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Indian Banking System: An Overview

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Abstract: *Today, we are having a fairly well developed banking system with different classes of banks public sector banks, foreign banks, private sector banks, both old and new generation, regional rural banks and co- operative banks with the Reserve Bank of India as the fountain Head of the system. In the banking field, there has been an unprecedented growth and diversification of banking industry has been so stupendous that it has no parallel in the annals of banking anywhere in the world. In most emerging markets, banks' assets comprise well over 80% of total financial sector assets, whereas these figures are significantly lower in developed economies. In most emerging market economies, the five largest banks (usually domestic) account for over two-thirds of bank assets. These figures are much lower in developed economies. Another difference in the banking industry in developed and emerging economies is the degree of internationalization of banking operations. Internationalization defined as the share of foreign-owned banks as a percentage of total bank assets, tends to be much lower in emerging economies. This pattern is, however, not uniform within world regions. The banking industry has experienced a series of significant transformations in the last few decades. Among the most important of them is the change in the type of organizations that dominate the landscape. Since the eighties, banks have increased the scope and scale of their activities and several banks have become very large institutions with a presence in multiple regions of the country. The paper examines the Trends and progress of Indian banking industry.*

Keywords: Indian Banking Sector, Emerging Trends & Progress and Emerging Economies.

I. INTRODUCTION

Banks plays an important role in the economic development of developing countries. Economic developmentinvolves investment in various sectors of the economy. The banks collect savings for investment in various projects. In normal banking the banks perform agency services for their customers and helps economic development of the country. The purchase and sales securities, shares, make payments, receive subscription funds and collect utility bills for the Government department. There for banks save time and energy of busy peoples. Bank arranges foreign exchange for the business transactions with other countries. Banking sector are not simply collecting funds but also serve as a guide to the customer about the investment of their money. Current banking sector has come up with a lot of initiatives that oriented to providing a better customer services with the help of new technologies. Banking sector mirrors the larger economy its linkages to all sectors make it proxy for what is happening in the economy as a whole. Indian banking sector today has the same sense of excitement and opportunity that is evidence in the Indian Economy. The going developmentsin the global markets offer so many opportunities to the banking sector. In the competitive banking word improvement day by day in customer services is the most useful tool for their better growth. Bank offers so many changes to access their banking and other services.

1.1 Objectives of Study

- To explain the recent trends in changing banking scenario.
- To study the opportunities the banks in changing banking scenario.

1.2 Methodology of Study

This study is based on the secondary source of data.

Secondary data: The secondary sources of data are banking books, annual reports of RBI, internet (websites) and research papers etc.

Emerging trends:

Building up an organizational architecture that generates intellectual capital has been a huge challenge for banks and financial institutions. It is even more so today, when we are undergoing a period of the most rapid acceleration of what is alluded to as 'creative destruction' in the history of the financial sector. In the process of creative destruction, new constructs emerge. It is here that 'new generation' managers may have a role more demanding than that of the managers of yesteryears. A role which calls for more than just 'probity and prudence' which characterized the banker of yesteryears and increasingly focuses on managing 'competing imperatives'.

What do we mean by a new generation? How is the new generation different from the old? What haschanged and is changing? And does it matter? In the context of time measurement, a generation refers commonly to a period of about 23 to 30 years, in which most humans become adults and have children. In another sense, the term generation refers to a common identity arising from common experience. Thus the identity of 'new generation' managers would arise from the common experience of a changing world around us, a product of the wider historical context. For a better insight into this we take a long view of the Indian banking.

While historians can slice the past into countless slices, in terms of transformational change, there have been only a few inflexion points in post-independence banking in India. The first was the enactment of theBanking Regulation Act, 1949 which brought in a comprehensive and formal structure of bank regulation and supervision in India. The nationalization of banks in our country marked the second such point. It generated forces that took banking from an elite class to the masses. It led to the establishment of a very substantial infrastructure across the geographical expanse of the sub-continent and was thus a critical trigger for financial outreach of institutions and empowerment of the common man. The third inflexion point in banking was the financial sector reforms initiative that was launched in the early 1990s. These reforms heralded a dramatic shift in the way banks functioned and operated in India. The changed environment and the internal compulsions arising from greater competition and the need to improve their market share / profitability gave rise to the quest for greater efficiency and the need to reposition them given the realities of the environment and their internal strengths and weaknesses.

