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Study on Banking System in India

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Abstract: *The RBI regulates the financial and banking systems, establishes monetary policy, and establishes standards for exchange controls. The Reserve Bank of India Act of 1934 and the Banking Regulations Act of 1949 give the RBI the authority to control the Indian banking industry. A bank is a type of financial institution and financial intermediary that receives deposits, processes them into loans, either directly or through the capital markets. Customers with capital shortfalls and customers with capital surpluses are connected by a bank.*
The Indian economy is supported by solid foundations, as evidenced by the fact that the HI FY07 GDP growth was 9.1%, the best growth in any six-month period since the HI FY04, and by the fact that the average index of industrial output growth, at 10.2%, was the strongest run in the previous 11 years.

Keywords: RBI

I. INTRODUCTION

In India, modern banking dates to the latter half of the 18th century. Among the early banks were the General Bank of India, founded in 1786 but failing in 1791, and the Bank of Hindustan, founded in 1786 and liquidated in 1829–1832. The State Bank of India (S.B.I.) is the biggest and oldest bank still in operation. In June 1806, it was created as the Bank of Calcutta.The other two banks funded by a presidency government were the Bank of Bombay in 1840 and the Bank of Madras in 1843. This was one of the three banks. In 1921, the three banks united to create the Imperial Bank of India. Now, these are referred to as its associate banks. The Bank of India was one of the fourteen large commercial banks that the Indian government nationalized in 1969. Six additional private banks were nationalized in 1980. They control the banking industry due to their size and extensive networks.
Scheduled banks and non-scheduled banks make up the Indian banking industry. The scheduled banks are those included in the Reserve Bank of India Act, 1934's 2nd Schedule. Nationalized banks, State Bank of India and its affiliates, Regional Rural Banks (RRBs), foreign banks, and other Indian private sector banks are further divided into the scheduled banks.

History and growth of banking system in India:

Any contemporary economy depends on the banking industry to function. It is one of the crucial financial foundations of the financial industry, which is essential to an economy's operation. A nation's financial needs for commerce, industry, and agriculture must be met with a higher level of commitment and responsibility if it is to experience economic progress. As a result, the growth of banking is closely related to the development of a nation. In a contemporary economy, banks should be viewed as the drivers of growth rather than as money merchants. They are crucial in the mobilization of deposits and the distribution of loans to different economic sectors.
The country's financial situation is reflected in the banking system. A sound and solvent banking system is a prerequisite for a strong financial system, which in turn depends on a strong economy. Savings were effectively mobilized in productive sectors by a sustainable banking system, and a solve banking system ensures that the bank can fulfill its responsibility to depositors.

EVALUATION OF INDIAN BANKING:

1. Evolutionary phase (Prior to 1947)
2. Foundation phase (1947-1969)
3. Expansion phase (1969-1990)

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The effects of World War I on the Indian banking industry:

The World (1913–1918) had a significant negative impact on the Indian economy and caused a few issues, including high inflation and low agricultural productivity. Many banks failed during the time of the conflict. Some bankrupt banks combined banking operations with trade activities. Most banks that went under during the war had low capital bases. The Reserve Bank of India was established in 1935 because of bank failures and neglecting the agriculture sector, which also caused a number of exchange banks to fail during this time period. However, despite the Reserve Bank's existence for 12 years, bank failure continued. The greatest worry was the presence of unscheduled banks because they continued to operate independently of the Reserve Bank.

2. Foundation Phase (1947-1969)

In 1947, when India became a sovereign nation, all banking was conducted privately. In addition to the Imperial Banks, there were five other large banks: Central Bank of India Ltd., Punjab National Bank Ltd., Bank of India Ltd., Bank of Baroda Ltd., and United Commercial Bank Ltd., each of which held public deposits totalling at least Rs. 100 Cr. The financial system consisted of eight domestic scheduled commercial banks at the time of independence. Despite being numerous, non-scheduled banks only made up a minor portion of the banking industry. At the time of independence, the banking industry was predominately urban-focused and out of the reach of the rural populace.

Establishment of State Bank of India: -

The Imperial Bank of India and all other commercial banks were focused on the city at the time of Independence. Therefore, offering banking services to rural areas is urgently needed. To provide banking services for the underserved area, it was suggested that the Imperial Bank of India should expand its branches to Taluka or Tehsil. The Imperial Bank of India was instructed to open 114 offices in a five-year period beginning on July 1, 1951. However, as of June 20, 19558, the Imperial Bank of India could only open 63 branches. The State Bank of India Act, 1955, which went into force on July 1, 1955, saw the government seize control of the Imperial Bank of India.

3. Expansion Phase (1969-1990)

Even while deposit growth in the banking system had increased in the 1950s and 1960s, the banking system's spread was primarily centered in metropolitan regions. It was believed that most banks should be nationalized if bank funds were to be used for quick economic expansion and social justice9. By enacting the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, the government consequently nationalized 14 banks with deposits totalling more than Rs. 50 Cr. These banks included the Bank of Maharashtra, the Central Bank of India, the Dena Bank, the Punjab National Bank, the Syndicate Bank, the Canera Bank, the Indian Overseas Bank, the Indian Bank, the Bank of Baroda, the Union Bank, the Allahabad Bank, the United Bank of India, the UCO Bank, and the Bank of India. The aim was to bring a large area of economic activity within the organized banking system.

