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Banking in India - Overview

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Abstract: The banking sector is the lifeline of any modern economy. It is one of the important pillars of the financial system, which plays a vital role in the success/failure of an economy. Banks are one of the oldest financial intermediaries in the financial system. They play an important role in mobilization of deposits and disbursement of credit to various sectors of the economy. The banking sector is dominant in India as it accounts for more than half the assets of the financial sector.

Banks are institutions that accept various types of deposits and use those funds for granting loans. The business of banking is that of an intermediary between the saving and investment units of the economy. It collects the surplus funds of millions of individual savers who are widely scattered and channelize them to the investor. According to section 5(b) of the Banking Regulation Act, 1949, "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, and order or otherwise. Banking company means any company which transacts the business of banking in India. No company can carry on the business of banking in India unless it uses as part of its name at least one of the words bank, banker or banking. The essential characteristics of the banking business as defined in section 5(b) of the Banking Regulation Act are:

- Acceptance of deposits from the public, For the purpose of lending or investment
- Withdraw able by means of any instrument whether a cheques or otherwise.

Keywords: *Banking Deposits, modern Banking, Importance of Banking System*

I. INTRODUCTION

Indian Banking can be divided into three main phases: Phase I Initial phase of Banking in India where many small banks were set up, Phase II Nationalization, Regularization and Growth marked this period, Phase III (1991 onwards) Liberalization and its aftermath. In post liberalization regime, Government had initiated the policy of liberalization and licenses were issued to the private banks which led to the growth of the Indian Banking Sector. In the recent times, Indian Banking Industry showed a tremendous growth because of an increase in the retail credit demand, proliferation of ATMs and debit cards, decreasing NPAs, improved macro economic conditions, diversification, interest rate spreads and regulatory and policy changes.

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors . The information system is paramount concern to the banks in today's business environment. The business of banks has increased phenomenally in recent years due to the sharp increase in numbers of banks. This exponential growth of Banks in India is attributed mainly to their much better local reach, personal interaction with customers, and their ability to catch the nerve of the local clientele. A software development methodology refers to the framework that is used to structure, plan, and control the process of developing an information system. Each of the available methodologies and techniques are best suited to specific kinds of projects, based on various technical, organizational and available resources.

II. RESEARCH METHODOLOGY

A. Objectives of the Study

<u>Primary Objectives</u>

1. Understand the Concept of Banking
2. Describe the Development of Banking in India
3. To know how Banks help during economic slowdown
4. Explain the Functions of Bank
5. Differentiate Among Banking Sectors
6. To study the changes between the oldest banking system &the today's modernized banking system of India.
7. To know in detail about the new invented technologies for banking in India.
8. To know how the new banking technologies are helping the customers for their easier and convenient banking.
9. To ascertain the development in the banking system of India because of the modernized technologies & strategies used by banks for their growth.
10. To understand the level of satisfaction & convenience of those customers who had used the services provided by the banks.

<u>Secondary Objectives</u>

1. To study the Information Technology in view of research study
2. To study the use of Information technological means in the system
3. To study the feedback of the past transaction system
4. To study the existing transaction system
5. To study the all dependent parameters
6. To study the work culture of customer, employee and management
7. To study the feedback of the existing transaction system
8. To study the service provided by the system in view of customer relation
9. To study the view of management, employee and customers review
10. To study the feedback of implemented technology

B. Scope

In the present scenario major economical and technical changes are undergoing in industrial and financial revolution through the new information-processing technology. Especially in finance sector it has a significant role for overall development. After identifying the subject (research area) and referring the relevant literatures, it has been found that in most of the literature, the information technologies have a wide application area. However, in finance sector major changes have been made. After completing step by step procedure for automation process, now it is required to take the review of the system. People used information technological tools to manage and process the information. Atomization process use in the financial sector for transaction system. This type of working methodology is used in the financial Institute since long years. The Indian banking sector is mostly related to all classes of people like businessmen, industry, agriculture, labor, small entrepreneurs, workers etc. It has been changing complete culture and working methodology. Therefore, it has a wide scope to study the existing modern transaction system in the financial sector..

C. Sources Of Data

Data collection:-

Secondary data collection is the methodology adopted to write a research paper where most information is obtained from various scholarly articles, previous researches done from many experts and online research publications.