This period also coincided with the onset of the knowledge revolution that launched a gigantic Third Wave - as famously described by *Alvin Toffler* of economic, technical and social change and is still forcing businesses to operate in radically new, continually shifting ways. Every shred of industrial-era thinking is in fact now being re-scrutinized and re-formulated. It is precisely when an old paradigm crumbles and the new one is not yet fixed in place that we get great bursts of creative thinking. This is perhaps such a moment.

What does the future hold? One thing is certain; - the future will clearly not be a continuation of the past. It will rather be a series of discontinuities. The exciting thing about discontinuity is that it breeds opportunity. We live in an age of unprecedented opportunity. But with opportunity comes responsibility. It is for tomorrow's managers to carve out their own place, to know when to change course and keep themselves engaged and productive throughout.

To do things well, one needs to cultivate a deep understanding of oneself - not only the strengths and weaknesses but also how one learns, how one works with others, what his or her values are and where he or she can make the greatest contribution. Because only when one operates from strengths can true excellencebe achieved?

These challenges call for a new, more dynamic, aggressive and challenging work culture to meet the demands of customer relationships, product differentiation, brand values, reputation, corporate governance and regulatory prescriptions. Understanding and dealing with difficult transitions is the key for the new managers to designing strategies for their organizations. Broadly along an analysis of transition trends by *Edward E. Furash,* we attempt a somewhat loosely structured tracking of the emerging realities of banking in India. An appreciation of these trends would perhaps help map the competencies that new generation managers may require to convert these challenges of the changing environment into opportunities

II. PRESENT BANKING SCENARIO

In 2009-10 there was a slowdown in the balance sheet growth of scheduled commercial banks (SCBs) with some slippages in their asset quality and profitability. Bank credit posted a lower growth of 16.6 per cent in 2009-10 on a year-on-year basis but showed signs of recovery from October 2009 with the beginning of economic turnaround. Gross nonperforming assets (NPAs) as a ratio to gross advances for SCBs, as a whole, increased from 2.25 per cent in 2008 -

09 to 2.39 percent in 2009 – 10. Notwithstanding some knock-on effects of the global financial crisis, Indian banks withstood the shock and remained stable and sound in the post-crisis period. Indian banks now compare favorably with banks in the region on metrics such as growth, profitability and loan delinquency ratios. In general, banks have had a track record of innovation, growth and value creation. However this process of banking development needs to be taken forward to serve the larger need of financial inclusion through expansion of banking services, given their low penetration as compared to other markets.

During 2010-11, banks were able to improve their profitability and asset quality. Stress test showed that banking sector remained reasonably resilient to liquidity and interest rate shocks. Yet, there were emerging concerns about banking sector stability related to disproportionate growth in credit to sectors such as real estate, infrastructure, NBFCs and retail segment, persistent asset-liability mismatches, higher provisioning requirement and reliance on short-term borrowings to fund asset growth.

Today role of banking industry is very important as one of the leading and mostly essential service sector. India is the largest economy in the world having more than 110 crore population. Today in India the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India.

The significant role of banking industry is essential to speed up the social economic development. The present banking scenario provides a lot of opportunities. In the past few years we observed that there was lot of down and up trends in banking sector due to the global finance crisis. To improve major areas of banking sector Govt. of India. RBI, Ministry of finance has made several notable efforts. Many of leading banks operating in market have made use of the changed rules and regulations such as CRR, Interest Rates Special offers to the customers such as to open account in zero balance.

The Indian banking system is set to involve into a totally new level. It will help the banking system to growin strength going into future. Due to liberalization banks are operating on reduced spread main focus is highlighted on consumerism and how to customers linked and remain attached with the bank. Therefore banks are entered these days in non-banking products such insurance in which area there are tremendous opportunities.

Now Highlight the Emerging Trends in Indian Banking Sector:
Recent Trends in Banking

- **Automatic Teller Machine (ATM):** Automatic Teller Machine is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a devicethat allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.
- **Tele Banking:** Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.
- **Electronic Clearing Service (ECS):** Electronic Clearing Service is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfersby individuals.
- **Electronic Funds Transfer (EFT):** Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider of EFT.
- **Real Time Gross Settlement (RTGS):** Real Time Gross Settlement system, introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from

their account to the account of another bank. The RTGS system is maintained andoperated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

- **Point of Sale Terminal:** Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

We have highlighted above some of the new emerging trends. Now I highlights the opportunities that new trends brings in the growth and development of banking sector in our country