4. Consolidation and liberalization Phase (1990 to till)

The Indian economy was dealing with a lot of issues when the 1990s began. The situation was now completely out of control. As the fiscal deficit continued to widen, the balance of payments was in a dire condition. The need to organize the home economy was under pressure from the outside world. The necessity of starting to sweep structural reforms was heavily underlined. The focus of structural reforms was on easing constraints that severely hampered the operation of the market mechanism, caused inefficiency, and resulted in less-than-optimal resource allocation.

Enhancing the monetary policy framework as a whole.

Improving financial institutions.

Progressively integrating the domestic financial system with the world economy.

Advantages

Generally, credit unions offer greater dividend rates on savings

Loan rates are often lower in credit unions.

Since credit unions are owned and managed by their membership, they often offer better service because they put their members' needs first.

Since credit unions follow a non-profit business model, any surplus profits are distributed to the membership in the form of discounted rates, reduced fees, and occasionally even special dividends.
A lot of credit unions provide the same goods and services as banks provide.

Disadvantages
Even though many credit unions are a part of shared networks that increase the variety of delivery channels accessible to their members, credit unions, particularly in particular smaller local credit unions, struggle to match the level of convenience (ATMs and branches) that many banks provide their consumers.
The product selection of some Credit Unions is constrained.
To join, a membership fee is required.

FUNCTIONS OF BANK: -
A) Primary Functions
B) Secondary Functions

A) Primary Functions
i) Acceptance of deposits
ii) Loans and Advances

(i) Accepting deposits: Accepting deposits is the primary function of a commercial Bank. Banks accept deposits from the public.
Fixed deposits:
1. Safe Investment:
Unlike other high-risk investments like stocks, mutual funds, and debt funds, FD Interest rates aren't dependent on fluctuating market rates.
2. Risk Factor:
An FD scheme comes with a minimum tenure of 6 months and a maximum of 5 years; this ensures that you safeguard your money and gain reasonable returns on it. The recent RBI regulation has made it compulsory for investors to draw up an insurance on FD investments. Each investor is insured for up to Rs.1 lakh on the account, and this amount includes both the principal and the interest accrued.
3. Loan & Credit Card:
Instead of pre-closing your FD and getting a penalty levied, when you need instant cash, you can simply take a loan against your FD. You can get a personal loan of up to 90% of the total FD value. Unlike other unsecured personal loans, you get lower interest rates when you secure your loan with your FD as collateral.
4. Flexible Interest Rate Payouts:
Depending on the term you choose, you'd gain interest at different intervals. You can either go with annual, monthly, or at-maturity alternatives, according to whatever suits your convenience. This cash flow would ensure that you gain a periodic income and get to reinvest that amount for other purposes. Some non-banking financial corporations like Bajaj FinServ offer an additional interest rate for senior citizens, up to 0.25% of the amount invested.

b) Recurring Deposits Amount– Under this account, a fixed amount is deposited every month for a fixed period for ex 6 months, 1 year, 3 year or etc. Rate of Interest offered is like that in Fixed Deposits. Interest is compounded on quarterly basis in recurring deposits. Amount is deposited in this account for a period of 6 months to 120 months.

c)Current Deposit Account: A depositor can deposit his funds any number of times he likes and can also withdraw the same any number of times he wishes. Generally, businessmen use this account for their day-to-day deposits and withdraw transactions. No interest is paid by the bank on the CA.

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d) Saving Account– Savings accounts are set up to motivate people to save money and earn interest on deposits. Money can be deposited at any moment, but there is a maximum that cannot be exceeded. The amount that can be withdrawn at a specific time or over the course of a week is limited. The consumer must notify the bank in advance if he wants to withdraw more money than the allotted amount at once. The credit balance of this account is subject to interest. The RBI set the interest rate for savings bank accounts, which was set at 4.00% on a daily balance basis. Banks are now allowed to choose the interest rates for Savings Fund accounts because RBI deregulated them.
ii) Loans and Advances: The second primary function of a commercial bank is to make loans and advances to people against their personal security, gold and silver, stocks of goods and other assets.

Overdraft- Bank account customers are permitted to overdraw their accounts. Under this option, the owner of a current account may withdraw additional funds up to the bank's authorized limit. Owners of current accounts might be permitted to overdraw (take out more money than is available in the current account). One and only the amount removed is subject to interest. Collateral security is not required for the overdraft facility. It can be employed whenever a need arises. It is the most beneficial type of loan that commercial and industrial organizations can occasionally use. The bank will provide the overdraft if both the consumer and the bank agree to it.

Credit- The Debtor/Customer is allowed to withdraw a certain amount up to the limit sanctioned by the bank on a given security.Interest is charged by the bank on the amount withdrawn and for what period. Under

Cash- this customer can deposit his excess money and interest is charged on the withdrawn money only.

