REVIEW OF RESEARCH

IMPACT FACTOR : 5.2331(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 7 | ISSUE - 10 | JULY - 2018

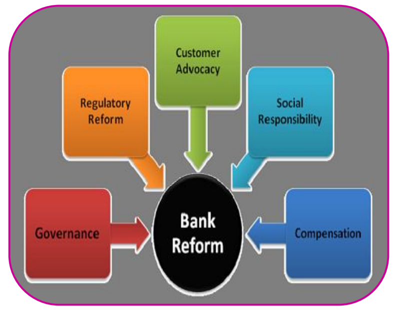
BANKING SECTOR REFORMS IN INDIA

Prof. S. G. Rodgi [1] and Dr. Bhakti Mahindrakar (Tatuskar)[2]

[1]Associate Professor, Department of Commerce, BLDEA's A. S. Patil College of Commerce (Autonomous) Vijayapura.

[2]Post-Doctoral-Fellow, Department of Economics, Akkamahadevi Women's University, Vijayapura.

ABSTRACT



Indian banking sector has made speedy progress as per the changing drifts and has geared up itself to the new competitive business environment. Indian Banking Industry is in the core of InformationTechnology Revolution and its changes have put forth the competition amongst the Banks worldwide. Indian economic environment is witnessing path breaking reform measures. Under financial sector, the banking industry is one of the major player, has also been experiencing a metamorphic modification. Today, we are having a fairly well developed banking system with different types of banks like; public sector banks, foreign banks, private sector banks, old and new generation banks, regional rural banks and co-operative banks with the Reserve Bank of India as the apex body of the Monetary System in the country. During the last 49 years since 1969, terrific changes have been noticed in the banking industry. The banks have removed unnecessary traditional functions and have been innovating, improving and coming out with modern services to furnish to the emerging needs of their customers. The welfare activities of the country are carried through banking system in India. With introduction of Electronic Banking, Electronic Funds Transfer, RTGS, NEFT etc. in which funds are transferred within the restricted time seems to be dream come true. But networking and internet connection are the new challenge arising associated with security, privacy and confidentiality related to transactions. In the era of 1991 with the policy of LPG, Government has opened the doors for foreign banks to start their operations in India and provide their wide range of facilities, thereby providing a strong competition to the domestic banks, and helping the customers in availing the best services. The present era deals with cashless transactions, E-cheques, mobile wallets etc. Hence the present article intends to know emerging trends and its challenges in the area of banking sector with special emphasis on digitization.

KEYWORDS : Banking & Financial sector, Technology, E- Banking, New Generation

INTRODUCTION

Banking sector is heart of the economy concerned on holding, investment of financial assets and the regulator of economic activities. In Indian perspective banking sector is one of the most preferred entrances of employment. In present banking sector is resident sector in Indian economy.

Banking sector has the potential to account for over 7.7 of Gross Domestic Product (GDP) over 7,500 billion in market cap, and to provide over 1.5 million jobs.

1969 and 1980 are the landmarks of Indian Financial Sector, where 19 Banks were nationalized by the center. It is a matter of great delight to mention that during the economic meltdown of 2008-09, our Indian Bank stood firm and remained unaffected.This shocked the whole world as few Banks of thedeveloped nations crumbled down but Indian Bankstood strong and also witnessed many positive developments in banking industry. To improve the regulation in this sector, several notable efforts were made by the Policy Makers i.e.The Reserve Bank of India, Ministry of Finance and other Government and financial sector agencies. It must be appreciated that the Banks are in a position to meet the demands of the customers and are also adding the economic development of the nation at large.India's Banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. Technology has swiftly turned as a boon to the customers.

In recent times banks have expanded their activities and are providing up-to-date products and services comprising which includes, credit-cards, financial facilities, wealth supervision, life insurance, general insurance, investment banking, mutual funds, pensions, fund regulations, stock broking services, custodian services, private equity funds etc. Indian banking sector includes 26 public sector banks, 20 private banks and 43 foreign banks along with 61 regional rural banks (RRBs) and more than 90,000 credit co-operatives. Indian banking industry worth is Rs.81 trillion. In the current era banks are operating with modern technology and tools like internet and mobile services to carry day today transactions and to communicate with customers directly.