III. OPPORTUNITIES

- **Internet Banking:** It is clear that online finance will pick up and there will be increasing convergence in terms of product offerings banking services, share trading, insurance, loans, based on the data warehousing and data mining technologies. Anytime anywhere banking will become common and will have to upscale, such up scaling could include banks launching separate internet banking services apart from traditional banking services.
- **Retail Lending: -** Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc., Retail lending has also helped in risks dispersal and in enhancing the earnings of banks with better recovery rates.
- **Rural area customers:** Contributing to 70% of the total population in India is a largely untapped market for banking sector. In all urban areas banking services entered but only few big villages have the banks entered. So that the banks must reach in remaining all villages because majority of Indian still living in rural areas.
- **Offering various Channels:** Banks can offer so many channels to access their banking and other services such as ATM, Local branches, Telephone/mobile banking, video banking etc to increase the banking business.
- **Good Customer Services:** Good customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a customer faith in the bank. While increasing competition customer services has become the backbone for judging theperformance of banks.
- **Indian Customers:** The biggest opportunity for the Indian banking sector today is the Indian customers. The Indian customers now seek to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. He represents across cities, towns and villages i.e. in rural areas. Consumer goods companies are already tapping this potential it is for the banks to make the most of the opportunity to deliver solutions to thismarket.
- **Other Opportunities:** there are many other opportunities in future in the field of Indian banking sector e.g. to enter new business and new markets, to develop new ways of working, to improve efficiency, to deliver high level of customer services.

IV. CONCLUSION OF THE STUDY

It is in this overall scenario, the policy relating to the financial services, and in particular banking, must be considered. It is interesting to note that WTO negotiations on financial services have been cautious and the commitments of many larger economies in the banking sector are rather particularly limited. In other words, in the context of issue of national ownership of financial intermediaries, banks appear to have a unique place in public policy. There are several noteworthy features of ownership and control of banks in all major economies - irrespective of whether they are developed or emerging. In almost all cases, banks are either widely held or have substantial State ownership. Furthermore, there are special conditions governing the extent of ownership, the nature of ownership and control, and transfers of such ownership or control through statutory backing. These are justified since the banks are admittedly special. The discussions in WTO on Commitments relating to opening of domestic banking sector to foreign banks/ownership reflect these concerns in most of the major economies.

It is worth recalling what *Sir Eddie George*, the *Governor of Bank of England* had said on the subject banks being special:

"They remain special in terms of the particular functions they perform - as the repository of the economy's immediately available liquidity, as the core payments mechanism, and as the principal source of non-marketfinance to a large part of the economy. And they remain special in terms of the particular characteristics oftheir balance sheets, which are necessary to perform those functions - including the mismatch between theirassets and liabilities which makes banks peculiarly vulnerable to systemic risk in the traditional sense of thatterm." He is even more forthright in making it clear that treatment of banks cannot be on par with non-banks. "On the other hand, I am not persuaded that the special public interest in banking activity extends to non-banking financial institutions, though different functional public interests in many cases clearly do." Data clearly indicates that banks continue to play a pre-dominant role in financial intermediation in developing countries. This is understandable for several reasons *viz*. the savers' eagerness for assuredincome; inadequate capacity to manage financial risks and the fact that the banking institutions in some senseand in different degrees, enjoy deposit insurance and either implicit or explicit guarantee of government. It is important to note that banking crisis invariably results in heavy costs to the Government, whether they are publicly owned, privately owned, domestically owned or foreign owned. The fiscal costs of banking crisesare ownership-neutral. An important question in this context is whether the role of banks in financialintegration in developed countries is different from that in the emerging market economies. It is useful toassess the significant differences in the structure of the banking industry in emerging *vis-à-vis* developedmarkets.

In most emerging markets, banks' assets comprise well over 80% of total financial sector assets, whereas these figures are significantly lower in developed economies. In most emerging market economies, the five largest banks (usually domestic) account for over two-thirds of bank assets. These figures are much lower in developed economies. Another difference in the banking industry in developed and emerging economies is the degree of internationalization of banking operations. Internationalization defined as the share of foreign owned banks as a percentage of total bank assets, tends to be much lower in emerging economies. This pattern is, however, not uniform within world regions.

Finally, a significant feature of banking in developed versus emerging economies, especially in recent years, has been the process of consolidation. The most notable difference between the consolidation process in developed and emerging markets is the overwhelming cross-border nature of mergers and acquisitions in the latter. In particular, cross-border merger activity in continental Europe and also between US and European institutions has been more of an exception rather than the rule. In contrast, there has been a sharp increase in foreign ownership of some emerging market banks due to process of privatization often associated with crises.

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