



An Analytical Study on Evolution of Banking and Its Inevitable Services in India

A Gajendran

Assistant Professor (Senior Grade)

Department of Business Administration, Faculty of Science and Humanities
SRM University, Vadapalani Campus, Chennai, Tamil Nadu, India

ABSTRACT

Banks are like central nervous system in human body. So it's too important for a government, business people and general public to enhance the standard of living, quality life of the people, and for improving the national economy. The entire inflow and outflow of currency will be passing on through the banking system. So it's too important to analyze, understand the important available services of commercial banks. That is why the attempt was made in this area and tried to give enough details to the readers to know some of the facts related to banking and its function in India.

Key Words: Bank, Banking, Banking Services, Commercial Banking, List of Banks, Functions and Role of Commercial Banks, Customer, Phase of Indian Banking System.

INTRODUCTION

The Purpose and Objectives of this article is to tell about the evolution in commercial banking and banking sector and about the banking services.

OBJECTIVES OF THE STUDY

- To focus the growth of the banks and banking industry in India.
- To tell about different functions and services offered by various banks to the customers.
- To identify the care taken by the banks to attract customers.
- To find out the impact on banking services.

METHODOLOGY

This study is mainly analytical based and entirely based on secondary data. The researcher not only collects the data's from the web sites but also from text books and magazines.

DEFINITION OF BANK

An organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks.

ORIGIN OF THE WORD BANK

The name *bank* derives from the Italian word *banco* which means "Desk / Bench", who used to make their transactions above a desk covered by a green table cloth.

Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government-owned bank and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally



took over these responsibilities from Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers.

In 1969 the government nationalized the 14 largest commercial banks; the government nationalized 6 more banks in 1980. Currently, India has 88 scheduled commercial banks - 27 public sector banks that is with the Government of India holding a stake, 31 private banks and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

HISTORY OF BANKING IN INDIA

Without a sound and effective banking system in India its not possible to have 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. For the past few decades India's banking system has several outstanding achievements. It's not only in metropolitans or cosmopolitans in India but also Indian banking system has reached even to the remote corners of the country. This is also the major cause of India's growth process. The first bank in India, though conservative, was established in 1786. From 1786 till today.

VARIOUS PHASE OF INDIAN BANKING SYSTEM

- Early phase from 1786 to 1969 of Indian Banks
- Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

FIRST PHASE OF INDIAN BANKING

The General Bank of India was set up in the year 1786. Next to it Bank of Hindustan and Bengal Bank came in to existence. In 1809 East India Company established Bank of Bengal, Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started with private shareholders - Europeans shareholders. In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). RBI is sole authority vested with enormous powers to regulate, control and guide bank in India as the Central Banking Authority. During those period public has less confidence on banks.

SECOND PHASE OF INDIAN BANKING

After independence Government took major steps in this phase. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale specially in rural and semi-urban areas. It formed SBI to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19th July, 1969, major process of nationalization was carried out. It was happened because the efforts by honorable Prime Minister of India - Mrs. Indira Gandhi. 14



major commercial banks in the country were nationalized. Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with 6 more banks.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country that are Enactment of Banking Regulation Act (1949) , Nationalization of State Bank of India (1955) , Nationalization of SBI subsidiaries (1959) , Insurance cover extended to deposits 1961 , Nationalization of 14 major banks 1969 , Creation of credit guarantee corporation 1971, Creation of regional rural banks 1975 , Nationalization of seven banks 1980 with deposits over 200 crores. After the nationalization of banks, the branches of the public sector bank India rose to approximately 800 % in deposits and advances took a huge jump by 11,000 %. Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

THIRD PHASE OF INDIAN BANKING

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalization of banking practices. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

LIBERALIZATION IN BANKING

In the early 1990s, the then Narsimha Rao government implemented a policy of liberalization, licensing a small number of private banks. These came to be known as *New Generation tech-savvy banks*, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been setup with the proposed relaxation in the norms for FDI, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 49% with some restrictions. The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more.

