

Banking System in India

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Abstract

Banking in India in the modern sense originated in the last decades of the 18th century. Among the first bank were the Bank of Hindustan, which was established in 1770 and the General Bank of India, established in 1786 but failed in 1791. The largest bank, and the oldest still in existence, is the State Bank of India. It originated as the Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency; the other two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.

In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the government nationalized banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and wide spread networks. The Indian banking sectors us broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those which are included under the 2nd schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into Nationalised Banks, State Bank of India and its associates, Other Public Sector Banks, Regional Rural Banks (RRBs), Foreign Banks and other Indian Private Sector bank. The term commercial banks refer to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949.

Introduction

A bank has been often described as an institution engaged in accepting of deposits and granting loans. It can also be described as an institution which borrows idle resources, makes funds available to. It does not refer only to a place of tending and depositing money, but looks after the financial problems of its consumers. This era is the age of specialization with the changing situation in the world economy, banking functions have broadened. Financial institutions which are shaped by the general economic structures of the country concerned vary from one country to another. Hence, a rigid classification of banks is bound to the unrealistic.

Structure of Indian banking

Commercial banks are the institutions that ordinarily accept deposits from the people and advances loans. Commercial Banks may be Scheduled Banks or Non-scheduled Banks.

Reserve Bank of India

Reserve Bank of India is the Central Bank of our country. It was established on 1st April 1935 under the RBI Act of 1934. It holds the apex position in the banking structure. RBI performs various developmental and promotional functions. It has given wide powers to supervise and control the banking structure. It occupies the pivotal position in the monetary and banking structure of the country. In many countries central bank is known by different names. For example, Federal Reserve Bank of U.S.A., Bank of England in U.K. and Reserve Bank of India in India. Central bank is known as a banker's bank. They

have the authority to formulate and implement monetary and credit policies. It is owned by the government of a country and has the monopoly power of issuing notes.

Commercial Banks

Commercial banks is institutions that accept deposit, makes business loans and offer related services to general customers and business man. These institutions run to make profit. They cater to the financial requirements of industries and various sectors like agriculture, rural development, etc. It is a profit making institution owned by government or private of both. Commercial Banks which have been established in accordance with the provisions of the Banking Regulation Act, 1949. Commercial Banks may be Scheduled Banks or Non-Scheduled Banks.

Scheduled Banks

Scheduled banks are those which have been in II schedule of Reserve Banks of India Act, 1934 and following criteria should satisfied. 1. Minimum paid up capital Rs. 5 lakhs; 2. It must be a corporation as co-operative society and 3. Any activity of bank will not adversely affect the interest of depositors.

The scheduled banks in India are classified as.

1. Scheduled Commercial Banks
 - i. Public Sector Banks
 - a) Nationalized Banks
 - b) State Bank of India and its Associates Banks
 - c) Other Public Sector Banks
 - d) Regional Rural Banks
 - ii. Private Sector Banks
 - a) Old Private Sector Banks
 - b) New Private Sector Banks
 - iii. Foreign Banks in India
2. Scheduled Co-operative Banks

Public Sector Banks

Public banks are those in which 50% of their capital is provided by central government, 15% by concerned state government and 35% by sponsored commercial banks. In India, there are currently 27 Public sector banks in India out of which 19 are nationalised banks and 6 are SBI and its associate banks, and rest two are IDBI and Bharatiya Mahila Bank, which are categorised as other public sector banks. There are total 93 commercial banks in India.

Nationalised Banks

Nationalised banks dominate the banking system in India, the major nationalisation of banks happened in 1969 by the then-Prime Minister Indira Gandhi. The major objective behind nationalisation was to spread banking infrastructure in rural areas and make cheap finance available to Indian farmers. At present 19 nationalised banks are there. They are 1. Allahabad Bank, 2. Andhra Bank, 3. Bank of Baroda, 4. Bank of India, 5. Bank of Maharashtra 6. Canara Bank, 7. Central Bank of India, 8. Corporation Bank, 9. Dena Bank, 10. Indian Bank, 11. Indian Overseas Bank, 12. Oriental Bank of Commerce, 13. Punjab & Sind Bank, 14. Punjab National Bank, 15. Syndicate Bank, 16. UCO Bank, 17. Union Bank of India, 18. United Bank of India and 19. Vijaya Bank.

