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Study and analysis Trend and Progress of Banking in India

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ABSTRACT

As far as the Indian banking is concerned it can be categorized in different modes such as government owned, private banking and specialized banking institution. In India Reserve Bank of India is the control body which works above to all Indian banks. Since from 1969 the public sectors banks has cover-up the decades to establish the Indian banking sector due to the demand of customer value and customer base. The dull moving public sector banks have turned out fast to be on track to cope up with trend. India banks are now at higher value in comparison to Asian banks (viz. Hong Kong, Singapore, Philippines etc.) that have major problems linked to huge Non Performing Assets (NPAs) and payment defaults. Co-operative banks are nimble footed in approach and armed with efficient branch networks focus primarily on the 'high revenue' niche retail segments. The Indian banking has finally worked up to the competitive dynamics of the 'new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization. Banks that employ IT solutions are perceived to be 'futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base. Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Internet has emerged as the new and challenging frontier of marketing with the conventional physical world tenets being just as applicable like in any other marketing medium.

Keywords : Reserve bank, credit policy, Monetary.

Study and analysis Trend and Progress of Banking in India

The Indian banking has come from a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely brought about by the large dose of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams (i.e. borrowing and lending). The banking in India is highly fragmented with 30 banking units contributing to almost 50% of deposits and 60% of advances. Indian nationalized banks (banks owned by the government) continue to be the major lenders in the economy due to their sheer size and penetrative networks which assures them high deposit mobilization. The Indian banking can be broadly categorized into nationalized, private banks and specialized banking institutions. The Reserve Bank of India acts as a centralized body monitoring any discrepancies and shortcoming in the system. It is the foremost monitoring body in the Indian financial sector. The nationalized banks (i.e. government-owned banks) continue to dominate the Indian banking arena. Industry estimates indicate that out of 274 commercial banks operating in India, 223 banks are in the public sector and 51 are in the private sector. The private sector bank grid also includes 24 foreign banks that have started their operations here. Under the ambit of the nationalized banks come the specialized banking institutions. These co-operatives, rural banks focus on areas of agriculture, rural development etc. The banking section will navigate through all the aspects of the Banking System in India. It will discuss upon the matters with the birth of the banking concept in the country to new players adding their names in the industry in coming few years. The banker of all banks, Reserve Bank of India (RBI), the Indian Banks Association (IBA) and top 20 banks like IDBI, HSBC, ICICI, ABN AMRO, etc. has been well defined under three separate heads with one page dedicated to each bank.

Scheduled Commercial Banks in India

The first deals with the history part since the dawn of banking system in India. Government took major step in the 1969 to put the banking sector into systems and it nationalized 14 private banks in the mentioned year. This has been elaborated in Nationalization Banks in India. The last but not the least explains about the scheduled and unscheduled banks in India. Section 42 (6) (a) of RBI Act 1934 lays down the condition of scheduled commercial banks. Private banking in India was practiced since the beginning of banking system in India. The first private bank in India to be set up in Private Sector Banks in India was IndusInd Bank. It is one of the fastest growing Bank of Private Sector Banks in India. IDBI ranks the tenth largest development bank in the world as Private Banks in India and has promoted a world class institution in India. The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector banks in India as part of the RBI's liberalization of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as Scheduled Commercial Bank in January 1995. ING Vysya, yet another Private Bank of India was incorporated in the year 1930. Bangalore has a pride of place for having the first branch inception in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya Bank has many credits to its account.

RESEARCH METHODOLOGY

Research methodology is a systematic way, which consists of series of action steps, necessary to effectively carry out research and the desired sequencing to these steps. The marketing research is a process of involves a no. of inter-related activities, which overlap and do rigidly follow a particular sequence. It consists of the following steps:-

- Formulating the objective of the study
- Designing the methods of data collection
- Selecting the sample plan
- Collecting the data
- Processing and analyzing the data
- Reporting the findings

At the top of the banking system is the Reserve Bank of India, which is responsible for prudential supervision of banks, non-banks and for performing other central banking functions. There were two successive nationalizations of banks in India, one in 1969 and the other in 1980 and as a result public sector banks occupy a predominant role in Indian financial system. Despite a phenomenal expansion of number of branches, the population served per branch stood at 13,000 (RTPB, 1996, 5p. 126). This is due to the fact that population of the country has been growing unabated (crossed 1 billion mark recently) and branch network cannot keep pace with it due to the costs involved.



