Evolution of Indian Banking System

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Abstract- *This study totally based on evolution of Indian banking system, it has a great history and structure, from pre-independence phase to present date the banking system in India divided in different phases pre-independence phase, post-independent phase, again post independent phase divided into nationalization and liberalization, in each stage the banking system has developed best strategies to reach to every corner of the country and it also provide best schemes for agricultural sector by RRB's, In present days the banking system has been achieved tremendous changing in services for providing better services to their customers. This study include recent merger's in Banking system which may help to decrease the competition among and it also increase the national income of the country.*

I. BANKING DEFINITION

The word bank derived from Italian word banco because Italian merchants made deals to borrow and lend money beside the bench. They use to place the money on the bench, bank is a financial institution that is licensed to deal with money and its substitutes by accepting time and demand deposits making loans and investing in securities.it generate the profits from the difference in the interest rates they charged and paid.

Evolution of banking system in India:

Banking system in India can be divided into different phases, they are given below.

- Pre -independence phase (1786-1947)
- post -independence phase (1947-to till date)

The post -independence phase period may further be divided into two phases

- Nationalisation period (1969 to 1991)
- Liberalisation period (1991 to till Date)

Pre independence phase:

- India have a specified beginning in the last decade of 18th century with the foundation of English agency hours in Bombay and Calcutta. The banking system in India traced with the foundation of Bank of Calcutta in 1786. Bank of Bengal, Bank of Bombay and bank of madras are called presidency banks which was established in the 19th century under British east Indian company.
- Allahabad bank was the first Indian-owned bank which was set up in 1865 in Allahabad
- The Punjab national bank was established in 1895
- Bank of India joined the race in 1906 in Mumbai

Reserve bank of India:

After the first world war, a huge financial crises raised in the country to overcome those crises the British government formed The Helton young commission in 1920, the commission proposed government to create a central bank in 1926. After several changes the bill was passed in the legislative assembly and governor general assent in 1934. After one year the bill was passed in the assembly in 1935, Reserve bank commenced services as India's central bank.

The reserve bank of India was based on the guidelines proposed by the central legislative assembly which passed the guidelines as the RBI act 1934.RBI conceptualized guidelines working style and outlook presented by Dr B.R. Ambedkar in his book "the problem of the rupee"

It is not started has government bank. First it is started has a private bank without any major support and ownership, it just started with 5 crores share capital which was divided into 100 each fully paid up in the starting stage the total capital was owned by the private shareholders initial capital 5 crores amount was divided 497800 in the hands private shareholders and remaining 220000 was in the hands of central government.

The headquarters of RBI were in Kolkata, in 1937 shifted to shahid bhagat Singh Marg in Mumbai

The original seal of RBI was double mohur with a sketch of a lion and palm tree, however it was replaced with tiger national animal of India.

Post independence phase:

During the independence period the banking sector was in the hands of private ownership, most of the rural population of the country had to depend on money lenders for the requirements, to solve rural people issues and better development of Economy. The government of India nationalised the reserve bank of India in 1949.Imperial bank of India was nationalized and named as a state bank of India in 1955 under banking regulation act enacted in 1949.

In the 1950's the government of India under the first prime minister Jawaharlal Nehru, developed centrally economic policy that mainly focused on the agricultural sector. They named it has administration nationalized commercial banks, under the banking companies act 1949, help of this book they provide loans to agricultural sectors with low rate of interest when compared to money lender in the village and the government developed the strategies to reach every corner of the country about this policy.

Nationalisation phase:

The banking system in India immensely developed after Nationalization. but there is a big gap between rural weaker sections and banks, they are still not covered under the banking system policies. To overcome those issues the government formed NARASIMHAM COMMITTEE in 1974. The NARASIMHAM COMMITTEE recommended to establish RRB (regional bank of India) on 2nd oct 1975 it was established with an objective to extend the amount of credit to the rural section of the society. With the help of RRB the banking sector set out to reach the rural areas of the country. The government of India took a major step in 1969. The government has nationalized 14 major banks who's national deposits were more than 50 crores which are given below.