State Bank of India and Its Associate Banks

On the recommendation of All India Rural Credit Survey Committee, Imperial Bank was nationalised to become State Bank of India on 1, July 1955. Its 92% capital is owned by the Reserve Bank and 8% by the old shareholders of Imperial Bank and others. This bank is thus, not totally a Government Bank; but it is almost fully under the control of the government. On 1st January, 1997, on the direction of government of India and Reserve

Bank, Kashinath Seth Bank Ltd has been amalgamated with the State Bank. In 2008, the government took over the stake held by the Reserve Bank of India.

Subsidiary or Associate Banks

All India Rural Credit Survey Committee also recommended that banks or erstwhile princely states to be incorporated into the State Bank. But these banks refused these mergers with the State Bank. In 1959, according to the State Bank of India (Subsidiary) Act, these banks were declared as subsidiary banks of the State Bank of India. Presently, there are 5 subsidiary banks: State Bank of Patiala, State Bank of Hyderabad, State Bank of Travancore, State Bank of Bikaner and Jaipur and State Bank of Mysore.

55% capital of the subsidiary banks is with the State Bank of India and 45% with the old shareholders and others. Besides, general banking functions, the subsidiary banks also function as representatives of the State Bank. Management of a subsidiary bank rests with Board of Directors. This board comprises of 5 members nominated by the State Bank itself. Appointment of General Manager of subsidiary bank is made by the State Bank of India has full control over the subsidiary banks.

Other Public Sector Banks

Further, there are two scheduled commercial banks in India, which have been classified as “other Public Sector Banks”. These are IDBI and Bhartiya Mahila Bank.

Regional Rural Banks

Regional Rural Banks came into existence on Gandhi Jayanthi in 1975 with the formation of a Prathama Grameen Bank. The rural banks had the legislative banking of the Regional Rural Banks Act 1976. This act allowed the government to set up banks from time to time wherever it considered necessary. The main objective of these banks is to extend loan and other facilities to the small and marginal farmers, agricultural labourers, artisans and small industrialists. These banks have encouraged agriculture, trade and industry in the rural areas. The RRBs were owned by three entities with their respective shares as follows: Central Government – 50%, State Government – 15%, Sponsor bank – 35%

At present there are 56 RRBs in India. They are 1.Andhra Pradesh Grameena Vikas Bank, 2.Andhra Pragathi Grameena Bank, 3.Chaitanya Godavari Grameena Bank, 4.Telangana Grameena Bank, 5.Saptagiri Grameena Bank, 6.Assam Gramin Vikash Bank,7.Langpi Dehangi Rural Bank, 8.Arunachal Pradesh Rural Bank, 9.Uttar Bihar Gramin Bank, 10.Madhya Bihar Gramin Bank, 11.Bihar Gramin Bank, 12.Chattisgarh Rajya Gramin Bank, 13.Dena Gujarat Gramin Bank, 14.Baroda Gujarat Gramin Bank, 15.Saurashtra Gramin Bank, 16.Sarva Haryana Gramin Bank, 17.Himachal Pradesh Gramin Bank, 18.Jharkhand Gramin Bank, 19.Vananchal Gramin Bank, 20.Jammu And Kashmir Grameen Bank, 21.Ellaquai Dehati Bank, 22.Kaveri Grameena Bank, 23.Karnataka Vikas Grameena Bank, 24.Pragathi Krishna Gramin Bank, 25.Kerala Gramin Bank, 26.Maharashtra Gramin Bank, 27.Vidharbha Konkan Gramin Bank, 28.Narmada Jhabua Gramin Bank, 29.Central Madhya Pradesh Gramin Bank, 30.Madhyanchal Gramin Bank, 31.Manipur Rural Bank, 32.Meghalaya Rural Bank, 33.Mizoram Rural Bank, 34.Nagaland Rural Bank, 35.Odisha Gramya Bank, 36.Utkal Grameen Bank, 37.Punjab Gramin Bank, 38.Malwa Gramin Bank, 39.Sutlej Gramin Bank, 40.Puduvai Bharathiar Grama Bank, 41.Baroda Rajasthan Ksethriya Gramin Bank, 42.Marudhara Rajasthan Gramin Bank, 43.Pandyan Grama Bank, 44.Pallavan Grama Bank, 45.Tripura Gramin Bank, 46.Allahabad UP Gramin Bank, 47.Baroda UP Gramin Bank, 48.Gramin Bank Of Aryavrat, 49.Kashi Gomti Samyut Gramin Bank, 50.Prathama Bank, 51.Purvanchal Bank, 52.Sarva UP Gramin Bank, 53.Uttarakhand Gramin Bank, 54.Bangiya Gramin Vikash Bank, 55.Paschim Banga Gramin Bank and 56.Uttarbanga Kshetriya Gramin Bank.