III. ANALYSIS AND INTERPRETATION

A. Data collected which supports the Title of the Study

The history of banking dates back to the thirteenth century when the first bill of exchange was used as money in medieval trade. There was no such word as 'banking' before 1640, although the practice of safe-keeping and savings flourished in the temple of Babylon as early as 2000 B.C. Chanakya in his Arthashastra written in about 300 B.C. mentioned about the existence of powerful guilds of merchant bankers who received deposits, advanced loans and issued hundis (letters of transfer). The Jain scriptures mention the names of two bankers who built the famous Dilwara Temples of Mount Abu during 1197 and 1247 A.D.

The first bank called the 'Bank of Venice' was established in Venice, Itlay in 1157 to finance the monarch in his wars. The bankers of Lombardy were famous in England. But modern banking began with the English goldsmith only after 1640. The first bank in India was the 'Bank of Hindustan' started in 1770 by Alexander & Co. an English agency house in Calcutta which failed in 1782 with the closure of the agency house. But the first bank in the modern sense was established in the Bengal Presidency as the Bank of Bengal in 1806.

History apart, it was the 'merchant banker' who first evolved the system of banking by trading in commodities than money. Their trading activities required the remittances of money from one place to another. For this, they issued 'hundis' to remit funds. In India, such merchant bankers were known as 'Seths'.

The next stage in the growth of banking was the goldsmith. The business of goldsmith was such that he had to take special precautions against theft of gold and jewellery. If he seemed to be an honest person, merchants in the neighbourhood started leaving their bullion, money and ornaments in his care. As this practice spread, the goldsmith started charging something for taking care of the money and bullion. As evidence for receiving valuables, he issued a receipt. Since gold and silver coins had no marks of the owner, the goldsmith started lending them. As the goldsmith was prepared to give the holder of the receipt an equal amount of money on demand, the goldsmith receipts became like cheques as a medium of exchange and a means of payment.

The next stage in the growth of banking is the moneylender. The goldsmith found that on an average the withdrawals of coins were much less than the deposits with him. So he started advancing the coins on loan by charging interest. As a safeguard, he kept some money in the reserve. Thus the goldsmith-money-lender became a banker who started performing the two functions of modern banking that of accepting deposits and advancing loans.

In India our historical, cultural, social and economic factors have resulted in the Indian money market being characterized by the existence of both the unorganized and the organized sectors.

Unorganized Sector: The unorganized sector comprises moneylenders and indigenous bankers which cater to the needs of a large number of people especially in the rural areas. They have been meeting the financial requirements of the rural populace since times immemorial. Their importance can be gauged from the fact that Jagat Seths, hereditary bankers of the Nawab of Bengal, were recognized even by Aurangzeb and the East India Company who were compelled to borrow from them also publicly honored them.

The indigenous bankers are different from the proper banks in a number of ways. For instance, they combine banking activities with trade whereas trading is strictly prohibited for banks in the organized sector. They do not believe in formalities or paper work for making deposits or withdrawing money. In fact, since a substantial percentage of their clientele is illiterate, they frequently take a thumb impression of their customers on a blank paper. Even if they use a 'Hundi' as a negotiable instrument yet it will not be indicated on its face whether the transaction is supported by valuable consideration or it is merely as a result of mutual accommodation. The rate of interest charged by them fluctuates directly with the need of the borrower and may sometimes be as high as 300 percent! They are insulated from all type of monetary and credit controls as they fall outside thy purview of RBI. Though they are still the major source of funds for small borrowers, but now their market has started shrinking because of the fast expansion of branches of banks in the unorganized sectors.This research will concentrate on the Role of Banking In India to revive the paranoid of Economic Slowdown.

B. Functions of Bank

According to section 6 of the Banking Regulation Act, 1949, the primary functions of a bank are: acceptance of deposits and lending of funds. For centuries, banks have borrowed and lent money to business, trade, and people, charging interest on loans and paying interest on deposits. These two functions are the core activities of banking. Besides these two functions, a commercial bank performs a variety of other functions which can be categorized in two broad categories namely (a) Agency or Representative functions (b) General Utility functions.

(a) **Agency or Representative functions:** Collection and Payment of Various Items: Banks carry out the standing instructions of customers for making payments; including subscriptions, insurance premium, rent, electricity and telephone bills, etc.

Undertake government business like payment of pension, collection of direct tax (e.g. income tax) and indirect tax like excise duty.

Letter of Reference: Banks buy and sell foreign exchange and thus promote international trade. This function is normally discharged by Foreign Exchange Banks.

Purchase and Sale of Securities: Underwrite and deal in stock, funds, shares, debentures, etc.