3) Discounting Bills of Exchange- Bill discounting Banks offer short-term financing by offsetting consumer bills. Discounting bills refers to banks paying a sum before a bill's due date after deducting a specific rate of discount. Without having to wait until the bills' maturity date, the party receives the money. The bank may seek payment from the client if a bill is not honoured by the due date. When they run out of money, the commercial banks can re-discount the bills with the central banks.

4) Demand loans– It means a fixed amount of loan is raised by customer against their approved securities and the loan is raised for a fixed period. After the maturity period customer pays instalment of principal amount with interest on the amount raised in the form of EMI (Equated Monthly Instalment).

B) Secondary Functions
1) Agency functions
2) General Utility Services
Agency Services: Banks also carry out a few agency tasks on their clients' behalf.
On behalf of their clients, banks collect and pay a variety of credit instruments such checks, bills of exchange, promissory notes, etc.
On behalf of their clients, banks buy and sell a range of securities, including shares, stocks, bonds, and debentures.
Banks collect dividends and interest from their clients' shares and debentures and credit those amounts to their accounts.
Reference letter: Banks educate domestic and foreign traders about the financial situation of their clients, and conversely, inform customers about the financial situation of local & foreign traders.

2) General Utility Services: In addition to agency services, the modern banks provide many general utility services for the community as given.
Locker Facility: Bank provides locker facility to their customers.
Traveller's Cheques - Banks issue traveller's cheques to help their customers to travel without the fear of theft or loss of money. With this facility, the customers need not take the risk of carrying cash with them during their travels.

Letter of Credit: Banks provide letters of credit to their clients in order to verify their creditworthiness. In international trading, letters of credit are highly helpful.

Statistics Gathering: Banks compile statistics that provide crucial details about business, trade, industries, finances, and banking. They furthermore release useful periodicals and bulletins with material on business and finance-related topics.

Acting Referee: In terms of a customer's financial standing, commercial reputation, and respectability, banks may act as referees.

Underwriting Securities: Banks buy and sell government, public, and private company shares and debentures. If a company's new shares aren't sold or aren't being subscribed for on the stock market.

OBJECTIVES: -

Rapid industrial growth:

The Indian economy's most dynamic sector is the industrial one. This industry supports the creation of jobs and revenue for the nation. The development banks give money for starting new businesses, expanding existing ones, diversifying them into new markets, etc.

2. Motivating businesspeople:

Industrialization aids in reducing social and economic issues, advancing economies. Young businesspeople are urged to develop their concepts. Development banks support those business owners by giving them money to start new ventures.

3. Regional growth that is balanced:

The issue of regional inequalities has long existed. Development banks, if the organization is planned, aid in reducing these geographical imbalances by giving funds to the businesses at low rates of interest.

4. Filling gaps:

It is not possible for the commercial banks to fulfil all financial needs of all the customers. Absence of organised capital market, absence of adequate facilities for financing industries arises the problem of slow development of industrialisation. Such development banks can fulfil the credit gap.

5. Helps government:

Development banks aid in forming governmental financial policy. They support the execution of these policies as well. For supporting rural areas, the NABARD bank was established as an apex development bank. It supports the government in rural development-related concerns, provides training and research facilities for banks operating in the sector, and oversees cooperative banks and RRBs.

II. RESEARCH METHODOLOGY

Collection of primary data:

The primary data has been collected from various source which are as follow: -

Questionnaire method

Survey method

Collection of secondary data: -

Various books related to banking system in India.

Research Design: -

The preliminary research involved collecting data from the secondary source to understand the background and the nature of phenomenon.

Data collection :-

During my data collection, data was collected from:

Bank customers

Sample size100

Research objectives: -

This study will help to understand how a consumer selects, organise and interprets the quality of service and product offered by banks. The market is more aware and realistic about investment and returns from financial product. In this study tries to analyse the customer satisfaction towards banking services in general and ICICI Bank in particular.

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Scope of the study: -

This study is limited to the consumers within Mumbai city. The study will able to reveal the preference, needs, satisfaction of the customers regarding the banking services. It also help bank to know whether the existing product or services they are offering are really satisfying the customer needs**.**

III. LITERATURE REVIEW

In their 2000 work, **Bahia, K., and Nantel, J.** proposed a different measure for evaluating customer service in retail banking. A scale known as the Banking Service Quality Scale was designed for the study and it included elements like efficacy and assurance, access, price, tangibles, service portfolio, and reliability. Compared to SERVQUAL, this model was determined to be more trustworthy.

Naser, K., and Jamal, A., 2002-The study used 167 consumers to evaluate the primary factors influencing customer satisfaction, and it discovered a negative correlation between customer expertise and satisfaction, as well as a positive correlation between core and relational performance.

