economy. Indian economy is so flourished; it is because of its Banking System. In the year 2008, the American Economy had faced economic crisis due to flexibility in its Banking System. But it is not so in the case of Indian Economy. A bank is a financial Institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. A banking system also referred as a system provided by the bank which offers cash management services for customer and reporting the transactions of their accounts. The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The banking sector offers several facilities and opportunities to their customers. All the banks safeguard the money and valuables and provide loans, credits and payment services such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a whole, the Nationalization of bank has a drastic economic change in Indian Economy. Because, an entrepreneur is getting investment, starting economic institution and able to provide employment opportunities for many unemployed youth in India.

**Keywords:** Functions, Banking System, Classifications, Regulations, RBI

A bank is a financial Institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. A banking system also referred as a system provided by the bank which offers cash management services for customer and reporting the transactions of their accounts. The banking system in India should not only be hassle free but it should be able to meet the new challenges

posed by the technology and any other external and internal factors. For the past three decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The banking sector offers several facilities and opportunities to their customers. All the banks safeguard the money and valuables and provide loans, credits and payment services such as checking accounts, money orders,

and cashier's cheques. The banks also offer investment and insurance products.

**Need for the Banks:** Before the establishment of banks, the financial activities were handled by money lenders and individuals. At the time the interest rates were very high. Again there were no security of public savings and no uniformity regarding loans. So as to overcome such problems the organized banking sector was established, which was fully regulated by the Government.

**Functions of the Bank:**

- To provide the security to the savings of customers.
- To control the supply of money and credit.
- To avoid focus of financial powers in the hands of a few individuals and institutions.
- To set equal norms and conditions to all the types of customers
- To encourage public confidence in the working of the financial system, increase savings speedily and efficiently

**Brief History of Indian Banking System:**

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established the Bank of Bengal/Calcutta, (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865 was for the first time completely run by Indians. Punjab National Bank Ltd. Was set up in 1894 with head quarters at Lahore. Between

1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Bank of Mysore were setup. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders. After that the Reserve Bank of India was established in April, 1935. At the time of first phase the growth of banking sector was very slow. Between 1913 and 1948 there were approximately 1100 small banks in India. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India". It was established under State Bank of India Act, 1955. Seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19<sup>th</sup> July, 1969 major process of nationalization was carried out. In 1980 another six banks were nationalized, and thus raising the number of nationalized banks to 20 seven more banks were nationalized with deposits over 200 Crores.

**Bank Nationalization**

By the 1960s, the Indian banking industry has become an important tool to facilitate the development of the Indian economy. Indira Gandhi, the-then Prime Minister of India expressed the intention of the Government of India in the annual conference of the All India Congress Meeting in a per entitled "*Stray thoughts on Bank Nationalization*". Thereafter, her move was swift and sudden, and the GOI issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Jayaprakash Narayan, a national leader of India, described the step as a "*Masterstroke of Political sagacity*" within two weeks of the issues of the ordinance, the Parliament passed the Banking

Companies Bill and it received the presidential approval on August, 1969.

### **Liberalization**

In the early 1990s, the then Narsimha Rao Government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as *New Generation tech-savvy banks*, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank.

### **Regulations for Indian Banks**

Currently in most jurisdictions commercial banks are regulated by government entities and require a special bank license to operate. Usually the definition of the business of banking for the purposes of regulation is extended to include acceptance of deposits, even if they are not repayable to the customer's order – although money lending, by itself, is generally not included in the definition.

### **Classification**

Indian banking industry has been divided into two parts, organized and unorganized sectors. The organized sector consists of Reserve Bank of India, Commercial Banks and Co-operative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC, etc). The unorganized sector, which is not homogeneous, is largely made up of money lenders and indigenous bankers.

### **RBI**

The Reserve Bank of India is a central bank and was established in April 1, 1935 in accordance with the

provisions of Reserve Bank of India act 1934. The central office of RBI is located at Mumbai since inception. Though originally the Reserve Bank of India was privately owned, since nationalization in 1949, RBI is fully owned by the Government of India. It was inaugurated with the share capital of Rs.5 Crores divided into shares of Rs.100 each fully paid up. RBI is governed by a central board (headed by a governor) appointed by the central government of India. RBI has 22 regional offices across India.

### **Functions**

- Bank of Issue: The RBI formulates, implements, and monitors the monetary policy. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector.
- Regulator-Supervisor of the Financial System
- Manager of exchange control
- Issue of Currency
- Developmental role
- Related functions
- Controller of credit
- Supervisory of Functions
- Promotional Functions

### **Indian Scheduled Commercial Banks:**

- Scheduled Banks
- Regional Rural Banks
- Unscheduled Banks

### **NABARD**

NABARD is an apex development bank with an authorization for facilitating credit flow for promotion and development of agriculture, small-

scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

#### **Services provided by banking Organizations:**

- Commercial Banks
- Global Banks
- Regional Banks
- Community Banks
- Savings Banks and Savings and loan associations
- Credit Unions
- Federal Reserve Banks
- The Money Banks

#### **Challenges and Opportunities before the Banking Sector:**

- Rural Markets
- Increased competition
- Management of Risks
- Global and Domestic Environment
- Compliance with International Requirements
- Performance of Banking Sector

#### **Conclusion**

According to M. K. Gandhi, in the banking sector, customer is a god. Of course, the customer plays a vital role in the market economy. Indian economy is so flourished; it is because of its Banking System. In the year 2008, the American Economy had faced economic crisis due to flexibility in its Banking System. But it is not so in the case of Indian Economy. As a whole, the Nationalization of bank has a drastic economic change in Indian Economy. Because an entrepreneur is getting investment, starting economic institution and able to provide employment opportunities for many unemployed youth in India.

#### **References**

Report on Trends & Progress of Banking in India 2010-11, Reserve Bank of India

Bharathi. N. (2007), "Indian Banking and Finance-A Paradigm Shift"

Kumbhar VM (2009), "Alternative Banking: A Modern Practice in India" Professional banker, magazine, December, pp35-38

Srivasta Nidhi(2001), "History of Indian Banking", Southern Economists, vol.46, no.5, July,2001

Rodrigues Ryan (2009), Best Bank 2009: "History in the making", Business India, magazine, August 23, New Delhi.