1. Allahabad Bank
2. Bank of India
3. Punjab national Bank
4. Bank of Baroda
5. Bank of Maharashtra
6. Central Bank of India
7. Canara Bank
8. Dena Bank
9. Indian overseas Bank
10. Indian Bank
11. United Bank
12. Syndicate Bank
13. Union Bank of India
14. UCO Bank

In 1980's six more banks were nationalized

1. Andhra Bank
2. New Bank of India
3. Oriental Bank of commerce
4. Punjab and Sindh Bank
5. Corporation Bank
6. Vijaya Bank

Liberalisation phase:

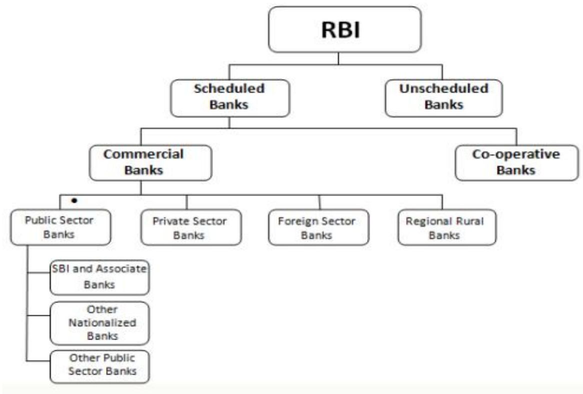
Order to improve financial stability and profitability of public sector banks the government of India formed a committee under the chairmanship of Shri-NARASIMHAM, the committee recommended several measures to reform banking system in the country.

- The major step to make banks competitive and strong and **coercive** to the financial system.
- They also suggested for no more nationalisation of banks
- In order to make banks more competitive, the NARASIMHAM committee suggested public and private sector banks has to be treated equally by the government as well as RBI.
- It was emphasised that banks banks should be encouraged to abandon the conservative and traditional system of banking and adopt progressive function such as merchant banking and retail banking etc.,
- Now foreign banks and Indian banks permit to set up joint Ventures. this is the new form of financial services.

II. STRUCTURE OF BANKING SYSTEM

The Indian banking industry was divided into two parts. Scheduled banks and unscheduled banks under reserve bank of India.

Further they divided according to their performance which has been shown below.



Scheduled banks:

Scheduled banks as name suggest the bank which are accounted in the second scheduled of the RBI Act 1934,

To qualify as a scheduled bank the bank has to conform the following conditions

- The minimum paid up capital and reserve must be 5 lakhs The banks should satisfy the central bank, because its affairs are not carried out in ways that carry harm to depositors interest.
- The bank need to be a corporation rather than a partnership firm sole-proprietorship
- The bank has to maintain CRR with the central bank at specified rates.
- Scheduled banks are divided into commercial banks and co operative banks

Commercial Banks:

Commercial banks are type of financial institution which provide services like accepts deposits, checking account services, makes various types of loans and offering financial products services like certificates of deposits and saving of small businesses, individuals. they issue different types of loans which may include mortgages, auto loans, business loans and personal loans etc.,

Co operative banks:

Co operative banks is an financial institution established on a co operative basis it deals with ordinary banking business services like other banks, this banks are set up by collecting funds through share, grant loans, And accept deposits.

Non scheduled banks:

A scheduled bank is eligible for obtaining loans debts on bank form Reserve bank of India Scheduled banks gains membership of clearing houses, non-scheduled banks refer to those which are not included in the scheduled banks are called non-scheduled banks

Comparison chart:

BASIS OF COMPARISON	SCHEDULED BANKS	NON-SCHEDULED BANKS
Meaning	The minimum paid up capital is Rs. 5 lakhs and it does not harm the interest of depositors.	Non-scheduled banks are the banks which do not follow with the rules specified by the Reserve Bank of India
Second Schedule	The banks which Listed in the second schedule	The banks which are Not listed in the second schedule
Cash Reserve Ratio	The ratio Maintained with RBI	The ratio Maintained with themselves
Borrowing	Scheduled banks can borrow money from RBI for regular banking purposes.	Non-Scheduled banks can't borrow money from RBI for regular banking purposes.
Returns	Returns To be submitted periodically	There is no such provision of submitting periodic returns
Members of clearing house	Scheduled banks can become a member of clearing house.	Non-scheduled cannot become member of clearing house.