Objective of the study:

- To know about role of Bank in the Indian economy.
- To know about development of Indian banking system
- To get an overview of the Indian Banking system
- To get knowledge about the services provided by the banks.
- To know about the progress of Bank in India.
- To know about trend & progress of Indian bank abroad..
- To find trend in Indian economy.

An overview of the Indian banking sector

It is important to take stock of the special features of the banking sector in India, in order to put the efficiency issues in perspective. India is the largest country in South Asia with a huge financial system characterized by many and varied financial institutions and instruments. Indian banking sector was well developed even prior to its political independence in 1947. 'There was significant presence of both foreign and domestic banks and well developed stock market' (Bery, 1996, p. 245). The system expanded rapidly after nationalization of major commercial banks in late 1969 and 'now ranks in the top quarter among developing countries'.

Indian banking was subjected to tighter governmental control over the ownership from the late 1960s known as social control over banks: the government nationalized the banks later. The banks were subjected to directed credit, prescribed interest rates and substantial pre-emption of deposits. The banking services that were mostly confined to metropolitan areas were expanded to the rural areas. Thus, while at the end of 1964 only 10 per cent of the commercial banks were located in rural areas, the proportion increased to 45 per cent thirty years later. The share of advances to activities in the priority sector¹ increased substantially after nationalization. The overall priority sector credit target is presently 40 per cent

of net bank credit for both public sector and private sector banks. For foreign banks, the target is 32 per cent. The 1 Priority sector refers to the lending for agriculture and other rural sector of the economy, poverty alleviation programs, exports, small-scale industries and such other purposes. Share of priority sector advances in total credit of commercial banks increased from 14 per cent in 1969 to 30 per cent in 1980 and to 39 per cent in 1985.

Since the early 1990s, the Government of India has implemented many banking sector reforms. These include lowering of the cash reserve ratio from 15 per cent (1993-94) to present 8.5 percent (July 2000), lowering of the statutory liquidity ratio from 38.5 per cent (1992-93) to 28.2 per cent (1995-96), a gradual deregulation of interest rates on deposits and lending, introduction of prudential norms in line with the international standards and the like. A system of flexible exchange rates on current account has been adopted. The Committee on the Financial System, appointed by the Government of India in 1991, identified directed investment and credit programs as the two main sources of declining efficiency, productivity and profitability among commercial banks. Consequently, the percentage of priority sector advances has declined to 37 per cent (1998) and percentage of rural branches network has come down to 42 per cent. These and similar other policy initiatives indicate the desire to make Indian banking more competitive by establishing a level playing field among the three groups of banks. As more than eight years have now elapsed since the initiation of the banking sector reforms, it is appropriate to take stock of the production efficiency of banks in India.

Maturity Profile of Assets and Liabilities of Banks

The maturity structure of commercial banks' assets and liabilities reflects various concerns of banks pertaining to business expansion, liquidity management, cost of funds, return on assets, asset quality and also risk appetite during an industrial upturn. In general, major components of balance sheet, including deposits, borrowings, loans and advances and investments, for all bank groups encompassed a non-linear portfolio structure across the spectrum of maturity during 2004-05. Furthermore, for all banks groups, the maturity structure of loans and advances depicted a synchronous behavior with that of deposits. The maturity structure of deposits and that of investments differed across bank groups. PSBs and old private banks held a larger share of their investment in higher maturity bucket, particularly more than five-year maturity bucket, while private sector and foreign banks held more than 50 per cent of their investments in up to one year maturity bucket. The residual maturity classification of consolidated international claims reveals that banks continued to prefer to invest in/lend for short-term purposes, particularly 'up to 6 months' period whose Table III.18: Maturity (Residual) Classification of Consolidated International Claims of Banks share in total claims increased by 3.4 percentage points to 73.6 per cent during 2004-05

'Know Your Customer' (KYC) Guidelines – Anti-Money Laundering Standards

NBFCs/RNBCs were advised in January 2004 to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to the appropriate authority. The 'know your customer' (KYC) guidelines were revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti-Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Subsequently, the Reserve Bank issued detailed guidelines to banks based on the recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision. NBFCs were advised on February 21, 2005 to adopt the same guidelines with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures is formulated and put in place with the approval of him Board within three months. NBFCs are required to ensure full compliance with the provisions of the guidelines before December 31, 2005.

