Banking in India

Essay No. 01

Synopsis: The history of modern banking in India can be traced back to 1881. 14 major banks were nationalized in 1969 followed by another 6 in 1980. The Reserve bank of India was set up in 1934. The State Bank of India, with 7 associate banks is the largest bank in the country. There were 288 banks in March 1995 including nationalized and non-nationalized banks. At the end of March 1995 three were 62,346 bank offices including those of the foreign banks. Then there are number of Regional Rural banks numbering about 196. The establishment of National Bank for Agriculture and Rural Development in 1992 was another milestone in banking. The Export-import bank was set up in 1982 to look afar the financial needs of the exporters and importers. Indecent years there has been phenomenal growth in banking sector and continuing reforms have ensured their competitiveness, viability and profitability. So, some measures have been taken to tackle these problems.

The history of modern banking in India is about 100 years old. The first bank of limited liability managed by Indians was Oudh Commercials Bank established in 1881. Later Punjab National Bank was set upon tin 1894. Swedish movement which began in 1906 encouraged the formation of number co commercial banks. The Banking Companies was passed in January 1946 and the Banking Companies Act was passed in February 1946. The Banking Companies Act was passed in February 1949. The main objectives of public sector banks have been to mobilize savings and utilize them for productive purposes; to save large social purpose under close public regulation, legitimize credit needs of private sector industry and trade, to curb the use of nark credit for speculative and other unproductive purposes.

The Reserve Bank of India was set up me 1934 and nationalized in 1949.

The Main objectives of the Bank are regulating issue of bank notes, keeping foreign exchange reserves of the country, operating currency nod credit system and developing financial structure of the country on sound lines consistent with natal social-economic objectives and policies. The State Bank of India is the biggest commercial nab in the country. In these associated banks, SBI owns either the entire or the majority of share capital.

In the early years of independence, the number of bank offices was very

Small. Injure 1951, it stood at 5,115, it increased to 6,168 in June 1969. After the nationalization of banks. At the end of March 1995, there wren 62,346 bank offices and ranches including those of the foreign banks. There are now 196 Regional Rural banks in all Sates except Sikkim and Hogan having a network of 14,542 branches and covering 408 districts. In August 1996 the lending rates of these Regional Rural banks was deregulated by the RBI.

The overall performance of public sector banks was negative which meant 0.07 per cent return on assets. Low rates of return of many public sector banks, cooped with heavy losses of a few is a major source of concern. The total non-performing assets (NPAs) of the Indian banking system are the highest in the world. NPAs are lower in private and foreign banks because of a couple of reasons. The government has initiated some measures to correct and improve the situation which include focusing a drastic reduction of NPAs, further recapitalization of banks, and Asset Reconstruction Fund (ARE) etc. Another important measure is to set up a Settlement Advisory Committee (SAC), headed by a retired high court judge to advice on compromise of onetime settlement proposals.

A good deposit growth and sluggish off take of credit were other features of the banking scene during the period. The deposits of all scheduled commercial banks grew by 16.1 per cent (12.1 per cent last year); total credit rose by 8.9 per cent (20% per cent last year). Due to comfortable liquidity position, dependence of the banking system on high cost certificates of deposits for resource mobilization was substantially less. Another important feature of the year was the cross-border capital flows which led to a fore reserve growth with the attendant appreciation of rupee against dollar.

Essay No. 02

Banking in India

Some form of banking, mainly of the money lending type has been in existence in India from ancient time. It was only a little over a century ago that modern banking was born. The earliest institutions which took banking business under the British regime were agency houses which carried on banking business, in addition to their trade activities. Most of these agency house were closed down during early 1930s when there was a banking crisis. Even three Presidency banks had to be amalgamated into the imperial bank of India. The first of limited liability bank managed by Indians was Oudh Commercial Bank founded in 1881. Subsequently the Punjab National Bank was established in 1894. The Swadeshi movement which began in 1906 encouraged the formation of a number of commercial banks. Banking crisis in 1913-16 and failure of 588 banks in various states during the decade ending in 1949 underlined the need for regulation and controlling commercial banks. The Banking Companies (Inspection Ordinance) was passed in January, 1946 and the banking companies (Restriction of Branches) Act was passed in February, 1949 subsequently read as Banking Regulation Act. With a view to bringing commercial banks into the mainstream of economic development with definite social objectives, the government issued an ordinance on July 19, 1969, acquiring ownership and control of 14 major banks with deposits exceeding Rs. 50 crores each. Six more commercial banks were nationalized on April 15,1980.

The State Bank of India is the largest commercial bank in the country and is among the 100 topmost banks in the world. The State Bank has seven subsidiary banks attached to it. Besides these public sector banks which control over 90 percent of the banking activity in the country, there are non-nationalized scheduled banks and non-scheduled banks. A bank which has capital and reserves of over Rs. 5 lakh is called a scheduled bank and those which have capital and reserves less than this limit prescribed by the RBI Act, are categories as nonscheduled banks.