Enormous branch expansion in the rural and backward areas, mobilization of savings and diversification of credit facilities are ignored in the areas like small scale industrial sector, agricultural sector and export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking.

There has been a considerable modernization and diversification in the activities of major commercial banks. Such as consumer credit, merchant banking, credit cards, mutual funds leasing, etc. some of the banks have set up with subsidiary facilities.

OBJECTIVES:

- To study the types of banking sector.
- Role of banking sector in economic development.
- Recent trends in banking sector.

METHODOLOGY:

The paper is theoretical in nature and data is collected from secondary sources.

THE INDIAN BANKING SECTOR

The history of Indian banking can be divided into three major phases.

Phase I (1786- 1969) - Initial phase of banking in India, many small banks were set up

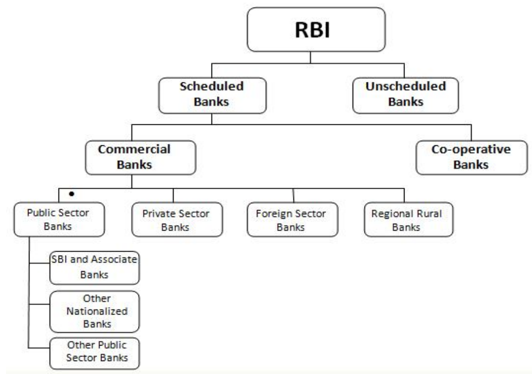
Phase II (1969- 1991) - Nationalization, regularization and growth

Phase III (1991 onwards) - Liberalization and its Impact

In post-Liberalization era, (Phase III), Indian banking sector is sufficiently developed in delivering better facilities and transparency. The major growth drivers are increased in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitization, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory policy changes (e.g. amendments to the Banking Regulation Act).

STRUCTURE OF BANKING SECTORS:

Banks are classified into 7 types, each bank with its own specialization and different actions for monetary transactions. The structure is as under:



RESERVE BANK OF INDIA (RBI)

RBI is apex authority of banking and financial system of India. It is the supreme monetary authority in the country and controls the Indian banking system. It is termed as ‘Reserve Bank’ as it maintains the reserves of all commercial banks.

SCHEDULED & NON –SCHEDULED BANKS

The banks listed under second schedule of the RBI Act, 1934 are ‘scheduled banks’ If banks are to be included under this schedule of the RBI Act, they have to fulfill certain obligations like having a paid up capital and reserves of at least 0.5 million and satisfying the Reserve Bank as its affairs are not being performed legally in favor of its depositors.

Additionally scheduled banks are categorized as commercial and cooperative banks. Non-Scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present in India there are only three such banks.

COMMERCIAL BANKS

Commercial banks may be defined as, any banking organization that deals with the deposits and loans ofbusiness organizations. Commercial banks issue bank checks and drafts, as well as accept money on termdeposits. Commercial banks also act as moneylenders, by way of installment loans and overdrafts. Commercialbanks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. Theseinstitutions are run to make a profit and owned by a group of individuals.

SCHEDULED COMMERCIAL BANKS (SCBs)

Scheduled Commercial Banks (SCBs) have reported a chief share of the business activates of the scheduled banks. SCBs in India are further classified into the five groups on the basis of ownership and nature of operations. State Bank of India and its six associates (excluding State Bank of Saurashtra, which was merged with the SBI since August 13, 2008) and are recognized as a separate category of SCBs, because of the separate statutes (SBI Act, 1955 and SBI Subsidiary Banks Act, 1959) that govern them.

TYPES OF SCHEDULED COMMERCIAL BANKS:

Public Sector Banks

The banks where majority stakes are held by the Government of India. It includes: SBI, Bank of India, Canara Bank, Union Bank, Syndicate Bank etc.

Private Sector Banks

The banks with majority share of capital held by private individuals. These banks are registered as companies with limited liability. It includes: ICICI bank, Axis bank, HDFC, IDBI bank etc.

