
CHAPTER - II

A PROFILE OF INDIAN BANKING SYSTEM

- 2.1 INTRODUCTION
 - 2.2 ROLE AND DEVELOPMENT OF INDIAN BANKING
 - 2.3 CONSTITUENTS OF INDIAN BANKING
 - 2.4 CHARACTERISTICS OF INDIAN BANKING
 - 2.5 RECENT TRENDS IN INDIAN BANKING
-

CHAPTER - II

A PROFILE OF INDIAN BANKING SYSTEM

2.1 INTRODUCTION :

In this chapter an attempt is made to study the development of Indian banking and its constituents. The chapter also covers the main important factors and recent trends in Indian Banking.

2.2 ROLE & DEVELOPMENT OF INDIAN BANKING :

Banking in India on Western lines had started from the beginning of the 19th century. The earliest commercial banks were known as agency houses and were started by the employees of the East India Co. In the Banking history of India the first bank was established in 1700 i.e. Hindustan Bank but it remained a failure due to its malfunctioning. The first successful bank was established in 1806 i.e. Bank of Bengal by Britishers. Hence 1806 is the real beginning of Banking in India. Subsequently in 1840 Bank of Bombay, in 1843 Bank of Madras came into existence. In 1920, these banks were amalgamated & known as Imperial Bank of India

By the time, India became independent, the Indian commercial banking system had gone through a series of changes. The number of banks declined since 1950 due to Reserve Bank's policy.



The Indian economy has been fast developing under the impact of planning. The emergence of planning has given banking a sense of direction and purpose i.e. there was social control over the banks with a objective of spreading institutional credit over unbanked and underbanked areas. So nationalisation was considered essential to gain control over commanding heights of the economy.

At the head of Indian Banking structure there is Reserve Bank of India which is the central banking institution of the country. Banking in India has witnessed a tremendous progress since nationalisation i.e. 1969. There has been lot of changes in the attitudes of the bank. Now a days they were assigned a social role.

Since July 1969 or nationalisation the range of activities undertaken by the banks has been widened. The result is reflected on the progressive enlargement of the branch network, increase in deposits and volume of the bank credit disbursed. The promotional and development activities and nationalised Banks are increase in deposit accounts opened under new schemes from sources untapped, the coverage in term of geographical expansion in unbanked and rural backward areas, the diversification and deployment of credit to various segments from huge public sector undertakings to smallest artisians and self employed persons.

The new developmental and promotional role has been variously described as that of a catalyst, a tool of economic development, and a socio-economic regulatory agency.

Modern banking touches at most every sphere of human activity and therefore must necessarily be all pervasive and comprehensive. On April 15, 1980, the government nationalised 8 more banks making total number 22 of the nationalised banks. This has further strengthened control over the commanding heights of the economy.

It must be noted that in a developing economy the concept of role of the Bank can not be a static one. It is dynamic and multi-dimensional everchanging of ever widening according to needs and priorities. In other words the role of the banks in the economic development is ever increasing. Thus there are more branches to cover more uncovered areas and to reach a large spectrum of society especially in rural areas. So by channeling accumulated savings of the nation into productive use, banks have helped both the depositors and the borrowers Banks have assisted in creating more avenues at employment and thereby helping in raising standard of living of people in the country.

Economic development is a function of rate of new capital formation. Capital formation especially in developing and underdeveloped countries is a slow process. It

involves putting to the productive use - that part of current incomes which are not used for current consumption. The process of capital formation is divided into following stages.

1. Creation of savings by individuals business houses or public authorities
2. Mobilising the savings
3. Acquisition of capital goods out of such funds

Thus the drive for capital formation requires action to increase, mobilise and appropriately channelise the domestic resources available for economic development.

The role of banking sector is essentially to mobilise savings, commercial banks form a very important agency for collection of savings of the people. There is a sizeable increase in aggregate deposit liabilities of these banks during last decade. However this growth is not commensurate to the task of development undertaken by India. So banking system has to play a vital role. Important events in the banking sphere are - nationalisation 14 big banks (and other 6 more banks) vesting with the Reserve Bank Powers of control and regulation of banking system.

With the implementation of five year plans, the traditional Indian banking oriented towards financing of trading and real estate, has now changed in extending credits to the production units. Recently banks were assigned social objectives as compared to banks running on profit maximisation

line . The social objectives were judged in terms of rate of expansion of number of branches deposit mobilisation and deployment of credit to priority sectors. To achieve these goals banks have to concentrate on needs and behaviour of customer.

2.3 CONSTITUENTS OF INDIAN BANKING :

The present banking system consists of a well organised modern sector and unorganised indigenous sector. The modern sector has following :

- i) The Reserve Bank of India which is the central bank of the country.
- ii) The State Bank of India, formerly known as the Imperial Bank of India.
- iii) The Indian Joint stock commercial Banks (classified into scheduled & non scheduled banks) and
- iv) The Exchange banks.

The indigenous sector comprises numerous indigenous bankers such as shroffs , Seths, Mahajans) and the village moneylenders. (usually called as Baniyas Sabukar and Khatri)

In addition to these two constituents of the Indian Banking system, there are also the post office saving Bank, the co-operative banks and the land

Mortgage Banks. Thus the Indian Banking structure possess a heterogeneous mass of indigenous bankers, joint stock banks and co-operative banks as its base layer.

2.4 CHARACTERISTICS OF THE INDIAN BANKING SYSTEM :

1. Two sector banking system viz. 1) rural un-organised sector and (2) urban, organised sector, which is explained above.
2. Credit has been always in inadequacy in Indian which is the great defect at the Indian Banking system.
3. There will always be cutthroat competition among banks which leads to the loss and bankruptcy.

2.5 RECENT TRENDS IN BANKING :

In recent years there has been a steady increase in the number of bank offices of the scheduled banks. The overall increase in aggregate number of offices of commercial banks is as follows in 1969 8260 and in 1982 39180 .

With the greater rate of investment in the economy, banking business as represented by advances & deposits has been rising to higher level ,

Deposits (Rs.in crores)	1969-5910	1982-48820
Advances	1969-4685	1983-29640

Deficit financing by the Govt. was the major factor responsible for faster growth several other factors have contributed to the growth of deposits. The growing banking habits among the people in the context of expanding money incomes generated by large developmental outlay, the breadth of deposit base has been made institutionally possible by the vigorous branch expansion programme of the banks.

The emphasis of credit policy was on ensuring adequate flow of credit to industrial and other developmental activities.

There was an uptrend in the call money rates which was one aspect of the general rise in the structure of deposit rates.

The scarcity of funds in the money market included the commercial banks to attract fresh deposit by offering higher rates of interest.

A very important recent trend in the Indian banking is the increasing extent of credit control by the Reserve Bank of India. The bank rate raised from 3% in 1947 to 10% in 1981³.

In conclusion we can say that in the last few years banking in India has made impressive advances. Deposits have shown a high rate of increase which is indicative of success in banks' efforts at deposit mobilisation. The process of

weeding out inefficient of uneconomic units and emerging weaker units with stronger units has also helped to strengthen the banking structure.

At the same time, the accelerated growth in deposits however has not been adequate to meet all demands for bank credit comfortably the credit deposit ratio has tended to rise and correspondingly the proportion of the liquid or near to the liquid assets has declined. The banking system has to gear itself to defence effort while maintaining the rate of development.

-oOo-

: REFERENCES :

1. Datta R. & Sundaram K.P.M. - Indian Economy
S. Chand & Co. Ltd., At New Delhi, 1983 P.714
2. Ibid - P. 707
3. Banker - Feb. 1983