The number of scheduled commercial banks, both nationalized and non-nationalized, stood as 272 at the end of March 1993. There were also four non scheduled banks. Besides there were 19 foreign banks operating in the country.

Bank Credit: The banking sector has been keeping steady pace with the increased requirements of the economy. In March 1969, the bank credit amounted to only Rs. 3,464 crores, which increased to Rs. 4,684 crores in March 1971. There was a six-fold increase in bank credit between 1971 and 1981, between 1981 and 1991, there was a five-fold expansion in bank credit. In June 1991, the credit extended by the commercial banks stood at Rs. 1,16,301 crores. Advances of scheduled commercial banks increased to Rs. 1,33,644 crores by June 1992 and to Rs.1,55,515 crores by June 1991. At the end of December 1996, the amount of outstanding advances accounted for 8.7% of their net bank credit and 21.1 % of the aggregate priority sector advances. And at the end of March 1997 public sector I inks extended Rs. 231,012 crores constituting 16.4% of the net bank credit to the agriculture sector.

Regional Rural Banks (RRBS): These banks were set up to take the banking service to the doorsteps of rural masses specially in remote rural areas. These banks are supposed to provide institutional credit to the weaker section at concessional rate of interest, who had perforce been depending on private money lenders. These banks are also expected to mobilize rural savings and channelize for supporting productive activities in the rural areas. In March 1997, there were 196 RRBs covering 436 districts with a network of 14,450 branches. Their loans and advances stood at 7,852.7 crore in September 1996. Rs. 15,423 crores were also mobilized by way of deposits by RRBs at the same time. Owing to non-utilizations of advances, RBI allowed increase in interest rates between -12% to 22% as minimum and maximum rates, respectively.

National Bank for Agriculture and Rural Development (NABARD) : In the field of rural credit and agricultural development, establishment of NABARD is a major event. This bank was established in July 1982 as an apex body with the responsibility for overall development, policy planning and financial support for agriculture and rural development. The NABARD provides credit to rural sector through co-operative banks, commercial banks, regional rural banks and other financial institutions set up to finance rural development. The bank ensures co-ordination in operations of various institutions engaged in the field of rural credit.

Export-Import of India: Established in 1982, this bank helps the financial assistance of exporters and importers so as to facilitate and promote foreign trade in India. During the year ending March 1997, EXIM bank sanctioned loans totaling Rs. 1,242 crores while disbursements amounted to Rs. 1,251 crores.

Reserve Bank of India: RBI was established on April 1, 1935 and nationalized on January 1, 1949. This bank was the sole authority for issue of currency in India other than rupee one coins and subsidiary coins and notes. As the agent of the Central Government, Reserve Bank undertook the distribution of one-rupee notes and coins, as well as small coin issued by the government. The bank acts as a banker to the Central Government, state government, commercial banks, state co-operative banks, and some of the financial institutions. It formulates and administers monetary policy with a view to ensure stability in prices while promoting higher production in the real sector through proper deployment of credit. RBI plays an important role in maintaining the stability in the exchange value of the rupee and acts as an agent of the government in respect of India's membership of International Fund. The RBI also performs a variety of developmental and promotional functions. Most important of all, RBI handles the borrowing programmes of the Government of India.

As a central bank, certain restrictions have been imposed on the reserve Bank. It is not to compete with the commercial banks. It is not allowed to pay interest on its deposits. It cannot engage directly or indirectly in trade. It cannot also acquire or advance loans against immovable property. It is also prohibited from purchasing its own shares or the shares of any other bank or any company or granting loans on such security.

Indians Banks Abroad

98 branches and mobile agencies of 9 Indian commercial banks were operating in foreign countries on June 30, 1996. These branches are spread over 26 countries and located in major international centers like London, Singapore, Amsterdam, Bahram, New York, Hong Kong, Tokyo etc. The largest concentration is in the United Kingdom (21) followed by Fiji Island (9), USA (8), Singapore, Hong Kong, and Mauritius (7 each) Sri lanka (6) United Arab Emirates (6), and Japan (4). These branches specialize in various areas of international banking including financing of foreign trade. They cater to the needs of Indians exporters and importers and to that extent, they form an integral part of the domestic banking system. Besides these branches, Indian commercial banks are having 14 representative offices in USA, Brazil, Indonesia, Iran, Egypt, Russia, Italy, Zimbabwe, Uzbekistan, Philippines and Vietnam. Indian commercial banks are also having wholly owned subsidiaries and joint ventures in USA, Canada, Zambia, Nigeria, Uganda, Bhutan, Mauritius, Kenya and Nepal.