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BANKING SECTOR IN INDIA

Shri. Sachin Bharat Choudhari

Assistant Section Officer, Vice Chancellor's office and Meetings and Elections Section, Solapur University, Solapur.

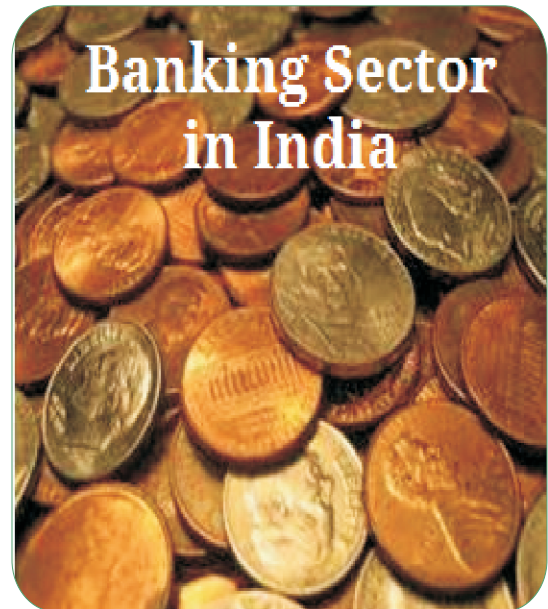
ABSTRACT

The Banking sector in Asian country has continuously been one in all the foremost most popular destinations for employment. during this decade, this sector has emerged as a sunrise sector within the Indian economy. Banking sector index has fully grown at a combined annual rate of over fifty one per cent since the year 2001. The industry is recruiting in an exceedingly huge method. within the next 5 years, banks can have to be compelled to recruit virtually 100000 individuals. Now, banks have distributed their activities and entering into new merchandise and services that embody opportunities in credit cards, client finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, guardian services and personal equity etc. Further, most of the leading Indian banks are going world, putting in offices in foreign countries themselves or through their subsidiaries. The growth of the banking sector and its convergence with the opposite monetary sectors resembling insurance, NBFCs and Capital markets, retirement of the present staff and monetary inclusion have created a lot of variety of opportunities within the banking sector. Infrastructure, Risk Management, Banking and monetary Services, Management data Systems and client Relations Management are many areas wherever specialization is anticipated.

KEYWORDS : Banking sector, Indian economy, Capital markets.

INTRODUCTION

As per the banking company of Asian country (RBI),



India's banking sector is sufficiently capitalised and well-regulated. The monetary and economic conditions within the country are way superior to the other country within the world. Credit, market and liquidity risk studies counsel that Indian banks are usually resilient and have withstood the world worsening well. Indian banking system has recently witnessed the roll out of innovative banking models like payments and little finance banks. The financial organization granted in-principle approval to eleven payments banks and ten little finance banks in FY 2015-16. RBI's new measures might go an extended means in serving to the restructuring of the domestic banking system.

Market Size

The Indian banking industry consists of twenty six public sector

banks, twenty five personal sector banks, forty three foreign banks, fifty six regional rural banks, 1,589 urban cooperative banks and ninety three,550 rural cooperative banks, additionally to cooperative credit establishments. Public-sector banks management nearly eighty p.c of the market, thereby feat relatively abundant smaller shares for its personal peers. Banks also are encouraging their customers to manage their finances victimization mobile phones. the worth of mobile banking transactions in December 2015 hyperbolic fourfold year-on-year and jumped by forty six per cent over the previous month to Rs forty nine,029 large integer (US\$ seven.34 billion), as per knowledge from the run.

commonplace & Poor's estimates that credit growth in India's banking sector would improve to 11-13 per cent in FY17 from but ten per cent within the half of CY14.

History

Ancient India

The Vedas (2000-1400 BCE) area unit earliest Indian texts to say the construct of usury. The word kusidin is translated as moneylender. The Sutras (700-100 BCE) and therefore the Jatakas (600-400 BCE) also mention usury. Also, throughout this era, texts began to condemn usury. Vasishta forbade Brahmin and Hindustani varnas from collaborating in usury. By the ordinal century cerium, usury looks to possess become a lot of acceptable. The Manusmriti considers usury an appropriate suggests that of deed wealth or leading a bread and butter. It conjointly considers cash disposal higher than a definite rate, totally different ceiling rates for various caste, a grave sin.