Few years back (2007), banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The RBI is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate and this has mostly been true.

With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. In March 2006, the RBI allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them.



In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the banks' loan recovery efforts have driven defaulting borrowers to suicide.

BANKING SERVICES IN INDIA

Now there is an extraordinary growth in banking sectors. Due to more competition between the banks and for the survival, banks are giving plenty of services to the customers without charging anything. Lending process will also be increased and extended by the banks to enable the customers to start their own business. Ten to fifteen years back, an account holder should wait for hours at the bank counters for withdrawal or for depositing his own money.

But now, Customer can have more choice. No need to go to bank to deposit or withdrawing money. Simply they can get it from Automated Teller Machines (ATM), now it is so simple to transfer money from one person account to another person's account from one branch to another.

FUNCTIONS OF INDIAN COMMERCIAL BANKS

1. Net Banking – View Account Balances & Statements, Transfer Funds between accounts, Create Fixed Deposits Online, Request a Demand Draft, Pay Bills, Order a Cheque Book, Request Stop Payment on a Cheque.
2. Foreign Exchange and Trade Services - Travelers Cheques , Foreign Currency Cash, Foreign Currency Drafts, Cheque Deposits, Remittances, Trade Services, Forex Service Branch locator.
3. Accounts and Deposits – Savings A/C, Current A/C, Fixed and Recurring Deposit A/C, Demat A/C, Safe Deposit Lockers.
4. Loans and advances – Personal and Vehicle loans, Loans against mortgage and pledge, Health Care finance, Educational Loans, Working Capital Finance, and Home Loans etc.
5. Automated services to customers - ATM, Phone Banking, Email Statements
6. Investment and Insurance related Services – Mutual Funds, Tax Planning, Insurance: General and Health Insurance, Bonds, Equities and Derivatives
7. Provided services related to plastic money - Debit Cards, Credit Cards etc.
8. Other Kind of Services – Micro finance, Assistance to Self Help Group Telegraphic Transfers (TT) ; and Traveler's Cheque , Banker's Draft , Mail Transfers (MT)

In addition to the above information some of the important categories of banks are given as follows:

LIST OF COMMERCIAL BANKS IN INDIA

SBI & Associates	Nationalized Banks	Foreign Banks	Other Scheduled Commercial Banks
1. State Bank of India	1. Allahabad Bank	1. ABN Amro Bank	1. Axis Bank
2. State Bank of Bikaner & Jaipur	2. Andhra Bank	2. Abu Dhabi Commercial Bank	2. Bank of Rajasthan
3. State Bank of Hyderabad	3. Bank of Baroda	3. American Express Banking Corporation	3. Catholic Syrian Bank
4. State Bank of Indore	4. Bank of India	4. Antwerp Diamond Bank	4. City Union Bank
5. State Bank of Mysore	5. Bank of Maharashtra	5. AB Bank	5. Development Credit Bank
6. State Bank of Patiala	6. Canara Bank	6. Bank International Indonesia	6. Dhanalakshmi Bank
7. State Bank of Travancore	7. Central Bank of India	7. Bank of America	7. Federal Bank
	8. Corporation Bank	8. Bank of Bahrain & Kuwait	8. HDFC Bank
	9. Dena Bank	9. Bank of Ceylon	9. ICICI Bank
	10. IDBI Bank Ltd.	10. Bank of Nova Scotia	10. IndusInd Bank
	11. Indian Bank	11. Bank of Tokyo Mitsubishi UFJ	11. ING Vysya Bank
	12. Indian Overseas Bank		12. Jammu & Kashmir Bank
	13. Oriental Bank of Commerce		13. Karnataka Bank
			14. Karur Vysya Bank
			15. Kotak Mahindra



