CHAPTER 24

BANKS

Banking Industry in India has undergone a major structural transformation after the independence. The banking industry replaced the activities of money lenders with their limited resources by large scale operations with huge resources and diversified activities.

The English agencies started their own banking business in Kolkatta and Mumbai. This was the beginning of the modern banking system in India. So, the history of modern banking in India dates back to the last quarter of 18th Century. The earliest European Bank was started by the English agency houses along with their trading activities in 1710 in the name of Bank of Hindustan. This was followed by setting up of the Bengal Bank, General Bank of India in etc. However, all these banks failed sooner or later due to various reasons.

In order to meet the needs of the foreign rulers, a number of quasi banking institutions were established. They included Presidency Bank of Bengal (1806), Presidency Bank of Madras (1840) and the Presidency Bank of Calcutta and later by 1921 these three banks were amalgamated to constitute one bank called Imperial Bank of India.

The post independence period witnessed massive growth in the Indian banking system. The first step taken in this direction was nationalization of the Reserve Bank of India in 1948. It changed the outlook of the Reserve Bank by giving them the status of monitoring authority to regulate and control the socio-economic activities laid down by the government.

In order to have sound and balanced growth of banking business in the country, the Reserve Bank of India Act, 1949 was passed to have control of the Reserve bank over the banking industry. In 1955, the Imperial Bank of India was nationalized under the name of State Bank of India. The scheme of social control was initiated by the government in the year 1967. Followed by it, the government nationalized 14 major banks which held a deposit of around Rs 50 crores on 19th July 1969 and 6 more banks which held deposit of around Rs 200 crores on 15th April 1980. This process was done to ensure more equitable and purposeful distribution of the credit.

Besides the above developments, financial institutions were established for meeting the specialized needs. These include Industrial Development Bank of India (IDBI), Industrial Credit and Investment Bank of India for meeting the long – term financial needs of the large scale operations. Similarly for meeting the requirements of the Small Scale Industries (SSIs), State Financial Corporation (SFC), Small Industries Development (SIDC) and Small Industries Development Bank of India (SIDBI) have been established. The National Bank for Agriculture and Rural Development (NABARD), Land Development Bank (LDB), Regional Rural Bank (RRB) etc. has been established for taking care of the credit needs in the agriculture sector.

The Indian Business environment has altered radically since 1991 with the changes in the economic policies and introduction of new institutional mechanisms of economic liberalization and financial sector reforms. The move from old to new business environment has created the demands on Indian bank like enhanced work flow, full customer access to banking transactions through electronic mode etc. In the emerging scenario of fierce competition backed by twin force of deregulation and technology, the degree of competition in the Indian financial Sector has increased to unprecedented level. Hence the operational efficiency of banks has achieved immense significance for their survival in the present scenario. Moreover branches have been opened in rural areas with offer of financial assistance along with advice and guidance on several critical problems which transforms the life of rural people.

The tables in this section present a consolidated picture of progress of banking in India showing liabilities and assets of various categories of banks classified below.

(i) Reserve Bank Of India
(ii) Scheduled Commercial Banks

(a) State bank of India
(b) Other Indian Banks
(c) Foreign Banks

(iv) