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Banking In India: Past, Present And Future Ahead

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Abstract:

The Finance in terms of deposits and advances will depend on the bank policies to lend and take deposits with inter rate which will attract the account holders. The paper deals with the banking past, future and present. The research paper shows how the past conditions were utilized in the present and the present demanding are to be fulfilled in the future. The future needs of the business of banking may provide a good and long life ahead.

The Banking system India has magnificent past, dazzling future and satisfying present which can be observed by supporting the recession period from last five years. The Banks are the important organizations in society which require assurance of customers to keep their assets in terms of money and gold in banks. The banks have to follow harsh policies in terms asset and liabilities management. The banks are using ICT facilities to provide better service to the account holders. The authors have done decent effort to find out the major issues of the banks in India to the readers to update their knowledge. The banks in future will be very susceptible to the altering environment of the world wide customer.

1.Introduction

Imagine for a moment that you are a merchant in ancient Greece or Phoenicia. You make your living by sailing to distant ports with boatloads of olive oil and spices. If all goes well, you will be paid for your cargo when you reach your destination, but before you set sail you need money to outfit your ship. And you find it by seeking out people who have extra money sitting idle. They agree to put up the money for your voyage in exchange for a share of your profits when you return . . . if you return.

The people with the extra money are among the world's first lenders, and you are among the world's first borrowers. You complain that they're demanding too large a share of the profits. They reply that your voyage is perilous, and they run a risk of losing their entire investment. Lenders and borrowers have carried on this debate ever since.

Today, people usually borrow from banks rather than wealthy individuals. But one thing hasn't changed: Lenders don't let you have their money for nothing. Lenders have no guarantee that they will get their money back. So why do they take the risk? Because lending presents provides an opportunity to make even more money.

2.Importance Of The Study

The study has the following importances:

- The paper may help the banking system in knowing their future prospectus ahead.
- The study may help the scholars about the past, present and future scenario of the banking system in India.
- The study provides an idea about the various past remedies and present remedies.
- The research paper may help the persons dealing with the banking system.

3.Objectives Of The Study

The research paper has the following objectives-

- To know the past banking system of India.
- To evaluate and examine the present Indian banking.
- To predict about the future of the banking system in India.
- To study the history of the banking system of the India.

4.Research Methodology:

The research methodology used here is totally based on the secondary data. The secondary data is the fundamental tool of the data collection for the preparation of the research paper. The various books, journal, bulletin and websites are used for the data collection.

5.Limitation Of The Study

The research study has certain limitations which are quoted below-

- The study has certain time limit, money limit and individual limit.
- The study is limited to the banking system of the India only.
- The data is limited only upto to the secondary data.
- The prediction are totally derived from researchers own thoughts which may or may not be scientific.

6.History Of The Banking (Past Of The Banking)

A bank is a business. But unlike some businesses, banks don't manufacture products or extract natural resources from the earth. Banks sell financial services such as car loans, home mortgage loans, business loans, checking accounts, credit card services, certificates of deposit, and individual retirement accounts.

Some people go to banks in search of a safe place to keep their money. Others are seeking to borrow money to buy a house or a car, start a business, expand a farm, pay for college, or do other things that require borrowing money.

Where do banks get the money to lend? They get it from people who open accounts. Banks act as go-betweens for people who save and people who want to borrow. If savers didn't put their money in banks, the banks would have little or no money to lend.

Your savings are combined with the savings of others to form a big pool of money, and the bank uses that money to make loans. The money doesn't belong to the bank's president, board of directors, or stockholders. It belongs to you and the other depositors. That's why bankers have a special obligation not to take big risks when they make loans.

7.Definition Of Banking

The business of the banking has been defined in Section 5(b) of the Act as follows:

"Accepting for the purpose of lending or investment of deposit of money from public, repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise."

The present working of the banking system of India is based on the suggestions of the Narasimham Committee. The Committee provides certain remedies and advices which gave a way of working for the banking system in India. The major suggestions of the Committee are listed below-

8.The Narasimham Committee

The banking sector reforms in the 1990s in India were based on the report of the committee headed by Mr. M. Narasimham in 1991. Major recommendations of the committee were as follows

- There should be speedy computerization of the banking Industry. It suggested to trace on the computerization of banking operations.

9.The Narasimham Committee –II

The Narasimham Committee, in its second report on banking sector reforms, submitted in April 1998, made a series of sweeping recommendations which are being used as a launching pad to take India banking into future. The report covers following points related with computerization and it mainly traces on strengthening the Management Information System within the banks and financial Institutions so as to sensitize them to the market risk assumed by them. Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet 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 most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process.