14. Punjab & Sind Bank	12. Barclays Bank	Bank
15. Punjab National Bank	13. BNP Paribas	16. Lakshmi Vilas Bank
16. Syndicate Bank	14. Calyon Bank	17. Nainital Bank
17. UCO Bank	15. Chinatrust	18. Ratnakar Bank
18. Union Bank of India	Commercial Bank	19. SBI Commercial & International Bank
19. United Bank of India	16. Citibank	20. South Indian Bank
20. Vijaya Bank	17. DBS Bank	21. Tamilnad Mercantile Bank
	18. Deutsche Bank	22. Yes Bank
	19. Hongkong & Shanghai Banking Corporation	
	20. JP Morgan Chase Bank	
	21. JSC VTB Bank	
	22. Krung Thai Bank	
	23. Mashreq Bank	
	24. Mizuho Corporate Bank	
	25. Oman International Bank	
	26. Shinhan Bank	
	27. Societe Generale	
	Sonali Bank	
	28. Standard Chartered Bank	
	29. State Bank of Mauritius	
	30. UBS AG	

Source: www.rbi.com

Some of the functions of both commercial banks and RBI are given as under:

ROLE OF COMMERCIAL BANKS IN INDIA

Commercial banks play a vital role in the development of country. It is true to state that without the development of commercial banking, underdeveloped countries cannot have any hope to join with advanced countries. Industrial development requires the adequate and enough capital which will not possible without the existence of effective banking system to provide necessary funds to acquire capital. In addition to it, industrial development is impossible without the existence of markets to clear of the goods produced. But how can be the markets extended without the services of banks?

Necessity of Banks for trade and industry: The entire economic progress based on extensive trade and industrialization, which could not be possible without enough and adequate level of money. But money does not mean coins and currency notes, only since these form only a small proportion of the total volume of money supply. It is the bank deposits on which cheques can be issued that constitute the important sources of money. In large transactions, usually payments are not made in terms of money but in terms of cheques and drafts. Between countries, trade is financed through bills so exchange which are discounted by banks. Without the use of the bank cheque, the bank draft and the bill of exchange, internal trade and international trade could not be developed, and without such kind of trade, industrial development could not be possible.



It helps in distribution of funds: Commercial banks encourage production and enhance national income by the transference of surplus capital from regions where it is not required much, to those regions where it can be more usefully and efficiently employed. This distribution of funds between the regions has the effect of opening up backward regions and paying the way for their economic development.

Banks create credit and it helps in diversifying business: Fluctuations in bank credit have an important bearing on the level of economic activity. Expansion of bank credit will provide more funds to entrepreneurs and it will lead to more investment. Under the conditions of full employment, expansion of bank credit will have the effect of inflationary pressure. But under conditions of unemployment, it will push up production in the country. On the other hand, a decrease in bank credit will result in decrease in production, employment, sales and prices. With the view of an under developed economy, the expansion of bank credit will offer more financial resources to the industries and it will be the causes for greater economic development.

Supervision of debt: An important services that are the banks renders to the community is the creation of demand deposits in exchange of debts of other. Commercial banks buy debts of others which are not generally acceptable as money, either because the debtors are not sufficiently known or because their debt is payable only after a period of time. In return for them, they issue demand deposits which are generally accepted as money.

By these exchange operations, banks monetize debt. The significance of banks today flows from the fact that they are “not merely traders in money but also, in an important sense, manufacturers of money.” Bank money is used for the promotion of industry and trade. It is rightly said that they have not only the power to determine the aggregate volume of bank money in existence but to influence the uses to which that money should be put.

Capital formation: Commercial banks create saving habit among the people. They mobilize idle and dormant capital of the community and make it available for productive purposes. Economic development depends upon the channelization of economic resources from consumption to capital formation. A higher rate of saving and investment is, therefore, what constitutes real capital formation. So the roles of commercial banks are invaluable. But there can be other institutions also in a country such as insurance companies which may help in mobilizing the savings of the different community for productive purposes.