Recent trends in banking system:

The evolution of the banking system immensely developed form the pre- independence to still date the recent trends which make the banking system strong and easy to perform the transaction by the people.

Electronic payment services:

In Recent time we are heard about e-mail, e-governance, e-commerce, In the same way, a new technology was developed by US for introduction of e-cheque, which will replace conventional paper cheque, The negotiable Instruments Act has already been revise to include Truncated cheque and E-cheque instruments

Real time gross settlement:

Real Time Gross Settlement system in India were introduced in March 2004, though this system electronics instructions can be given by banks to transfer funds from their account to the account of another bank. This system totally maintained and operated by the Reserve bank of India. And provide faster funds transfer among banks facilitating their financial operations. Money reach the beneficiary instantaneously and beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

Electronic funds transfer:

Electronic Funds Transfer is a system, Anyone who wants to make payment to another person or company can approach his home bank and make cash payment or give instructions and authorization to transfer funds directly from his own account to the bank account of the receiver, for this transfer Complete details such as the receiver's name, bank account number, account type bank name, city, branch name etc. has to be submitted to the bank when requesting for such transfers, so that the amount reaches the beneficiaries' account correctly and faster.

Electronic clearing services:

Electronic Clearing Service is kind of a retail payment system which can be use to make bulk payments or receipts of a similar in nature especially where each individual payment of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make or receive large amount of payments rather than for funds transfers by individuals.

Automatic teller machine:

Automatic Teller Machine is the most popular devise in India, which helps the customers to withdraw their money 24/7. It allows customer who has an ATM card to perform routine banking transactions without interacting with a human. In addition to cash withdrawal, it provides different services like payment of utility bills, funds transfer between accounts, deposit of cheques, balance enquiry etc.

Tele banking:

Tele Banking helps the customer to do entire non-cash related banking services on telephone. Automatic Voice Recorder is used for simpler queries and transactions under this device. For any queries and transactions, phone terminals are used.

Merging’s:

The government introduced a mega plan to merge 10 public sector banks into four banks, it is a plan to create fewer and stronger global-sized lenders as it looks to boost economic growth from a six-year low.

Oriental Bank of Commerce, Punjab National Bank and United Bank of India are going to combine to form the nation's second-largest lender; Canara Bank and Syndicate Bank will merge; Union Bank of India will amalgamate with Andhra Bank and Corporation Bank; and Indian Bank and Allahabad Bank will merge together only six PSU banks that will remain independent after this mega merge, Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab and Sind Bank, Bank of India, central bank of India which have strong regional focus, will continue as separately.

Punjab National Bank take overs Oriental Bank of Commerce and United Bank to create a bank with 17.95 lakh crore business and 11,437 branches.

The fourth largest public sector bank with 15.20 lakh crore business and a branch network of 10,324.will be created by merger of Syndicate Bank with Canara Bank, and the fifth largest public sector bank with 14.59 lakh crore business and 9,609 branches will be formed by Andhra Bank and Corporation Bank's merger with Union Bank of India.

The Allahabad Bank and Indian bank merge will create the seventh largest public sector bank with 8.08 lakh crore business with strong branch networks in the south, north and east of India.

In 2018, the government had merged Dena Bank and Vijaya Bank with Bank of Baroda, creating the third-largest bank in the country.

After the mergers, the country remains with 12 public sector banks which including State Bank of India and Bank of Baroda.

III. CONCLUSION

Indian banking system has a tremendous history from pre-independence to till date, the banking industry achieved various changes and faced different challenges to grow national income of the county and also standard of living, it has been reached every corner of the country and provide different services to each and every individuals to reduce their financial crises by providing loans. And With helps of Merger and amalgamation, banks and the economy will function more efficiently because it helps in the increase of the resources and profits. It is done to reduce the competition in the market, but it is good only when the economy does not get affected due to competition, merger and amalgamation increase the efficiency of the bank and it also leads to loss of their own identities.