Government's Agent: Act as agents for any government or local authority or any other person or persons; also carry on agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges, and otherwise acting as an attorney on behalf of customers, but excluding the business of a managing Agent or Secretary and treasurer of a company.

Purchase and Sale of Foreign Exchange: Banks buy and sell foreign exchange and thus promote international trade. This function is normally discharged by Foreign Exchange Banks.

Trustee and Executor: Banks also act as trustees and executors of the property of their customers on their advice.

Remittance of Money: Banks also remit money from one place to the other through bank drafts or mail or telegraphic transfers.

(b) General Utility functions:

Locker facility: Banks provide locker facilities to their customers. People can keep their gold or silver jewellery or other important documents in these lockers. Their annual rent is very nominal.

Business Information and Statistics: Being familiar with the economic situation of the country, the banks give advice to their customers on financial matters on the basis of business information and statistical data collected by them.

Help in Transportation of Goods: Big businessmen or industrialists after consigning goods to their retailers send the Railway Receipt to the bank. The retailers get this receipt from the bank on payment of the value of the consignment to it. Having obtained the Railway Receipt from the bank they get delivery of the consignment from the Railway Goods Office. In this way banks help in the transportation of goods from the production centers to the consumption centers.

Acting as a Referee: If desired by the customer, the bank can be a referee i.e. who could be referred by the third parties for seeking information regarding the financial position of the customer.

Issuing Letters of Credit: Bankers in a way by issuing letters of credit certify the credit worthiness of the customers. Letters of credit are very popular in foreign trade.

Acting as Underwriter: Banks also underwrite the securities issued by the government and corporate bodies for commission. The name of a bank as an underwriter encourages investors to have faith in the security.

Issuing of Traveller's Cheques and Credit Cards: Banks have been rendering great service by issuing traveller's cheques, which enable a person to travel without fear of theft or loss of money. Now, some banks have started credit card system, under which a credit card holder is allowed to avail credit from the listed outlets without any additional cost or effort. Thus a credit card holder need not carry or handle cash all the time.

Issuing Gift Cheques: Certain banks issue gift cheques of various denominations e.g some Indian banks issue gift cheques of the denomination of Rs. 101, 501, 1001 etc. These are generally issued free of charge or a very nominal fee is charged.

Dealing in Foreign Exchange: Major branches of commercial banks also transact business of foreign exchange. Commercial banks are the main authorized dealers of foreign exchange in India.

Merchant Banking Services: Commercial banks also render merchant banking services to the customers. They help in availing loans from non-banking financial institutions.

C. Features

a) Profit oriented.-The sole aim of any business institution is profit making. The transaction charges accumulate to ensure increase in the funding process.

b) They provide loans and credit facilities to the clients-This ensures continued business between the parties in the banking process.

c) Money transfer oriented

d) Dealing in money- All banks basically deal with money as they are financial institute where we do the money exchanges we will either gave or deposit money in banks or will lend/borrow money from banks for our requirement as per we need.

e) Individual or companies- Bank can be of any type it can be a company or firm or also a person who is involved in the business of money. This is also how banks are defined.

f) Various branches- A bank can also have multiple branches for the facility of there customers as every person cannot be able to go to the main branch of the Bank so banks further grow there own branches so that they can reach to each n every person.

g) Function increasing rapidly- BANKS always believe in developing of facilities for the customers so that they always increase there functions for working like developing latest ATM machines for the transactions of money and also net banking by which will be able to buy & sell any item from the sitting in our comfort zone.

h) Business in banking sector- BANKS do the business of money without any subsidiary business. Their only responsibility is to satisfy their customers. this is also how banks define as they do the business of money interchanging from 1 hand to other.

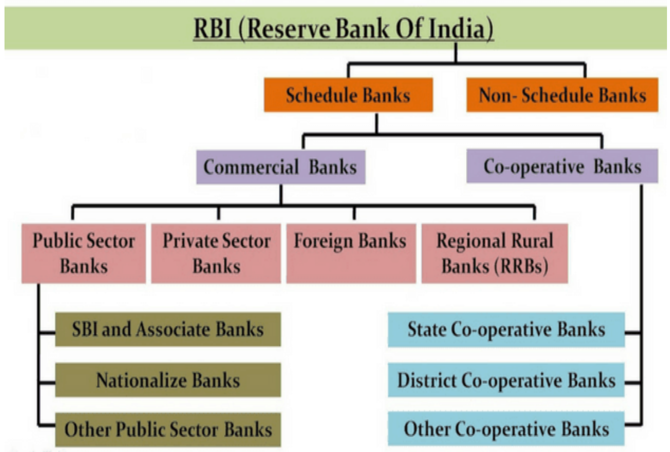
i) Identification- BANKS do the business of money without any subsidiary business. Their only responsibility is to satisfy their customers. this is also how banks define as they do the business of money interchanging from 1 hand to other.

j) Facilities of advance money- BANKS ALSO LED/GAVE money to the people in a form of LOAN with a minimum amount of interest. people which are not able to full fill their requirements at an instance of time which required a large amount of money at that time banks lend money to them so that they full fill their requirements and returns back in small installment which are known as EMIs.