Variations in interest rates: Banks can influence the rate of interest in the money market through its supply of funds. By offering more or less funds, it can exert a powerful influence upon interest rates. Moreover, it can also influence the people to hold more or less bank money or less or more other assets. In this way, too, it can influence the interest rates. A cheap money policy with low rate of interest will tend to stimulate economic activity, if other conditions are favorable. In a developing country like India, banking facilities are highly essential and inadequate. In India, Most of the people living in villages and towns and they do not have banking facilities and all their savings are wasted. Opening banks in these areas or extension of banking facilities surely help them to mobilize more savings in these areas and, when put in the hands of entrepreneurs, will become more productive. In India, commercial banks have started their new functions and that will help all categories of people and business. It also helps in granting deferred payments, agreements between Indian industrial units and foreign companies to enable the Indian industrial units to import machinery and other essential items.

Thus, banks are come to existence to occupy an important place in the industrial and commercial life of India. A developed banking system is always necessary for the industrial and other spectral development.



Number of Commercial Banks Functioning in Various States in India March 2011

State / Union / Territory	SBI & Its Associates	Nationalized Banks	Foreign Banks	Regional Rural Banks	Other Scheduled Commercial Banks	Non Scheduled Commercial Banks	All Commercial Banks
Andaman & Nicobar Islands	1	10	—	—	1	—	12
Andhra Pradesh	7	20	8	5	19	2	61
Arunachal Pradesh	1	10	—	1	2	—	14
Assam	2	20	1	2	11	—	36
Bihar	3	20	2	4	10	—	39
Chandigarh	6	20	3	—	15	—	44
Chhattisgarh	3	20	1	3	12	—	39
Dadra & Nagar Haveli	1	6	—	—	9	—	16
Daman & Diu	1	7	—	—	4	—	12
Delhi	7	20	19	—	21	—	67
Goa	4	20	—	—	15	—	39
Gujarat	7	20	8	3	20	—	58
Haryana	7	20	6	2	17	—	52
Himachal Pradesh	2	19	—	2	8	—	31
Jammu & Kashmir	2	20	—	3	8	—	33
Jharkhand	3	20	—	2	13	—	38
Karnataka	7	20	12	6	20	2	67
Kerala	6	20	4	2	18	—	50
Lakshadweep	1	1	—	—	—	—	2
Madhya Pradesh	7	20	3	8	14	—	52
Maharashtra	7	20	26	4	21	1	79
Manipur	1	9	—	1	2	—	13
Meghalaya	1	17	—	1	4	—	23
Mizoram	1	8	—	1	3	—	13
Nagaland	1	11	—	1	3	—	16
Orissa	5	20	2	5	15	—	47
Pondicherry	4	19	1	1	13	—	38
Punjab	5	20	3	3	15	1	47
Rajasthan	7	20	4	6	18	—	55
Sikkim	1	17	—	—	4	—	22
Tamil Nadu	7	20	14	2	19	—	62
Tripura	1	15	—	1	4	—	21
Uttar Pradesh	7	20	6	12	18	—	63
Uttarakhand	3	20	—	3	13	—	39
West Bengal	7	20	9	3	19	—	58
All – India	7	20	32	86	22	4	171

Source: www.rbi.com

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FINDINGS

- Without an effective banking system it's too difficult to achieve countries promotional and operational efficiency and goals.
- Deposits in banks are the safest way to invest the public money.
- Compared with other modes of investment depositing money in banks are less risky.
- Banks always put more efforts to attract, satisfy and retain the customers.



CONCLUSION

The above statement tells about the rapid growth and improvement in the quality service given by the banking sectors in India. It's not an easy job to satisfy and retain the customers in the banking industries. Either it is RBI or Other Commercial banks or it's before or after Independence, banks playing vital role and putting more efforts to improve individual, societal and national economy. Banking system is like a central nervous system in human body. Its acts like a bridge between the layman and the business, between public and the government. So in the researcher point of view, the final conclusion of this study is without effective operational efficiency in Banking sectors and its system, it's impossible to achieve growth in national economy and to provide quality life style among the people of any country.

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