AN INTRODUCTION OF INDIAN BANKING SECTOR

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INTRODUCTION

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses.

Due to their influential status within the financial system and upon national economies, banks are highly regulated in most countries. Most nations have institutionalised a system known as fractional reserve banking, in which banks hold only a small reserve of the funds deposited and lend out the rest for profit. They are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords. Banking in its modern sense evolved in the 14th century in the rich cities of Renaissance Italy but in many ways was a continuation of ideas and concepts of credit and lending that had its roots in the ancient world. In the history of banking, a number of banking dynasties have played a central role over many centuries. The oldest existing bank, Monte dei Paschi di Siena, was founded in 1472 in Siena, Italy.

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Banking in India

In the modern sense originated in the last decades of the 18th century. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct.

The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. For many years the presidency banks acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935.

In 1969 the Indian government nationalised all the major banks that it did not already own and these have remained under government ownership. They are run under a structure know as 'profit-making public sector undertaking' (PSU) and are allowed to compete and operate as commercial banks. The Indian banking sector is made up of four types of banks, as well as the PSUs and the state banks, they have been joined since the 1990s by new private commercial banks and a number of foreign banks.

Banking in India was generally fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with things like microfinance.

Need of the Banks

Before the establishment of banks, the financial activities were handled by money lenders and individuals. At that 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. The organized banking sector works within the financial system to provide loans, accept deposits and provide other services to their customers. The following functions of the bank explain the need of the bank and its importance:

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

Nationalization in the 1960s

Despite the provisions, control and regulations of the Reserve Bank of India, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. 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 paper entitled ″Stray thoughts on Bank Nationalization.″ The meeting received the paper with enthusiasm.

Thereafter, her move was swift and sudden. The Government of India issued an ordinance ('Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969') and nationalised the 14 largest commercial banks with effect from the midnight of 19 July 1969. These banks contained 85 percent of bank deposits in the country. Jayaprakash Narayan, a national leader of India, described the step as a "masterstroke of political sagacity." Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalisation of 6 more commercial banks followed in 1980. The stated reason for the nationalisation was to give the government more control of credit delivery. With the second dose of nationalisation, 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 nationalised banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy

Liberalization in the 1990s

In the early 1990s, the then 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, UTI Bank (since renamed Axis Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalised the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%,at present it has gone up to 74% with some restrictions.

The new policy shook the Banking sector in India completely. Bankers, till this time, were 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 not just demanded more from their banks but also received more.

Nationalised Banks / Public-sector banks

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Bhartiya Mahila Bank
7. Canara Bank
8. Central Bank of India
9. Corporation Bank
10. Dena Bank
11. IDBI Bank
12. Indian Bank
13. Indian Overseas Bank

14. Oriental Bank of Commerce
15. Punjab National Bank
16. Punjab & Sind Bank
17. Syndicate Bank
18. UCO Bank
19. Union Bank of India
20. United Bank of India
21. Vijaya Bank

SBI and associate banks

1. State Bank of India
2. State Bank of Bikaner & Jaipur
3. State Bank of Hyderabad
4. State Bank of Mysore
5. State Bank of Patiala
6. State Bank of Travancore
7. State Bank of Saurashtra (merged into SBI in 2008)
8. State bank of Indore (merged into SBI in 2010)

Private-sector banks

1. Axis Bank
2. Catholic Syrian Bank
3. City Union Bank
4. Development Credit Bank
5. Dhanlaxmi Bank
6. Federal Bank
7. HDFC Bank
8. ICICI Bank
9. IndusInd Bank
10. ING Vysya Bank
11. Karnataka Bank
12. Karur Vysya Bank
13. Kotak Mahindra Bank

14. Lakshmi Vilas Bank
15. Nainital Bank
16. Tamilnadu Mercantile Bank
17. South Indian Bank
18. YES Bank
19. UP Agro Corporation Bank

Foreign banks operating in India

1. Abu Dhabi Commercial Bank
2. Australia and New Zealand Bank
3. Bank Internasional Indonesia
4. Bank of America NA
5. Bank of Bahrain and Kuwait
6. Bank of Ceylon
7. Bank of Nova Scotia (Scotia Bank)
8. Bank of Tokyo Mitsubishi UFJ
9. Barclays Bank PLC
10. BNP Paribas
11. Calyon Bank
12. Chinatrust Commercial Bank
13. Citibank N.A.
14. Credit Suisse
15. Commonwealth Bank of Australia (Recently Launched Retail Services in Mumbai)
16. DBS Bank
17. DCB Bank now RHB Bank
18. Deutsche Bank AG
19. FirstRand Bank
20. HSBC
21. JPMorgan Chase Bank
22. Krung Thai Bank
23. Mashreq Bank psc
24. Mizuho Corporate Bank

25. Royal Bank of Scotland
26. Shinhan Bank
27. Société Générale
28. Sonali Bank
29. Standard Chartered Bank
30. State Bank of Mauritius

Government policy on banking industry (Source:-The federal Reserve Act 1913 and The Banking Act 1933)

Banks operating in most of the countries must contend with heavy regulations, rules enforced by Federal and State agencies to govern their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public. A banker works within the financial system to provide loans, accept deposits, and provide other services to their customers. They must do so within a climate of extensive regulation, designed primarily to protect the public interests.

The main reasons why the banks are heavily regulated are as follows:

- To protect the safety of the public's savings.
- To control the supply of money and credit in order to achieve a nation's broad economic goal.
- To ensure equal opportunity and fairness in the public's access to credit and other vital financial services.
- To promote public confidence in the financeial system, so that savings are made speedily and efficiently.
- To avoid concentrations of financial power in the hands of a few individuals and institutions.
- Provide the Government with credit, tax revenues and other services.
- To help sectors of the economy that they have special credit needs for egHousing, small business and agricultural loans etc.

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