Foreign Banks

The banks registered with its headquarters in foreign country and operated through its in different countries. Foreign banks in India are: HSBC, Citibank, Standard Chartered Bank, etc

Regional Rural Banks

Regional Rural Banks were established on the 26th September 1975 under RRB Act, 1976 with an objective to provide sufficient institutional credit facilities for agriculture and other rural sectors. The issued capital of RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

CO-OPERATIVE BANKS

These are registered under the Co-operative society Act, 1912. A co-operative bank is retail and commercial banking organization performing on cooperative basis. Its members are also owners and the customers of their bank of same profession with common interest in themselves. In general the banks provide their members with a broad range of banking and financial services like; loans, deposits, bank accounts, etc.

- These banks provide primary finance for agricultural activities, small-scale industries and for self-employment.
- Its major task is “no-profit no-loss”.
- The co-operative banking structure in India is divided into 5 main categories:
    - i. Primary Urban Co-operative Banks
    - ii. Primary Agriculture Credit Societies
    - iii. District Central Co-operative Banks
    - iv. State Co-operative Banks
    - v. Land Development Banks

ROLE OF BANKING SECTOR

Banks play a very significant role in modern economic system. Now a day's growth of nation can be furnished through banking system. The following are the major roles played by banks:

- Banks motivate people to make savings.
- Banks mobilizes savings for the purpose of investment
- For the formation of capital banks play a coordination function between savings and investment.
- For the enlargement of production purpose banks provide credit facilities.
- Banks provides financial infrastructure and funds for backward region which made balanced regional development in the country.
- Banks plays a crucial role for expanding size of market.
- Through banks government fulfill every objective of planned economic development.

GLOBAL BANKING DEVELOPMENTS

The year 2010-11 was a difficult period for the global banking system, with challenges arising from the global financial system as well as the emerging fiscal and economic growth scenarios across countries. Global banks exhibited some improvements in capital adequacy but were struggling by weak credit growth, high leverage and poor asset quality. In contrast, in major emerging economies, credit growth remained at relatively high levels, which was regarded as a cause of concern given the increasing inflationary pressures and capital inflows in these economies. In the advanced economies, credit availability remained particularly constrained for small and medium enterprises and the usage of banking services also stood at a low, signaling financial exclusion of the population in the post-crisis period. On the positive side, both advanced and emerging economies individually and multi-laterally moved forward towards effective universal risk management involving initiatives for improving the macro-prudential regulatory framework and reforms related to systemically important financial institutions.

RECENT TRENDS IN BANKING SECTOR:

1. **Electronic Payment Services – E Cheques :** An electronic cheque works same as paper cheques but payment transaction can be done through digital format. XML document provide mechanism to authenticate parties to make transactions. In e-cheques signatures are accompanied by bank issued certificates which tie with signer's key to bank account. Nowadays it is very commonly used by everyone. many of transferring amount transaction can be done through electronic cheques. E-cheques make easy transfer of payments to customers which are easily available to make payment for online purchases. It reduces chance to cheque bouncing banks always give awareness about their account details when any transaction can be done.

2. **Real Time Gross Settlement (RTGS):** Real time gross settlement is a fund transfer system. Settlement in "real time" means the transactions happen almost immediately "gross settlement" means transaction is settled one to one basis unlike national electronic fund transfer (NEFT), where the transaction happen in bulk at a given point in time during the day. This is mainly used for transaction of higher value and need to be cleared immediately. In this the bank that receives money has to credit the amount in the account with in 30 min after receiving it.

3. **NationalElectronic Fund Transfer:** It is a system of transforming money from one bank account direct to another without any paper money charging hands. Direct deposits are one of the most widely used EFT program. It refers transfer of funds initiated through on electronic terminal, including credit cards, ATM and point of sale transactions. It used for both credit transfer and debit transfer. Electronic fund transfer transactions are processed through the automated clearing house network. The growing popularity of EFT for online bill payment in paying the way for paperless universe where checks, stamps, envelops, and paper bills are outdated. Through EFT administrative costs is reduced, with increased efficiency, simplified book keeping and greater security.