The Jatakas conjointly mention the existence of loan deeds. These were known as rnapatra or rnapanna. The Dharmashastras conjointly supported the employment of loan deeds. Kautilya has conjointly mentioned the usage of loan deeds. Loans deeds were conjointly known as rnalekhaya.

Later throughout the Mauryan amount (321-185 BCE), associate degree instrument known as adesha was in use, that was associate degree order on a banker directive him to pay the add on the note to a 3rd person, that corresponds to the definition of a contemporary bill of exchange. The goodly use of those instruments has been recorded. In massive cities, merchants conjointly gave letters of credit to 1 another.

Medieval era

The use of loan deeds continuing into the Mughal era and were known as dastawez. 2 kinds of loans deeds are recorded. The dastawez-e-indultalab was collectible on demand and dastawez-e-miadi was collectible once a stipulated time. the utilization of payment orders by royal treasuries, known as barattes, are conjointly recorded. There are records of Indian bankers victimisation issue bills of exchange on foreign countries. The evolution of hundis, a sort of credit instrument, conjointly occurred throughout this era and stay in use.

Colonial era

During the amount of British rule merchants established the Union Bank of urban center in 1829, initial as a personal joint stock association, then partnership. Its proprietors were the house owners of the sooner banking company and also the urban center Bank, World Health Organization by mutual consent created Union Bank to exchange these 2 banks. In 1840 it established place of work at Singapore, and closed the one at Mirzapore that it had opened within the previous year. conjointly in 1840 the Bank discovered that it had been the topic of a fraud by the bank's controller. Union Bank was incorporated in 1845 however failing in 1848, having been insolvent for a few time and having used new cash from depositors to pay its dividends.

The Allahabad Bank, established in 1865 and still functioning nowadays, is that the oldest Joint Stock bank in Asian nation, it absolutely was not the primary tho'. That honour belongs to the Bank of higher Asian nation, that was established in 1863 and survived till 1913, once it unsuccessful, with a number of its assets and liabilities being transferred to the Alliance Bank of Simla.

Foreign banks too began to seem, notably in metropolis, within the decennium. The Comptoir d'Escompte Diamond State Paris opened a branch in metropolis in 1860, and another in urban center in 1862; branches followed in Madras and Pondicherry, then a French possession. HSBC established itself in geographical area in 1869. metropolis was the foremost active commercialism port in Asian nation, principally as a result of the trade of the British Empire, so became a banking centre.

The first entirely Indian joint stock bank was the Oudh banking company, established in 1881 in Faizabad. It failing in 1958. consecutive was the geographical region full service bank, established in urban center in 1894, that has survived to this and is currently one amongst the most important banks in India.

round the flip of the twentieth Century, the Indian economy was passing through a relative amount of stability. Around 5 decades had go on since the Indian rebellion, and also the social, industrial and alternative infrastructure had improved. Indians had established tiny banks, most of that served explicit ethnic and spiritual communities.

The presidency banks dominated banking in India however there have been conjointly some exchange banks and variety of Indian joint stock banks. of these banks operated in numerous segments of the economy. The exchange banks, largely in hand by Europeans, focused on finance foreign trade. Indian joint stock banks were typically below capitalised and lacked the expertise and maturity to vie with the presidency and exchange banks. This segmentation let Lord Curzon to watch, "In respect of banking it appears we have a tendency to square measure behind the days. we have a tendency to square measure like some quaint watercraft, divided by solid wood bulkheads into separate and cumbersome compartments."

The period between 1906 and 1911 saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as The South Indian Bank, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

The fervour of Swadeshi movement LED to the institution of the many personal banks in Dakshina Kannada and Udupi district, that were unified earlier and legendary by the name South geographical area (South Kanara) district. Four nationalised banks started during this district and conjointly a number one personal sector bank. thence undivided Dakshina Kannada district is understood as "Cradle of Indian Banking".

The inaugural officeholder was the Britisher Sir Osborne Smith(1st April 1935), while C. D. Deshmukh(11 August 1943) was the first Indian governor. On September 4, 2016, Urjit R Patel begins his journey as the new RBI Governor, taking charge from Raghuram Rajan

Post-Independence

The partition of India in 1947 adversely impacted the economies of Punjab and West Bengal, paralysing banking activities for months. India's independence marked the end of a regime of the Laissez-faire for the Indian banking. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted in greater involvement of the state in different segments of

the economy including banking and finance. The major steps to regulate banking included:

- The Reserve Bank of India, India's central banking authority, was established in April 1935, but was nationalised on 1 January 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 (RBI, 2005b).
- In 1949, the Banking Regulation Act was enacted, which empowered the Reserve Bank of India (RBI) "...to regulate, control, and inspect the banks in India."
- The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors

Banking codes and standards

The Banking Codes and standards Board of India is an independent and autonomous banking industry body that monitors banks in India. To improve the quality of banking services in India S S Tarapore (former deputy governor of RBI) had the idea to form this committee.

Adoption of banking technology

The IT revolution has had a great impact on the Indian banking system. The use of computers has led to the introduction of online banking in India. The use of computers in the banking sector in India has increased many fold after the economic liberalisation of 1991 as the country's banking sector has been exposed to the world's market. Indian banks were finding it difficult to compete with the international banks in terms of customer service, without the use of information technology. The RBI set up a number of committees to define and co-ordinate banking technology. These have included:

- In 1984 was formed the Committee on Mechanisation in the Banking Industry (1984) whose chairman was Dr. C Rangarajan, Deputy Governor, Reserve Bank of India. The major recommendations of this committee were introducing MICR technology in all the banks in the metropolises in India. This provided for the use of standardised cheque forms and encoders.
- In 1988, the RBI set up the Committee on Computerisation in Banks (1988) headed by Dr. C Rangarajan. It emphasised that settlement operation must be computerised in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It further stated that there should be National Clearing of inter-city cheques at Kolkata, Mumbai, Delhi, Chennai and MICR should be made operational. It also focused on computerisation of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerisation began from 1993 with the settlement between IBA and bank employees' associations.
- In 1994, the Committee on Technology Issues relating to Payment systems, Cheque Clearing and Securities Settlement in the Banking Industry (1994) was set up under Chairman W S Saraf. It emphasised Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier. It also said that MICR clearing should be set up in all branches of all those banks with more than 100 branches.
- In 1995, the Committee for proposing Legislation on Electronic Funds Transfer and other Electronic Payments (1995) again emphasised EFT system.

Investments/developments

Key investments and developments in India's banking industry include:

- Canada Pension Plan Investment Board (CPPIB), an investment management company, has bought a large stake in Kotak Mahindra Bank Ltd from Japan-based Sumitomo Mitsui Banking Corporation.
- India's first small finance bank called the Capital Small Finance Bank has started its operations by launching 10 branch offices in Punjab, and aims to increase the number of branches to 29 in the current FY 2016-17.
- FreeCharge, the wallet company owned by online retailer Snapdeal, has partnered with Yes Bank and MasterCard to launch FreeCharge Go, a virtual card that allows users to pay for goods and services at online shops and offline retailers.
- Exim Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports in the state.
- Kotak Mahindra Bank Limited has bought 19.9 per cent stake in Airtel M Commerce Services Limited (AMSL) for Rs 98.38 crore (US\$ 14.43 million) to set up a payments bank. AMSL provides semi-closed prepaid instrument and offers services under the 'Airtel Money' brand name.
- Ujjivan Financial Services Ltd, a microfinance services company, has raised Rs 312.4 crore (US\$ 45.84 million) in a private placement from 33 domestic investors including mutual funds, insurance firms, family offices and High Net Worth Individuals (HNIs).
- India's largest public sector bank, State Bank of India (SBI), has opened its first branch dedicated to serving start-up companies, in Bengaluru.
- Global rating agency Moody's has upgraded its outlook for the Indian banking system to stable from negative based on its assessment of five drivers including improvement in operating environment and stable asset risk and capital scenario.
- Lok Capital, a private equity investor backed by US-based non-profit organisation Rockefeller Foundation, plans to invest up to US\$ 15 million in two proposed small finance banks in India over the next one year.
- The Reserve Bank of India (RBI) has granted in-principle licences to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas.
- IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16.
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- The RBI has allowed Indian alternative investment funds (AIFs), to invest abroad, in order to increase the investment opportunities for these funds.
- RBL Bank informed that it would be the anchor investor in Trifecta Capital's Venture Debt Fund, the first alternative investment fund (AIF) in India with a commitment of Rs 50 crore (US\$ 7.34 million). This move provides RBL Bank the opportunity to support the emerging venture debt market in India.
- Bandhan Financial Services raised Rs 1,600 crore (US\$ 234.8 million) from two international institutional investors to help convert its microfinance business into a full service bank. Bandhan, one of the two entities to get a banking licence along with IDFC, launched its banking operations in August

2015.

Government Initiatives

The government and the regulator have undertaken several measures to strengthen the Indian banking sector.

- The Reserve Bank of India (RBI) has issued guidelines for priority sector lending certificates (PSLCs), according to which banks can issue four different kinds of PSLCs—those for the shortfall in agriculture lending, lending to small and marginal farmers, lending to micro enterprises and for overall lending targets—to meet their priority sector lending targets.
- The Reserve Bank of India (RBI) has allowed additional reserves to be part of tier-1 or core capital of banks, such as revaluation reserves linked to property holdings, foreign currency translation reserves and deferred tax assets, which is expected to shore up the capital of state-run banks and privately owned banks by up to Rs 35,000 crore (US\$ 5.14 billion) and Rs 5,000 crore (US\$ 734 million) respectively.
- Scheduled commercial banks can grant non-fund based facilities including partial credit enhancement (PEC), to those customers, who do not avail any fund based facility from any bank in India.
- Ministry of Finance has planned to inject Rs 5,000 crore (US\$ 734 million) in eight public sector banks in order to boost their capital,
- To reduce the burden of loan repayment on farmers, a provision of Rs 15,000 crore (US\$ 2.2 billion) has been made in the Union Budget 2016-17 towards interest subvention.
- Under Pradhan Mantri Jan Dhan Yojna (PMJDY), 217 million accounts have been opened and 174.6 million RuPay debit cards have been issued. These new accounts have mustered deposits worth almost Rs 37,000 crore (US\$ 5.53 billion).
- The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks. The special fund will potentially take over assets which are viable but don't have additional fresh equity from promoters coming in to complete the project.
- The Reserve Bank of India (RBI) plans to soon come out with guidelines, such as common risk-based know-your-customer (KYC) norms, to reinforce protection for consumers, especially since a large number of Indians have now been financially included post the government's massive drive to open a bank account for each household.
- To provide relief to the state electricity distribution companies, Government of India has proposed to their lenders that 75 per cent of their loans be converted to state government bonds in two phases by March 2017. This will help several banks, especially public sector banks, to offload credit to state electricity distribution companies from their loan book, thereby improving their asset quality.
- Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the PradhanMantri Jan DhanYojana (PMJDY).
- To facilitate an easy access to finance by Micro and Small Enterprises (MSEs), the Government/RBI has launched Credit Guarantee Fund Scheme to provide guarantee cover for collateral free credit facilities extended to MSEs upto Rs 1 Crore (US\$ 0.15 million). Moreover, Micro Units Development & Refinance Agency (MUDRA) Ltd. was also established to refinance all Micro-finance Institutions (MFIs), which are in the business of lending to micro / small business entities engaged in manufacturing, trading and services activities upto Rs 10 lakh (US\$ 0.015 million).

Road Ahead

The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, in order to enhance the customer's overall experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market shortly. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

Conclusion:

The Indian banking industry consists of twenty six public sector banks, twenty five personal sector banks, forty three foreign banks, fifty six regional rural banks, 1,589 urban cooperative banks and ninety three,550 rural cooperative banks, additionally to cooperative credit establishments.

The presidency banks dominated banking in India however there have been conjointly some exchange banks and variety of Indian joint stock banks. A number of banks established then have survived to the present such as The South Indian Bank, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canada Bank and Central Bank of India. The use of computers in the banking sector in India has increased many fold after the economic liberalization of 1991 as the country's banking sector has been exposed to the worlds market.

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Shri. Sachin Bharat Choudhari

Assistant Section Officer, Vice Chancellor's office and Meetings and Elections Section,
Solapur University, Solapur.

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