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

Certain sections of the SARFAESI Act, 2002 were amended by passing the Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2003. The amendment to the Act was necessitated in view of the Supreme Court judgment and suggestions received from various sources including Indian Banks' Association (IBA), NHB and the Government. The constitutional validity of the SARFAESI Act was challenged in the Supreme Court in the case of Mardia Chemicals Ltd. vs. ICICI Bank Ltd. and others. The Supreme Court while upholding the Act declared sub-section (2) of Section 17 of the Act, requiring the defaulting borrower to redeposit 75 per cent of the liability in case the borrower wants to appeal

against the order of the attachment of an asset, as ultravires of Article 14 of the Constitution of India.

Supervision of NBFCs

Supervisory oversight by the Reserve Bank over NBFCs encompasses a four-pronged strategy; (a) on-site inspection based on the CAMELS methodology; (b) off-site monitoring supported by state-of-the-art technology; (c) market intelligence; and (d) exception reports of statutory auditors. During the period April 2004 to March 2005, a total of 573 (318 deposit taking companies and 255 no deposit taking companies) registered NBFCs were inspected. In addition to the inspections, the Bank also conducted 236 snap scrutinizes.

Financial Assets of Financial Institutions

Institution	1991	2000	2001	2002	2003	2004	2005 P
1	2	3	4	5	6	7	8
A. All India Financial Institutions (1 to 10)	57,372	2,29,109	2,42,062	1,71,215	1,80,740	1,95,247	1,39,153
			(5.7)	(-29.3)	(5.6)	(8.0)	(-28.7)
1. IDBI*	22,701	70,576	68,822	65,444	61,831	66,322	N.A.
			(-2.5)	(-4.9)	(-5.5)	(7.3)	N.A.
2. ICICI@	7,084	65,571	73,676	N.A.	N.A.	N.A.	N.A.
			(12.4)	N.A.	N.A.	N.A.	N.A.
3. IFCI	5,835	22,800	21,808	20,723	21,127	18,165	15,976
			(-4.4)	(-5.0)	(2.0)	(-14.0)	(-12.0)
4. IIBI	818	4,004	4,232	4,089	3,183	2,849	2,439
			(5.7)	(-3.4)	(-22.2)	(-10.5)	(-14.4)
5. EXIM Bank	1,984	6,995	7,362	8,051	12,269	15,456	18,369
			(5.3)	(9.4)	(52.4)	(26.0)	(18.8)
6. SIDBI	5,317	16,388	16,909	17,458	17,427	19,140	18,161
			(3.2)	(3.2)	(-0.2)	(9.8)	(-5.1)
7. NABARD	12,664	33,082	38,655	44,454	50,642	55,642	60,544
			(16.8)	(15.0)	(13.9)	(9.9)	(8.8)
8. NHB	969	6,251	6,836	6,872	9,802	11,344	17,405
			(9.4)	(0.5)	(42.6)	(15.7)	(53.4)
9. TFCI	-	985	862	872	791	710	592
			(-12.5)	(1.2)	(-9.3)	(-10.2)	(-16.6)
10. IDFC	-	2,457	2,901	3,252	3,668	5,619	5,668
			(18.1)	(12.1)	(12.8)	(53.2)	(0.9)
B. State Level Institutions (11 and 12)	10,049	24,518	31,993	38,904	53,044	60,942	60,942 #
			(30.5)	(21.6)	(36.3)	(14.9)	-
11. SFCs	6,412	12,218	12,692	12,712	17,026	20,708	20,708 #
			(3.9)	(0.2)	(33.9)	(21.6)	-
12. SIDCs	3,637	12,300	19,301	26,192	36,018	40,234	40,234 #
			(56.9)	(35.7)	(37.5)	(11.7)	-
C. Investment Institutions (13 to 15)	58,566	2,61,885	3,07,732	3,50,538	3,34,570	4,33,178	4,39,409
			(17.5)	(13.9)	(-4.6)	(29.5)	(1.4)
13. UTI +	23,164	75,102	85,426	64,223	N.A.	N.A.	N.A.
			(13.7)	(-24.8)	N.A.	N.A.	N.A.
14. LIC	29,040	1,59,949	1,92,482	2,44,448	2,89,630	3,72,052	3,72,052 #
			(20.3)	(27.0)	(18.5)	(28.5)	-
15. GIC and its subsidiaries	6,362	26,834	29,824	41,867	44,940	61,126	67,357
			(11.1)	(40.4)	(7.3)	(36.0)	(10.2)
D. Other Institutions (16 and 17)	1,988	6,954	7,954	8,596	9,523	10,973	12,336
			(14.4)	(8.1)	(10.8)	(15.2)	(12.4)
16. DICGC	1,744	5,607	6,311	6,933	7,786	9,094	10,146
			(12.6)	(9.9)	(12.3)	(16.8)	(11.6)
17. ECGC	244	1,347	1,643	1,663	1,737	1,879	2,190
			(22.0)	(1.2)	(4.4)	(8.2)	(16.6)
E. Grand Total (A+B+C+D)	1,27,975	5,22,466	5,89,741	5,69,253	5,77,877	7,00,340	6,51,840