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

• Early phase from 1786 to 1969 of Indian Banks

• Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.

• New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

To make this write-up more explanatory, I prefix the scenario as Phase I, Phase II and Phase III.

9.1.Phase-I

The phase one is banking beginning with respect to customers. The Indian banks have also gone from beginning in short to long changes with advancements in polices and rules to make banks strong.

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly Europeans shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters 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 set up. Reserve Bank of India came in 1935.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority.

During those days public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Abreast of it the savings bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.

9.2.Phase-II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July, 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country were nationalized.

Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalization of State Bank of India.
- 1959: Nationalization of SBI subsidiaries.
- 1961: Insurance cover extended to deposits.
- 1969: Nationalization of 14 major banks.
- 1971: Creation of credit guarantee corporation.
- 1975: Creation of regional rural banks.
- 1980: Nationalization of seven banks with deposits over 200 crore.

After the nationalization of banks, the branches of the public sector bank India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

9.3.Phase-III

The Phase is recent which involves following points, this phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalization of banking practices.

The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

10.Banks in India -

In India the banks are being segregated in different groups. Each group has their own benefits and limitations in operating in India. Each has their own dedicated target market.

Few of them only work in rural sector while others in both rural as well as urban. Many even are only catering in cities. Some are of Indian origin and some are foreign players.
One more section has been taken note of is the upcoming foreign banks in India. The RBI has shown certain interest to involve more of foreign banks than the existing one recently. This step has paved a way for few more foreign banks to start business in India.

11.Banking Services In India

With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. A competition has been established within the banks operating in India.

With stiff competition and advancement of technology, the services provided by banks have become more easy and convenient. The past days are witness to an hour wait before withdrawing cash from accounts or a cheque from north of the country being cleared in one month in the south.

This section of banking deals with the latest discovery in the banking instruments along with the polished version of their old systems.

12.The Banking Regulations Act 1949

Banks are public service institutions dealing with the funds of the public. The act was introduced in March 1948 and was passed in the parliament in February 1949. It covers following points related with Banking.

- Definition of Banking
- Business of Banking company and Prohibited Business
- Capital Requirement
- Management of Banks
- Maintenance of Liquid Assets
- Licensing of Banks
- Opening of new branches
- Provisions Regarding Loans and Advances
- Inspection of Banks
- Powers of the Reserve Bank of India
- Returns to be submitted

- Acquisition of Business
- Winding up of Banking Companies
- Amalgamation of Banking Companies
- Miscellaneous-Penalties
- Application of Act to Co-operative Banks.

13.Present Services Provided By The Banks In India

Deposits, advances, lockers facility, payments and settlements, other financial services. We can study the main aspect of advances and loan with respect to following points Profit is the pivot on which the entire business activity rotates. Banking is essentially a business dealing with money and credit. Like every other business activity. Banks are profit oriented. A bank invests its funds in many ways to earn income. The bulk of its income is derived from loans and advances.

Banks make loans and advances to traders, businessmen and industrialists against the security of some assets or on the personal security of the borrower. In either case, the banks run the risk of default in repayment. Therefore, banks have to follow a cautious policy and sound lending principles in the matter of lending.

14.Future Of Banking In India

The banks in India have to trace on following points in future to cope with the global challenges

- Customer Service
- Online banking with core banking facility
- ATM locations at prominent places
- Security in Financial Transactions
- Safe Deposits
- Use of Advanced tools and software's to provide service to customers
- Regulatory framework for compliance
- Need for asset – liability Management
- Different types of products and services offered by banks
- Chaining nature of banking operations.
- New channels to provide banking services like Phone banking, Tele banking, Internet Banking and Mobile Banking.

15.Conclusion

The banking system of India has derived from the past history and the present of the banking system is working on the basis of the past principles of banking. The future of the banking system in India is more vivid and is having good and bright future. The banking system of India is doing a good and more proven job in the present and the past of the banking has supported the present very much in knowing the drawbacks and in gaining the major fruitful results. The future is also based on the present working of the banking and the present of the banking is gaining a much business nowadays and which is providing a good and fruitful future ahead. The demanding needs of the present working are to be satisfied in the future and hence the demand of the banking business would be fulfilled.

The Banking in India is becoming the major player in India economy by which the strict policies to safeguard the assets of the customer in terms of deposits , lockers and other facilities and services provided by the banks in India. The Banks have sustained their profits in present recession by which it is implied that the banks can further use advance technology to serve the customers. The paper highlights the need and basic concepts of the banks with future scope in terms of reaching to the large masses.

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