4. **De-Mat Account:** India adopted the de-mat system for electronic storing. According to depositary act 1996 to maintain shares and securities electronically and eliminating the troubles associated with shares, De-mat system was introduced to invest shares and securities. Every investor should have registration. Instead of investor taking physical passion of certificates, a de-mat account is opened. De-mat account can be provided through stockbrokers. It can be held electronically, for the purpose of purchase, transfer and the process for sale. To access de-mat account it requires two types of passwords.
   a. Internet password
   b. Transaction password

5. **Electronic Clearing Service (ECS) :** It is a retail payment for making huge payments or receipts of similar type particularly when payments are more in number and of relatively smaller amount. Such facilities are made for companies and government department to make or receive large volume of expenses rather than for funds transfers by individuals.

6. **Automatic Teller Machine (ATM) :** It is one of the most popular device it facilitates the customers to withdraw their money any time, 24 hours a day. Customers should have an ATM card for banking transactions without any interaction with manpower. Further ATMs are used for bill payments, fund transfer between accounts, cash deposit of into accounts, balance enquiry etc.

7. **Tele Banking :** Tele banking helps the clients for cashless banking transactions through telephone.

8. **Electronic Data Interchange (EDI) :** "EDI is also used to transmit financial information and payments in electronic format.

9. **Point of Sale (POS)":** Making a payment in exchange of goods and for retail transaction point of sale is useful. The transaction usually can be done by using debit and credit cards. Since 1990 POS transaction had become very common andit is used overall the world. To complete pose transaction cards usually authenticated with a pin number. The information transmitted via the pin number travel through ATM network until it reaches the bank it is used to register products by a bar scanner and to read the descriptions and price on the tag of every time. All the activities can be done automatically like finding the total balance deducts any discounts and

applies the sales tax and sending customer information to marketing database and transactions record to an investors system. Once payment has been credited to the account the post terminal check of validity of cards and connects to bank.

10. **Bio- Metric Authentication:** For the purpose of security the bio-metric authentication places a major role. Nowadays many organizations are implementing bio-metric authentication. It works comparing two sets of data
Owner of the device
Visitor of device
Both are one and same gives access to person. There are different types of scanners
Finger print scanner
Eye scanner
Speaker reorganization

11. **Financial Technology Firms:** Financial technology is the new technology and innovation that aims to compete with traditional financial methods in the delivery of financial services. The main aim of fin-tech is to provide technology and finance to start-ups and to enhance the usage of financial services for existing financial companies. For the automation of insurance, trading and risk management Fin-tech is used by firms. Banks are collaborating with fine-tech firms to build an environment that mixtures innovation of customers. Fin-tech firms have entered in the industries with innovation of products and services and targeting the most profitable segments. Fine-tech firms have started acquiring customers from traditional banks due to lack and favorable environments for innovation are finding it hard to complete with them. The main key purpose of fin-tech is to provide lack of leadership support, regulatory budges, cultural and infrastructure limitations are hampering the innovative bank.

IMPLICATIONS

Banking sector rapidly adopted its reforms, particularly the new generation banks. The maintenance of the drift has re-distincted and re- engineered the banking operations. With supplementary customization through leveraging technology. Latest technology has made banking convenient; customers can easily utilize banking services and perform banking transactions anytime and anywhere.

CHALLENGES FACED BY BANKS

The chief challenge faced by banks is, to how to handle competitive forces and support their balance sheet. At present, banks are whimpering with huge load of NPAs. If there debts are not recovered it may lead to enormous difficulty all through the economy.

Additionally major concern of banking sector is sky-scraping operational cost of carrying Non Performing Assets in their accounts. The resolution of the NPAs' involves greater accountability on corporate, greater exposure in the case of evasion, a well-organized credit information distribution system and proper authorized structure pertaining to the banking system is required. So that judicial measures can be updated and definite recovery can be made within its time frame. The banking industry cannot maintain itself with higher NPAs' thus, "lent for a purpose and recover" should be the motto for recovery."

IT sector plays a key role in the banking system as it ensures smooth route of interconnected transactions through the electric means, further it also make possible complex financial modernization and development. The application of IT and e-banking has become a way towards effective banking practices of all Indians.