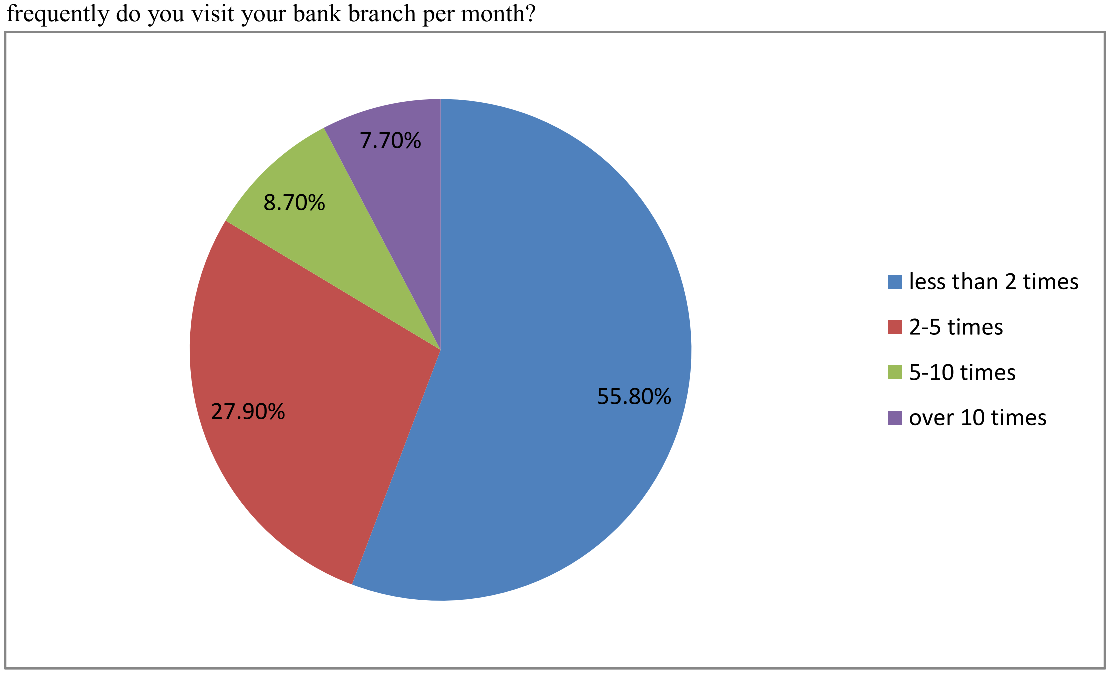
Sureshchandar (2002).- The study examined relationship between service quality and customer satisfaction in Indian banking sector. Both constructs vary significantly in core services, human element, systematization of service delivery, tangibles and social responsibility.

Gania, Mushtaq Bhatt(2003)-The study is conducted to do a comparative study of service quality of commercial banks and its dimensions in commercial banks. SERVQUAL is used and sample size was 800 customers. The study found out that CITI bank and Standard chartered bank are good in tangibility and in reliability also they are good. In Assurance and empathy Indian banks are inferior.

Navdeep Aggarwal and Mohit Gupta (2003)-This study basically finds out the primary dimensions and sub dimensions of service quality. The study found out that service time and personal interactions are very important along with ambience for service quality.

DATA COLLECTION AND INTERPRETATION: -

How frequently do you visit your bank branch per month?



55.80% person visit less than 2 times .27.90% person visit 2-5 times bank branch per month.8.70%person visit 5-10 times bank branch per month. Remaining 7.70%visit more than 10 times bank branch per month.