D. Need for Banking System

Banks play an important role in the financial system and the economy. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient.

E. Structure of Indian Banking System



E. How Banks have helped in revival

Economic development is a dynamic and continuous process. In other words, economic development is economic progress of a country. Banks have catalyst role in economic development because banks control a large part of supply of money in circulation. In India, several financial institutions were established to provide funds to different sectors of economy.

Banking sector in India, has performed an important role in the development of the country. Before independence banks were known as agency houses but after independence RBI had strengthen the banking system by adapting various policies. Till mid-sixties banking in India was oriented to urban area, but specially after nationalization rural sector development was the important priority of Banking sector. Banks accelerates the development of country by the ways like capital formation, credit creation, advances, allocation of funds.

Banks promote economic growth by ***offering credit to good borrowers***.

Banks look at the lending equation differently than borrowers. They want to make sure that loans can be paid back and serviced by operating cash flows. Loans offered to good businesses allow them to grow, without diluting equity ownership. A great form of capital to raise.

Borrowers are always in need of capital, especially poor businesses. If a business is not able to service its own expenses, why should an external party (a bank) provide a loan? If a business loans money to a business who can't repay the debt then it would be a poor use of capital, for the business and the bank. This would result in an *economic loss*.

The role played by banks in economic development, over different periods, can be described in various ways.

1. 'Banks are financial intermediates.
2. The direct correlation between economic growth on one hand and financial growth driven by the dynamism of the financial sector in general and banks in particular on the other.
3. Role of banks in creation of money which creates the demand for goods and services.
4. Role of banks as a financial catalyst of social development.
5. Role of banks in facilitating / promotion of entrepreneurship - an essential condition of economic development.

F. Findings

1. Bank attracts depositors by introducing attractive deposit schemes and providing rewards or return in the form of interest.
2. Banks providing different kinds of deposit schemes to its customers. It enable to create banking habits or saving habits among people.
3. Banks are increase capital formation by collecting deposits from depositors and convert these deposits in to loans advances to industries. Performance appraisal facilitates socialization and communication between the employees.
4. A well developed banking system provides various attractive services like mobile banking, internet banking, debit cards, credit cards etc. these kinds of services fast and smooth the transactions. So, bank helps to develop trade and commerce.
5. Bank promote industry and investment, there automatically generate employment opportunity. So, a bank enables an economy to generate employment opportunity.
6. Modern bank promote agricultural sector by providing loans and advances with low rate of interest compared to other loans and advances schemes.

G. Suggestions / Recommendations

1. Monitory policy followed by the banks should be able to stabilize financial system of the country from the dangerous of inflation, deflation, crisis.
2. Modern Banking system should spread to the rural areas in terms of providing various facilities which are provided in the cities.
3. Banking operations should spread around the country, helps to attain balanced development by promoting rural areas.
4. A developed banking system enables the country to attain balanced development without any special consideration of rich and poor, cities and rural areas.

CONCLUSION

Finance is indispensible for economic growth. Economists propounded various theories emphasizing that financial development leads to economic development and economic growth.

Banks are a major subset of financial intermediaries that help in mobilising savings and capital for the economic development and also lend different credits and offering demand deposits, but since few decades banking industry is subject to substantial structural and operational change.

The role of banks in economic development is to remove the deficiency of capital by stimulating savings and investment. A sound banking system mobilizes the small and scattered savings of the community, and makes them available for investment in productive enterprises.

The banks exercise a degree of discrimination which not only ensures their own safety but which makes for optimum utilization of the financial resources of the community. We see that in India the period of economic development has coincided with a phenomenal increase in bank deposits—and bank offices.

Thus, the banks have come to play a dominant and useful role in promoting economic development by- mobilising the financial resources of the community and by making them flow into the desired channels. The Indian banks are now playing a very active role in fostering economic development of the country.

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