Private Sector Banks

Private Sector Banks are those banks which are owned by the private sector. The private sector played a strategic role in the growth of joint stock banks in India. In 1951, there were in all 566 private sector banks, of which 474 were non-scheduled and 92 were scheduled. But there was not a single public sector bank at that time. Since then, the number of public sector banks is increasing while those of private sector banks are decreasing. Private sector banks include foreign banks, scheduled commercial banks, non-scheduled commercial banks and new private sector banks.

Old Private Sector Banks

At present, there are 13 old private sector banks. They are: City Union Bank Ltd, Tamilnadu Mercantile Bank Ltd, The Catholic Syrian Bank Ltd, The Dhanalakshmi Bank Ltd, The Federal Bank Ltd, The Jammu & Kashmir Bank Ltd, The Karnataka Bank Ltd, The Karur Vysya Bank Ltd, The Lakshmi Vilas bank Ltd, The Nainital Bank Ltd, The Ratnakar Bank Ltd, The South Indian Bank Ltd, and ING Vysya Bank Ltd.

New Private Sector Bank

In accordance with the financial sector reforms adopted in 1991, new private sector banks have been permitted to be set up. According to Narasimham committee, Private sector banks should be allowed to be established in India. These new private sector banks will complement the overall financial sector reforms. They will provide a financially viable technologically up to date, customer friendly and efficiently competitive financial intermediation. The minimum capital of new private sector banks should be Rs.300 crores. The total number of new private sector banks in operation has gone up to 9. These banks are: 1.Axis Bank Ltd, 2.Bandhan Bank(starts its banking operations from 23rd August 2015), 3.Development Credit Bank (DCB) Ltd, 4.HDFC Bank Ltd, 5.ICICI Bank Ltd, 6.IDFC Bank (starts its banking operations from 1st October 2015), 7.Industrial Bank Ltd, 8.Kotak Mahindra Bank Ltd, 9.Yes Bank Ltd,...

Foreign Banks

In India, the importance of foreign banks is increasing in the private sector. Foreign bank is the bank whose head office is located in a foreign country. It is regulated according to the rules of its own country. At present, there are 46 foreign banks with 325 branches all over the country. In addition 39 foreign banks operated in India through representative offices.

List of foreign banks in India as on December 31st, 2015 – branch form of presence

SL.No.	Name of the bank	Country of Incorporation	No of Branches in India
1	Australia and New Zealand Banking Group Ltd.	Australia	2
2	Commonwealth Bank of Australia	Australia	1
3	National Australia Bank	Australia	1
4	Westpac Banking Corporation	Australia	1
5	Bank of Bahrain & Kuwait BSC	Bahrain	4
6	AB Bank Ltd.	Bangladesh	1
7	Sonali Bank Ltd.	Bangladesh	2
8	KBC Bank NV	Belgium	1
9	Bank of Nova Scotia	Canada	3
10	Industrial & Commercial Bank of China Ltd.	China	1
11	BNP Paribas	France	8
12	Credit Agricole Corporate & Investment Bank	France	5
13	Societe Generale	France	3
14	Deutsche Bank	Germany	18
15	HSBC Ltd	Hong Kong	50
16	Bank Internasional Indonesia	Indonesia	1
17	Mizuho Bank Ltd.	Japan	5
18	Sumitomo Mitsui Banking Corporation	Japan	1
19	The Bank of Tokyo- Mitsubishi UFJ, Ltd.	Japan	5
20	SBM Bank(Mauritius) Ltd	Mauritius	4
21	Rabobank International	Netherlands	1
22	The Royal Bank of Scotland N.V.	Netherlands	10
23	Doha Bank	Qatar	3
24	JSC VTB Bank	Russia	1
25	Sberbank	Russia	1
26	DBS Bank Ltd.	Singapore	12
27	United Overseas Bank Ltd	Singapore	1
28	FirstRand Bank Ltd	South Africa	1
29	Shinhan Bank	South Korea	4
30	Woori Bank	South Korea	1
31	Korea Exchange Bank	South Korea	1
32	Industrial Bank of Korea South	Korea	1
33	Bank of Ceylon	Sri Lanka	1
34	Credit Suisse A.G	Switzerland	1
35	UBS AG	Switzerland	1
36	CTBC Bank Co., Ltd.	Taiwan	2
37	Krung Thai Bank Public Co. Ltd.	Thailand	1
38	Abu Dhabi Commercial Bank Ltd.	UAE	2
39	Mashreq Bank PSC	UAE	1
40	National Bank of Abu Dhabi PJSC	UAE	1
41	Barclays Bank Plc.	United Kingdom	7
42	Standard Chartered Bank	United Kingdom	102
43	American Express Banking Corporation	USA	1
44	Bank of America	USA	5
45	Citibank N.A.	USA	45
46	J.P. Morgan Chase Bank N.A.	USA	1
	Total		325