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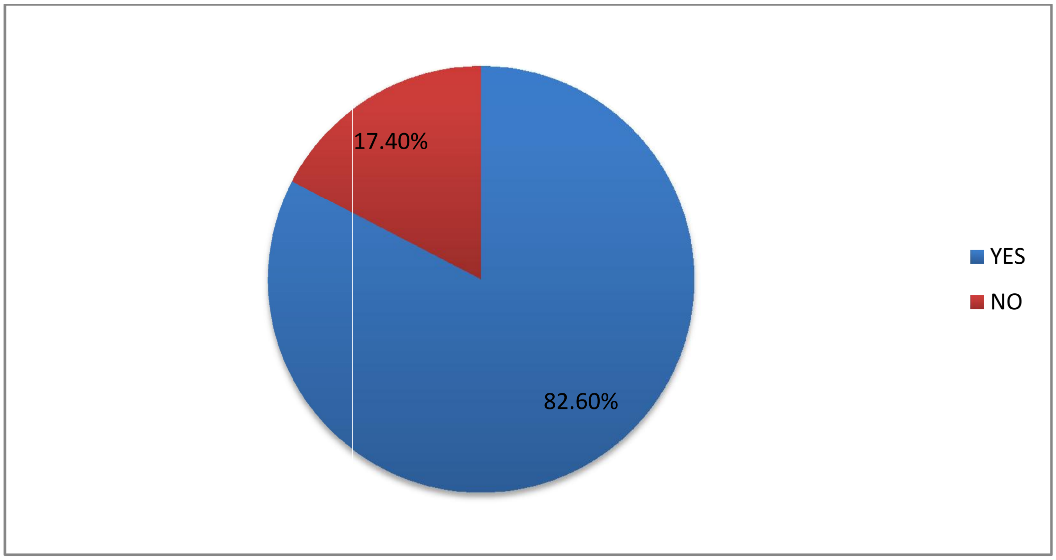
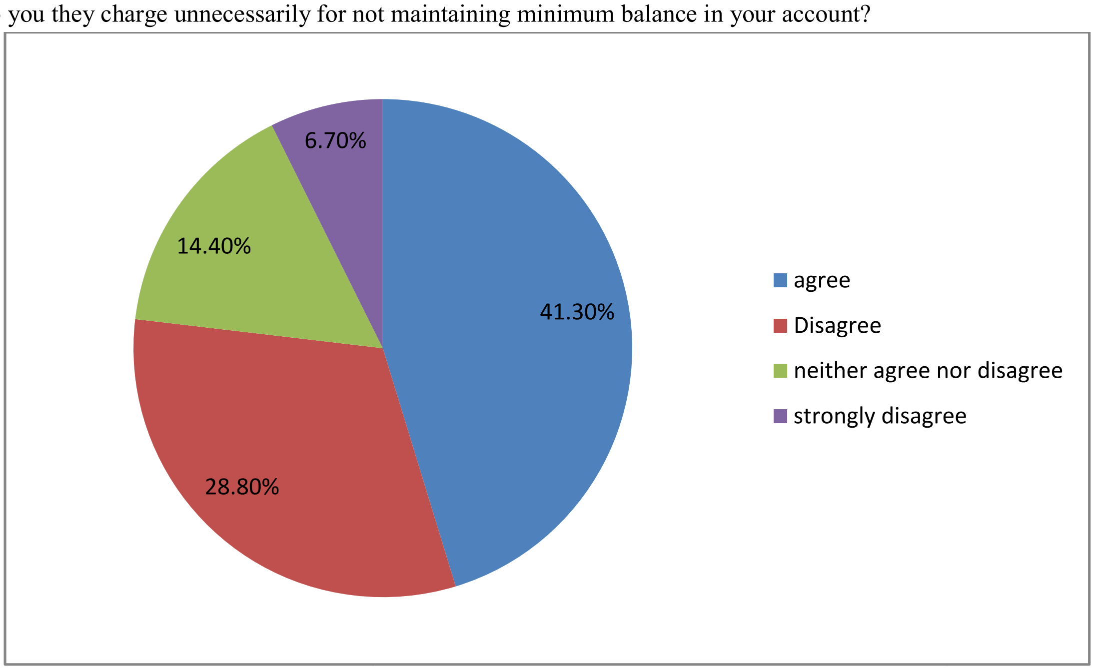
Have you heard about the ICICI Bank?



82.60% people heard about the ICICI Bank. And 17.40% people are still not heard about the ICICI Bank.

3) Do you they charge unnecessarily for not maintaining minimum balance in your account?



41.30% people agree they are not charging high amount for maintaining minimum balance.28.80% people disagree .14.40% people neither agree nor disagree.6.70% people strongly disagree.

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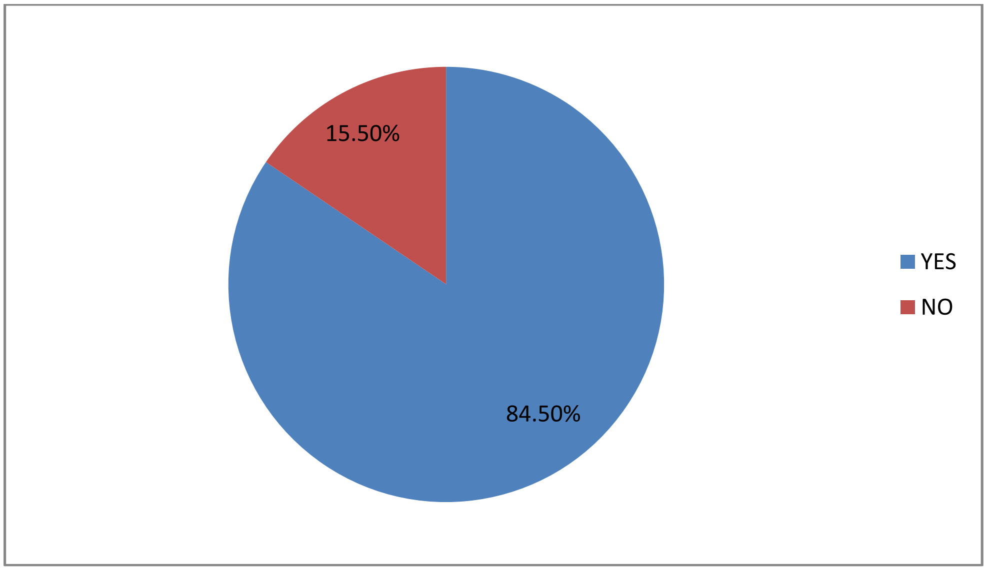
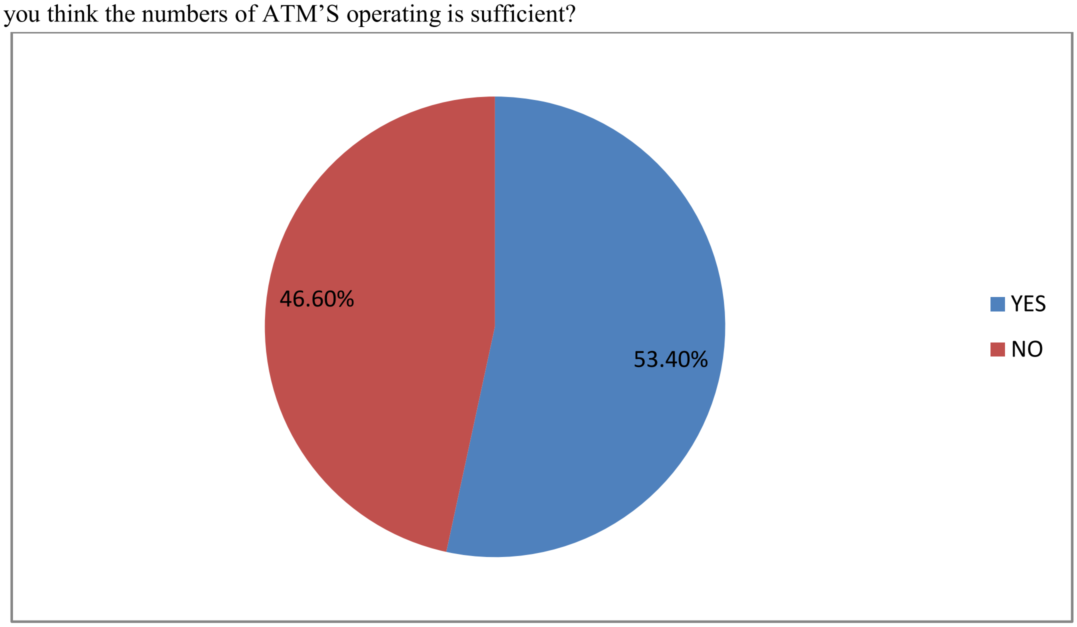
4) Do you think that your banks cater all your banking needs?



84.50% people agree that bank cater all banking needs and providing good facilities to the customer. 15.50% people disagree.

5) Do you think the numbers of ATM'S operating is sufficient?



53.40% people agree that the numbers of ATM'S is sufficient. 46.60% people disagree.

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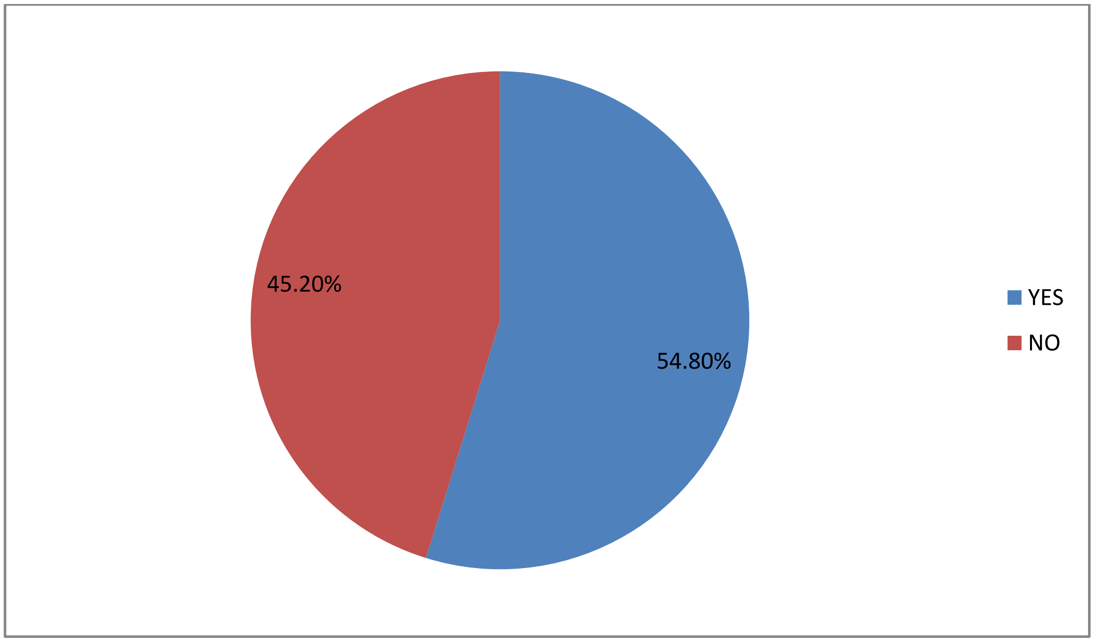
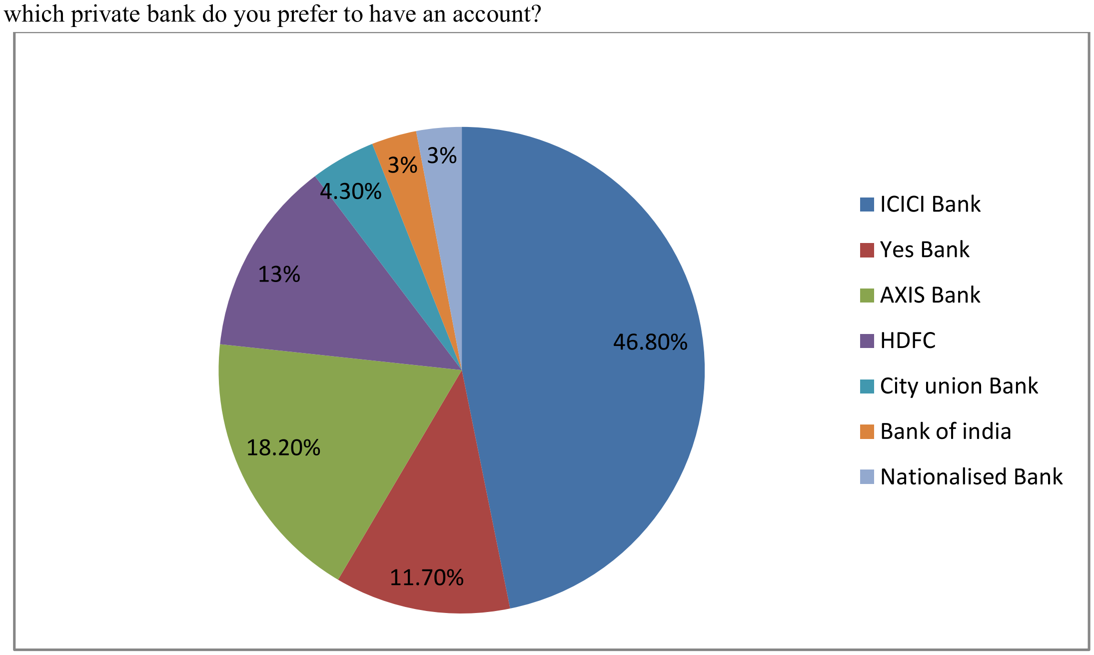
6) Are you aware of the various deposit scheme provided by ICICI Bank?



54.80% people aware of the various deposit scheme provided by ICICI Bank. And 45.20% people aren't aware of the deposit scheme provided by the ICICI Bank.

7) In which private bank do you prefer to have an account?



46.80%people prefer to have an account in ICICI Bank.11.70% people prefer to have an account in Yes Bank.18.20% people prefer to invest in Axis bank.13%people prefer to have an account in HDFC.4.30%people prefer to have an account in city union bank.3% people prefer to open an account in bank of India. Remaining 3%people prefer to open an account in Nationalised of bank.

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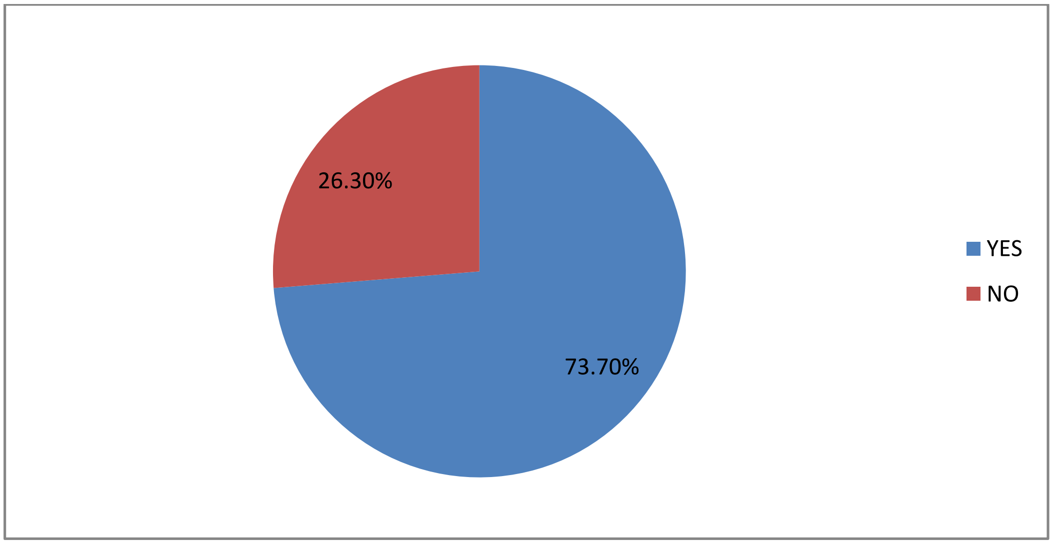
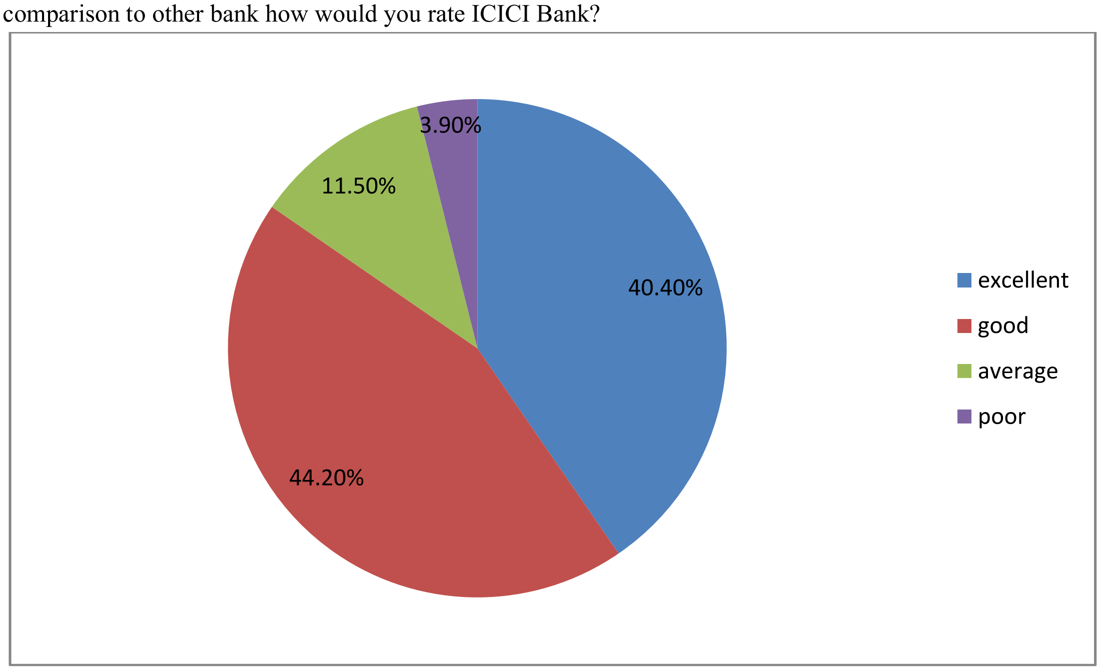
8)Do you like the service provided by ICICI Bank?