Through World Wide Web (www) all banks are interlinked with individual bank identity. It is not required to have more number of bank branches, extension counters, long queue etc. Customers can perform all the banking operations without approaching bank through internet from their office or resident itself. It saves their time and energy.

Changes in banking scenario are very speedy. Many new players with unlike muscle powers are entering the market. The Reserve Bank offers to move towards the excellent global banking practices will further grind the prudential standards and support its administrator device. In coming decades banks will be more transparent and disclosure.

In coming days banks are predicted to play a key role in the process of economic progress and the emerging market will offer plentiful business opportunities to harness. Human Resources Management is will have a larger significance. While banking in India will be more knowledge sustained, human capital will appear as the supreme resource of the banking system.

Indian banking sector has observed speedy progress development through a variety of banking reforms and has set itself for most recent competitive business activities. Indian banking sector is the heart of an IT revolution. Technological infrastructure has become an obligatory part of the reforms process in the banking system, with the steady advancement of refined tools and innovative ideas.

FUTURE OUTLOOK

Every person at present is sure that the technology will be the key of future banking activities. The success in the banking sector wouldn't have been possible without revolution in IT sector. Banks should modify themselves as per global needs.

While, the implementation of technology in banks continues rapidly, the attention is observed more in the metros and urban areas. The advantages of Information Technology are yet to reach the common man residing in rural areas. More awareness, training and introduction of software in regional languages will magnetize people from the countryside section.

CONCLUSION

Indian banking system will be enlarged in volume and density as a significant instrument of economic growth by merging different segments of the monetary sector. The future prospects of Indian banking depend not only in domestic dynamics but also with global fluctuations in financial sectors. Indian Banking Industry has proved substantial flexibility during the revisit period. The second generation reforms will play a vital role in further intensification of the system. Today banking sector is re-defined and re-structured with proper utilization of Information Technology and it is definite that the future of banking sector will propose further new modernized services to its customers with latest innovations. Hence, there is a prototype movement from the seller's market to buyer's market in banking sector and to finish it affected banking approach from "conventional banking to convenience banking" and "mass banking to class banking". The movement has also enlarged the level of accessibility of a common man for variety of his banking requirements. Acceptance of rigid customs and higher capital standards, better risk management, adoption of global accepted accounting practices and improved disclosure and transparency will make sure the Indian Banking sector will update itself with other developed banking systems. Adoptions of superior technology, banks are performing a sound role in economic development. Banking sector in India has witnessed amplified expansion in customers' by providing innovative services of banks. The banking sector reforms have focused on financial inclusion rural areas and fetching reliability by enhancing credit expansion making banking services near to the customer directly and reducing customer valuable time.

REFERENCES

B.P.Gupta, V.K.Vashistha, H.R.Swami, Banking and Finance, Ramesh Book Depot, Jaipur-New Delhi (2008).

Various issues of Business Week, The Economist, Business Today, The Economic Times and Financial Express.

http://www.moneycontrol.com/news/press-release/reporttrendprogressbankingindia-2010-11_617218.html

http://www.mbaknol.com/business-finance/recent-trends-in-indian-banking-sector/

http://www.articlesbase.com/information-technology-articles/it-emergence-recent-trends-in-banking-industry-of-india-1981838.html

http://www.vikalpa.com/pdf/articles/2003/2003_july_sep_83_99.pdf

Report on Trend and Progress of Banking in India for the year ended June 30, 2011 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

http://www.time4education.com/career_in_banking.asp

http://info.shine.com/industry/banking-financial-services/8.html

http://www.yourarticlelibrary.com/essay/role-of-banks-in-the-development-of-indianeconomy/42577/

http://www.invetopedia.com/ask/answers/032315/what-banking-sector.asp

http://www.thebalance.com/type-of-banks-315214

http://www.hsbc.comhk/personal/way-to-bank/e-cheque.html

http://www.axisbank.com/bank-smart/internet-banking/transfer-funds/rtgs

http://www.axisbank.com/bank-smart/internet-banking/transfer-funds/electronic-clearing-service

http://searchdatamanagement.techtarget.com/ansswer/what-are-e-checks