List of foreign banks in India as on December 31st, 2015 – Representative Office form of presence

SL.No.	Name of the representative office	Country of Incorporation	Centre
1	Raiffeisen Bank International AG	Austria	Mumbai
2	K.B.C. Bank N.V.	Belgium	Mumbai
3	Royal Bank of Canada	Canada	Mumbai
4	Toronto Dominion Bank	Canada	Mumbai
5	Credit Industriel et Commercial	France	New Delhi
6	Natixis	France	Mumbai
7	DZ Bank AG	Germany	Mumbai
8	Landesbank Baden – Wurttemberg	Germany	Mumbai
9	Commerzbank	Germany	Mumbai
10	KfW IPEX Bank GmbH	Germany	Mumbai
11	Intesa Sanpaolo S.p.A	Italy	Mumbai
12	Uni Credit S.p.A	Italy	Mumbai
13	Banca Popolare Sco.Coop	Italy	Mumbai
14	UBI Banca – Unione di Banche Italiane	Italy	Mumbai
15	Monte Dei Paschi Di Sienna	Italy	Mumbai
16	Banca Popolare di Vicenza	Italy	New Delhi
17	CIMB Bank Berhad	Malaysia	Mumbai
18	Everest Bank Ltd.	Nepal	New Delhi
19	DNB Bank ASA	Norway	Mumbai
20	Caixa Geral de Depositos	Portugal	Mumbai
21	Vnesheconombank(Bank for Foreign Economic Affairs)	Russia	New Delhi
22	Promsvyazbank	Russia	New Delhi
23	Gazprombank	Russia	New Delhi
24	24 Kookmin Bank	South Korea	Mumbai
25	Banco de Sabadell SA	Spain	New Delhi
26	Banco Bilbao Vizcaya Argentaria	Spain	Mumbai
27	CaixaBank S.A.	Spain	New Delhi
28	Hatton National Bank	Sri Lanka	Chennai
29	Svenska Handelsbanken	Sweden	Mumbai
30	Skandinaviska Enskilda Banken AB	Sweden	New Delhi
31	Zurcher Kantonalbank	Switzerland	Mumbai
32	Bank of Taiwan	Taiwan	Mumbai
33	Mega International commercial Bank	Taiwan	Mumbai
34	Asya Katilim Bankasi AS	Turkey	Mumbai
35	35 Emirates NBD	UAE	Mumbai
36	First Gulf Bank	UAE	Mumbai
37	The Bank of New York Mellon	UAE	Mumbai
38	Wells Fargo Bank N.A.	UAE	Mumbai(Sub-office at Chennai & New Delhi)
39	Banco Santander, S.A	Spain	Mumbai

Scheduled Co-operative Bank:

Co-operative bank was set up by passing a co-operative Act in 1904. They are organised and managed on the principal of co-operation and mutual help. The main objective of co-operative bank is to provide rural credit. The cooperative banks in India play a role even today in rural co-operative financing. The enactment of Co-operative Credit Societies Act, 1904, however, gave the real impetus to the movement. The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit societies.

Three tier structures exist in the cooperative banking:

- I. State cooperative bank at the apex level.
- II. Central cooperative banks at the district level.
- III. Primary cooperative banks and the base or local level.

Non-Scheduled Banks

Non scheduled banks in India define in clause (C) of section 5 of Banks regulation Act 1949. These are those banks of which the total capital is less than Rs.5 lakhs. These are not included in the second schedule of the Reserve Bank of India Act, 1934. Reserve Bank has no specific control upon these banks. But they have to send details of their business to the Reserve bank every month.

Conclusion

Commercial banks play a very significant role in development of Indian banking system. No country can progress without organized banking system. Commercial banks also promote economic development and social welfare activities in India. These banks provide loan and advances to priority sectors.