

A Study of Old Tradition and Modern Tradition of Indian Banking

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ABSTRACT

The paper exhibits the development of the banking from the beginning of time to current days. The foundations of banking looked into and the progressions are communicated. Explanations behind bank advancement are displayed and first banking tasks are portrayed. Indian banking industry is slowly moving towards receiving the prescribed procedures in accounting, universally acknowledged prudential standards, with higher exposures and straightforwardness, corporate administration and risk management, interest rates have been deregulated, while the meticulousness of coordinated loaning is as a rule continuously decreased. The distinction among over a wide span of time is followed out. In our nation, at present we are having a genuinely very much created banking system with various classes of banks – public sector banks, foreign banks, private sector banks – both old and new age, regional rural banks and co-usable banks with the Reserve Bank of India as the leader of the system.

1. Introduction

Today, the banking industry in our nation is more grounded and equipped for withstanding the weights of competition. It withstood Global Financial Crisis (2008). In the time of Globalization Banking Sector in India is quickly changing since 1990s because of technological innovation, financial liberalization with passage of new private and foreign banks, and administrative changes in the corporate sector. Indian banking industry is step by step moving towards adopting the prescribed procedures in accounting, internationally acknowledged prudential standards, with higher divulgences and transparency, corporate governance and risk management, interest rates have been deregulated, while the thoroughness of coordinated lending is being logically decreased. In our nation, right now we are having a genuinely all around created banking system with various classes of banks – public sector banks, foreign banks, private sector banks – both old and new age, regional rural banks and co-employable banks with the Reserve Bank of India as the leader of the system. In the banking field, there has been an exceptional development and broadening of banking industry and our banks are currently

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decreased. In our nation, as of now we are having a genuinely very much created banking system with various classes of banks – public sector banks, foreign banks, private sector banks – both old and new age, regional rural banks and co-usable banks with the Reserve Bank of India as the leader of the system. In the banking field, there has been an exceptional development and broadening of banking industry and our banks are currently utilizing the most recent technologies like internet and cell phones to complete exchanges and speak with the majority.

The Banking system of the nation is the base of the economy and economic improvement of the nation. It is the most leading piece of the financial sector of the nation as it is in charge of more than 70 % of the assets flowing through the financial sector in the nation Today, the banking industry in our nation is more grounded and equipped for withstanding the weights of competition. It withstood Global Financial Crisis (2008). In the time of Globalization Banking Sector in India is quickly changing since 1990s because of technological innovation, financial liberalization with passage of new private and foreign banks, and administrative changes in the corporate sector. Indian banking industry is step by step moving towards adopting the prescribed procedures in accounting, internationally acknowledged prudential standards, with higher revelations and transparency, corporate governance and risk management, interest rates have been deregulated, while the meticulousness of coordinated lending is being dynamically diminished. In our nation, presently we are having a genuinely all around created banking system with various classes of banks – public sector banks, foreign banks, private sector banks – both old and new age, regional rural banks and co-usable banks with the Reserve Bank of India as the leader of the system. In the banking field, there has been an uncommon development and enhancement of banking industry and our banks are presently utilizing the most recent technologies like internet and cell phones to complete exchanges and speak with the majority.

In the economy exist numerous sorts of financial intermediaries, however most prominent are finance organization and commercial bank (intermediary that gives transferable store offices). Finance organizations raise reserves fundamentally by issuing obligation instruments in the credit markets consisting of commercial paper and securities, with little rates raised from bank borrowings and value (FRBSF Economic Letter, "What's Different about Banks- - Still?", 2001). These assets are utilized principally to finance consumer loans and business loans and, to a lesser degree, land loans. Be that as it may, most of business lending is for gear loans and rents for which specific monitoring by finance an organization is doable. For instance, numerous vast firms, for example, Caterpillar, work their very own hostage finance organization through which business loans are reached out for the buy or rent of hardware created by the parent organization

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2. History of Banking in India

2.1 Banking during pre-independence period

India had hundreds of years old custom of indigenous Banking. There existed numerous confirmations showing that the idea of Banking was not new to India. As Chanakya's Arthashastra around 3000 B.C. demonstrated actualities that Banking was at that point there in ground-breaking presence in India. The origin of current Banking in India goes back to the eighteenth century. History of Banking in India started with the establishment of the Agency houses in Calcutta and Bombay in 18 century. In early periods, the lending cash was basic and simple as it was Seths, Sahukars, Mahajans who financed customers whom they intently knew. Moneylenders used to be known as people who satisfied critical necessities of people however later they were known for acts of neglect. As they charged additional rates of interests and made illiterate people trick. With the landing of the British guideline, indigenous Banking got a misfortune.

Bank of Hindustan: Banking Concept in India was brought by Europeans. Calcutta was the most dynamic trading port in India, mainly because of the exchange of the British Empire, thus turned into a banking focus. Bank of Hindustan was built up in 1770 and it was the primary bank at Calcutta under European management however because of the financial emergency, it was shut in 1832.