73.70% people like the service provided by the ICICI Bank.26.30% people don't like the service provided by the ICICI Bank.

9) In comparison to other bank how would you rate ICICI Bank?



40.40% people excellent rating to ICICI Bank.44.20% people good rating.11.50% people average rating and 3.90% people rating poor to ICICI Bank as compared to other bank.

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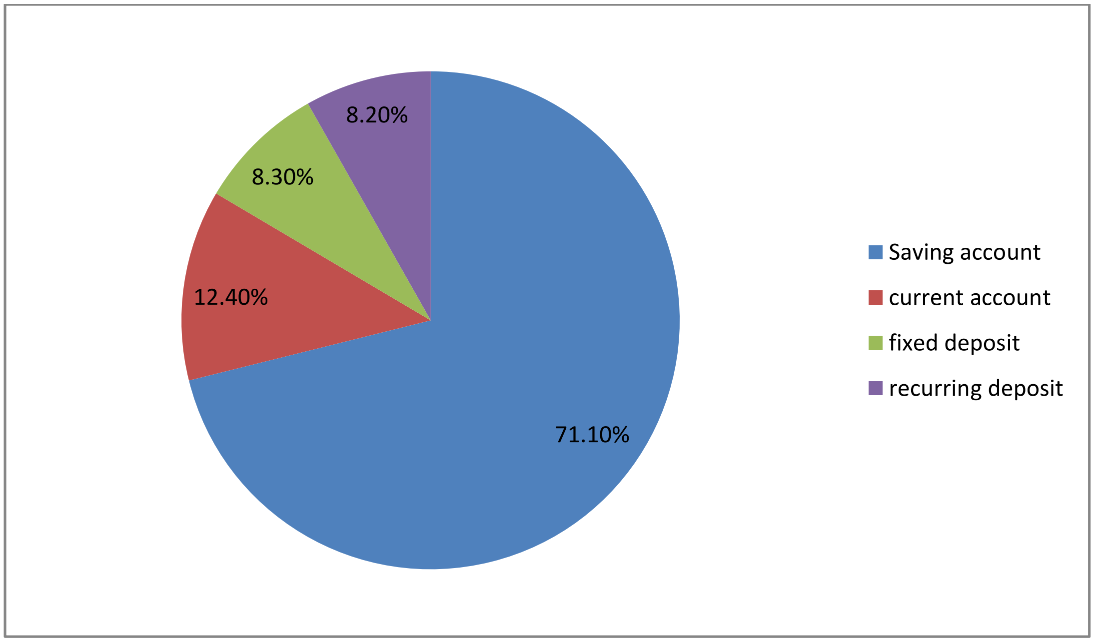
10) What kind of account do you have in ICICI Bank?



71.10% person have saving account.12.40%person have current account.8.30% person have fixed deposit. Remaining 8.20% person have recurring deposit.

IV. CONCLUSION

As long as people have used money, there have been banking systems. Banks use deposits, including wholesale deposits, share equities, fees and interest from debt, loans, and consumer lending such credit cards, as well as bank fees, to generate revenue. As long as people have used money, banking systems have existed. For people, corporations, and governments alike, banks and other financial institutions offer security. In general, it's quite simple to understand what banks do. For the typical person, banks serve as payment intermediaries between merchants and banks, collect deposits, disburse loans, and serve as a secure storage facility for cash and valuables. Banks use deposits, including wholesale deposits, share equities, fees and interest from debt, loans, and consumer lending such credit cards, as well as bank fees, to generate revenue. Banks engage in a variety of other lending and operating activities in addition to fees and loans, such as buy/hold securities, non-interest revenue, insurance and leasing, and payment treasury services.