N.A. : Not Applicable.

P : Provisional.

* : IDBI was converted into a bank in October 2004.

@ : ICICI was converted into a bank in May 2002.

+ : The Unit Trust of India Act, 1963 was repealed through an ordinance on October 30, 2002 and UTI was restructured by splitting it into two parts, viz., UTI-I and UTI-II (later renamed as UTI Mutual Fund), in January 2003.

: Figures repeated.

Note : 1. Data pertain to the accounting year of the respective financial institutions. The accounting year of IFCI was changed to financial year from 1993-94.

2. Figures in parentheses indicate percentage change over the previous year.

Source : Balance sheets of respective FIs.

Conclusion:

Although the financial system in India has developed considerably over the years, the ratio of bank assets to GDP in India is still low in comparison with that prevailing in several other emerging market economies. This combined with the fact that India's economy is growing at a robust rate, would suggest that there is enormous potential for future growth of banking, especially in rural and semi-urban areas. Subsequent to the issuance of the guidelines for mergers between non-banking financial companies and banks, the Reserve Bank also issued guidelines for mergers between private banks in May 2005. The principles underlying these guidelines would be applicable, as appropriate, to public sector banks also, subject to the provisions of the relevant legislation. It is expected that consolidation of the domestic banking system in both public and private sectors would be combined with gradual and calibrated enhancement of the presence of foreign banks. The move towards consolidation also encompassed the financial institutions (FIs), which have been providers of long-term finance. Two large term-lending institutions have already converted into banks. The Government of India has notified on September 12, 2005, under Section 23A of the RRB Act, 1976, State level amalgamation of 28 RRBs into 9 new RRBs in six states, viz., Bihar, Gujarat, Karnataka, Maharashtra, Punjab and Ut-

tar Pradesh. The amalgamations have become effective from September 12, 2005. The growing complexity of the financial sector with banks, insurance companies and NBFCs making foray into non-traditional activities, has led to the emergence of financial conglomerates which pose a significant risk to the financial sector. Accordingly, it was felt desirable to move away from the segmented approach to supervision to a comprehensive process involving inter-regulatory exchange of information. Based on a consultative approach, a mechanism has been evolved, which seeks to capture intra-group transactions/exposures of identified financial conglomerates and exchange of relevant information among the principal regulatory authorities on a quarterly basis. Since different financial conglomerates have different lead area of operations, the oversight framework envisages that the principal regulators obtain data/ information in the prescribed format in respect of their conglomerates and address the issues of concerns arising out of the analysis of the data. As part of the process for closer and continuous interaction with the identified conglomerates, a system of half-yearly discussion with the Chief Executive Officer of these conglomerates in association with other principal regulators has been introduced to address outstanding issues and supervisory concerns.

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