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# Indian Banking- Stages of the Development And Recent Trends

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**ABSTRACT**

*With the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025 according to KPMG-CII report, India's banking and financial sector is expanding rapidly. The Indian Banking industry is currently worth Rs. 81 trillion (US $ 1.31 trillion) and banks are now utilizing the latest technologies like internet and mobile devices to carry out transactions and communicate with the masses.*

*The Indian banking sector consists of 26 public sector banks, 20 private sector banks and 43 foreign banks along with 61 regional rural banks (RRBs) and more than 90,000 credit cooperatives .Advantaged by issuance of new licences and efforts being made by the RBI and the Government to expand financial services into rural areas, the hiring trend may further get a boost from the public sector banks. Since most banking workforce is scheduled to retire in the times to come, they would be in dire need of fresh talent. According Randstad India, global HR service provider in India, the banking sector will generate 7-10 lakh jobs in the coming decade and the sector would be the among top job creators in 2014.*

**KEYWORDS : Banking ,Nationalisation ,Recent Trends, E-banking**

**Introduction:**

In order to make the Reserve Bank of India more powerful ,the Indian government nationalised it on january 1,1949.With a view to have the co-ordinated regulation of Indian banking Act was passed in march 1949.According to this Act , the Reserve Bank of India was granted extented powers for the inspection of non scheduled banks. For the development of the banking facilities in the rural areas the Imperial bank of India was partially nationalised on july 1,1955 and it was renamed State bank of India .Along with it other 8 banks were converted as its associate banks which form what is named as the State Bank Group. They are as follows-

1.The State Bank of Bikaner and Jaipur
2. The State Bank of Hyderabad.
3. The State Bank of Indore.
4. The State Bank of Mysore.
5. The State Bank of Saurashtra.
6. . The State Bank of Patiala.
7. The State Bank of Travancore.

After unification of two banks- The State Bank of Saurashtra and State bank of Indore, the State Bank Group now has only 5 Associate Banks other than State Bank of India.

In order to have more control over the banks ,14 large commercial banks whose reserves were more than Rs 50 crore each were nationalised on 19 th july,1969.The nationalised banks are as follows:

1. The Central Bank of India
2. Bank of India
3.Punjab National Bank.
4. Canara Bank.
5. United Commercial Bank.
6. Syndicate Bank
7. bank of Baroda
8.United Bank of India
9. Union Bank of India
10. Dena Bank
11. Allahabad Bank
12.Indian Bank
13.Indian Overseas Bank
14. Bank of Maharashtra

After one decade ,on April 15,1980,those 6 private sector banks whose reserves were more than Rs 200 crore each were nationalised .These banks are as:

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

On 4 th September, 1993 the Government merged the New Bank of India with Punjab National Bank and as a result of this the total number of nationalised bank got reduced from 20 to 19.

after joining IDBI Bank in the club of public sector banks ,the number of nationalised banks in the country again reached 20 from 19.

With the transition of the Indian economy to a higher growth trajectory, the provision of adequate and timely availability of bank credit to the productive sectors of the economy has acquired importance. As public sector banks still own about 71 per cent of the assets of the banking system, they continue to play an important role in responding to the changes in the economic environment . As the banking regulator and supervisor and as the monitory policy authority, the Reserve Bank of India continues to guide the banking system, including foreign, private sector and public sector banks, to meet emerging economic challenges.

As certain rigidities and weaknesses were found to have developed in the banking system during the late eighties, the government felt that these had to be addressed to enable the financial system to play its role in ushering in a more efficient and competitive economy. Accordingly a high level committee under the chairman ship of Shri. m. Narasimham on the financial system was set up on August 14,1991 to examine all aspects relating to the structure organisation ,functions and procedures of the financial system. Based on the recommendations of the committee a comprehensive reform of the banking system was in introduced in 1992-93.

A high level committee under the chairman ship of Shri. M. Narasimham was constituted by the Government of India in December 1997 to review the record of implementation of the financial system reforms recommended by the CFS in 1991 and chart the reform necessary in the years ahead. The committee submitted its report to the Government in April 1998.

**Recent Trends in Indian Banking Sector**

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system.

In the banking field, there has been an unprecedented growth and diversification of banking industry has been so stupendous that it has no parallel in the annals of banking anywhere in the world.

During the last 41 years since 1969, tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers.

Massive branch expansion in the rural and underdeveloped areas, mobilisation of savings and diversification of credit facilities to the either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking.

There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA's. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend, but lent for a purpose and with a purpose ought to be the slogan for salvation."

The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualised. That means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers.

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. There will be more transparency and disclosures.

**Factors promoting growth of Banking and Financial Services**

The Banking Laws (Amendment) Bill that was passed by the Parliament in 2012 allowed the Reserve Bank of India (RBI) to make final guidelines on issuing new bank licenses. Moreover, the role of the Indian Government in expanding the banking sector is noteworthy. It is expected that the new guidelines issued by RBI will curb practices of impish borrowers and streamline the loan system in the country. In the coming time, India could see a rise in the number of banks in the country, a shift in the style of operation, which could also evolve by incorporating modern technology in the industry.

Another emerging trend witnessed by the banking sector is the use of social media platform like Facebook to attract customers. In September 2013 ICICI bank launched a Facebook bill payment and fund transfer service called 'Pockets' for customer convenience.

According to a report by Zinnov, a Globalization and Market Expansion firm, 'IT adoption in BSFI sector in India', the Information Technology Industry spend in BFSI vertical is expected to reach USD 3.5 billion by Financial Year 2014. The study also highlighted 'the growing maturity of Indian BFSI organizations in IT adoption, as technology is seen as a driver of business value. Technology firms have great potential to explore in the BFSI sector, which contributes to eight per cent of India's Gross Domestic Product.'

**Conclusion**

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. There will be more transparency and disclosures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures.

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