Administration Banks: The most critical accomplishment of this period was rise of the Presidency Banks. On June 2, 1806 the Bank of Calcutta built up in Calcutta mainly to subsidize General Wellesley's wars against Tipu Sultan and the Marathas. It was the main Presidency Bank during the British Raj which was later renamed as Bank of Bengal in 1809. On fifteenth April, 1840 the second administration Bank was built up in Bombay – Bank of Bombay. On 1 July 1843 the Bank of Madras was set up in Madras, presently Chennai. It was the third Presidency Bank during the British Raj.

Allahabad Bank: Allahabad Bank otherwise called one of India's Oldest Joint Stock Bank was set up in 1865 is the oldest Public Sector Bank in India having branches all over India and serving the clients throughout the previous 150 years.

Oudh Commercial Bank: In 1881, Oudh Commercial Bank was set up at Faizabad. It was the main Bank of India with Limited Liability to be overseen by Indian Board yet fell after independence in 1958.

Punjab National Bank: In 1895 Punjab National Bank, the fourth biggest Bank in India, second Largest in Public Sector was built up in Lahore in Punjab province of Undivided India established by LalaLajpatRai. It was the principal bank simply overseen by Indian. First CMD of PNB was SardarDayal Singh.

Central Bank of India: Central Bank of India additionally called India's First Truly Swadeshi bank was set up in 1911 was the main Indian commercial bank which was entirely possessed and overseen by Indians.

No less than 94 banks in India flopped somewhere in the range of 1913 and 1918 because of economic crisis during World War I. Huge numbers of those banks built up then have made due to the present, for example, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

State Bank of India: on 27th January, 1921 Bank of Calcutta, Bank of Madras and Bank of Bombay were amalgamated to frame Imperial Bank of India which was in this manner changed into State Bank of India in July 1955 under State bank of India act 1955. So State bank of India is the oldest Bank of India In 1926 Hilton-Young Commission presented its report.

Reserve Bank of India: In 1934 Reserve Bank of India act was passed. On the proposal of Hilton-Young Commission, on first April 1935 Reserve Bank of India was built up. RBI was built up with initial offer capital worth Rs. 5 crore with 5 Lakh Rs. 100 offer profit.

2.2 Banking during post-independence period

With the finish of British principle, India's independence denoted the finish of a routine of the Laissez-faire i.e. arrangement of minimum government interference for the Indian banking. The Government of India initiated measures to assume a functioning job in the economic existence of the country, and the Industrial Policy Resolution embraced by the

government in 1948 lead to a blended economy with more prominent involvement of the state in banking and finance.

Key points:

The Reserve Bank of India, India's central banking specialist, was nationalized on 1 January 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 vested with real powers for supervision of banking in India.

In request to compose the functioning and exercises of banking, the Banking Regulation Act was authorized in 1949 by government of India which enabled the Reserve Bank of India (RBI) to manage, control, and inspect the banks in India. The Banking Regulation Act additionally given that no new bank or part of an existing bank could be opened without a permit from the RBI, and no two banks could have regular executives.

Nationalization of Banks:

Indeed, even after the arrangements and guidelines of RBI, the banking sector was not working quickly enough in spreading credit accessibility the nation over. It was viewed as that banks were constrained by business houses and therefore bombed in catering to the credit needs of poor areas, for example, bungalow industry, town industry, ranchers, make men, and so on. Nationalization of banks prompted greater government power over credit conveyance.

Imperial Bank had been nationalized in 1955, making it the State Bank of India (SBI). SBI auxiliaries (partners) were nationalized in 1959.

At the point when communicated by the then head administrator Indira Gandhi, the government of India issued an ordinance 'Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969' and nationalized the 14 biggest commercial banks (with stores more than 50 cr.) w.e.f 19 July 1969 under which Banks needed to reserve as much as 40 percent of credit to the need sectors (agriculture and little and medium industries). These 14 banks controlled 70 percent of the nation's store to be specific:

- a. Allahabad Bank
- b. Bank of Baroda
- c. Bank of India
- d. Bank of Maharashtra
- e. Canara Bank
- f. Central Bank of India
- g. Dena Bank
- h. Indian Bank
- i. Indian Overseas Bank
- j. Punjab National Bank
- k. Syndicate Bank
- l. UCO Bank
- m. Union Bank of India
- n. United Bank of India

A second phase of nationalisation took place in 1980 when 6 more commercial banks (with deposits over 200 cr.) were nationalised namely:

- a. Andhra Bank
- b. Corporation Bank
- c. New Bank of India
- d. Oriental Bank of Commerce
- e. Punjab & Sindh Bank
- f. Vijaya Bank

With this, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government combined New Bank of India with Punjab National Bank. So the present number of nationalized banks is 26 including SBI and its 5 partners.

3. Inefficiencies in the Indian Banking System

In spite of the development in the quantity of branch arranges in the 1980's, these approaches which were built up to empower level with circulation of assets, energized inefficiencies and imperfections in the Indian banking system. The government looked to address these negative issues through the principal phase of liberalization, which began in the late 1980's. Significant changes in this stage included:

- The formation of money markets.
- Introduction of treasury bills.
- And partial interest rate deregulation.

Other than different considerable estimates, for example, nationalization of banks and initiating need sector lending, the government built up further authority over banks by increasing the Cash Reserve Ratio (CRR) and the Statutory Lending Ratio (SLR). While the CRR was brought from 2% up in 1960 to 15% until 1991, SLR was increased from 25% to 38.5% during a similar period.

The Indian banking system, through statutory acquisition and coordinated credit rules was a critical wellspring of funds for key industries and monetary deficiency of the nation. Other than controlling savings through CRR and SLR, the government additionally practiced command over the rate of interest on loans and savings.

4. Ongoing Trends in the Banking System:

• Electronic Payment Services – e – Checks:

In the ongoing days we know about e-governance, email, web based business, e-tail and so on. In a similar way, another innovation is being created in US for introduction of e-check, which will in the long run supplant the customary paper check. India, as harbinger to the introduction of e-check, the Negotiable Instruments Act has just been corrected to include; Truncated check (a substitute electronic form for paper check) and E-check instruments.

• Real Time Gross Settlement (RTGS):

Real Time Gross Settlement system, introduced in India since March 2004, is a system through which with the assistance of internet instructions can be given by banks to transfer of funds from one bank account to the another bank account . The RTGS system is maintained and operated by the RBI and gives methods for effective and quicker funds transfer

among banks facilitating their financial operations. As the name recommends, funds transfer between banks happens on a 'Real Time' premise. Therefore, cash can achieve the recipient instantly and the recipient's bank has the obligation to credit the recipient's account within two hours.

- **Electronic Funds Transfer (EFT):**

It is a system whereby any individual who needs to make payment to another individual/company and so forth can approach his bank and make cash payment or give instructions/approval to transfer funds specifically from his very own account to the bank account of the collector/recipient. Complete subtleties, for example, the collector's name, bank account number, account type (savings or current account), bank name, city, branch name and so on ought to be outfitted to the bank at the time of requesting for such transfers with the goal that the sum achieves the recipients' account effectively and quicker. RBI is the service supplier of EFT.

- **Electronic Clearing Service (ECS):**

It is a retail payment system that can be utilized to make mass payments/receipts of a comparative sort particularly where every individual payment is of a dreary sort and of generally littler sum. This office is intended for organizations and government divisions to make/get expansive volumes of payments rather than for funds transfers by individuals.

- **Automatic Teller Machine (ATM):**

It is the most famous devise in India, which empowers the customers to pull back their cash 24 hours every day 7 days seven days. It is a devise that permits customer who has an ATM card to perform routine banking exchanges without interacting with a human teller. Notwithstanding cash withdrawal, ATMs can be utilized for payment of service charges, funds transfer between accounts, deposit of registers and cash with accounts, balance enquiry and so forth.

- **Point of Sale Terminal:**

It is a work station that is linked online to the mechanized customer information documents in a bank and magnetically encoded plastic exchange card that distinguishes the customer to the PC. During an exchange, the customer's account is charged and the retailer's account is credited by the PC for the measure of purchase.

- **Tele - Banking:**

It encourages the customer to do whole non-cash related banking on telephone. Under this devise Automatic Voice Recorder is utilized for less difficult inquiries and exchanges. For muddled inquiries and exchanges, kept an eye on phone terminals are utilized.

- **Electronic Data Interchange (EDI):**

It is the electronic exchange of business reports like purchase order, invoices, shipping notices, receiving advices and so forth in a standard, PC prepared, generally acknowledged format between trading accomplices. EDI can likewise be utilized to transmit financial information and payments in electronic form.

- **Net Banking:**

It is done through internet by individuals and firms for transfer of funds, booking rail tickets, shopping, purchasing cinema tickets, purchasing shares and so on.

- **Mobile Banking:**

Mobile banking is a service given by a bank or other financial institution that enables its customers to lead a scope of financial exchanges remotely using a mobile gadget, for example, a mobile phone or tablet, and using software, ordinarily called an application, given by the financial institution to the reason.

- **Amalgamation of Banks:**

The combination of banks is known as amalgamation of banks. As of late the Union Cabinet on 15-02-2017 affirmed the merger of State Bank of India with five of its associate banks for effective upgraded operational effectiveness and decreased expense of funds.

5. Conclusion

Indian banking system will further develop in size and multifaceted nature while acting as a vital operator of economic growth and intermingling distinctive portions of the financial sector. It automatically pursues that the eventual fate of Indian banking depends not just in internal dynamics released by ongoing profits yet in addition for worldwide patterns in the financial sectors. Briefly summarizing the advancement of the banking since the commencement we can close the following; banking or banks grew suddenly, old banking rehearses were not more than the separate operations attempted by various people and generally not at the same time. The banking operations have been embraced as a separate business openings. The further intensive practices of banking operations in medieval and later periods built up an institution of banking which will perform every one of the operations starting now and into the foreseeable future. Indian banking system will further develop in size and multifaceted nature while acting as an essential specialist of economic growth and intermingling distinctive portions of the financial sector. It automatically pursues that the fate of Indian banking depends not just in internal dynamics released by ongoing profits yet in addition for worldwide patterns in the financial sectors.

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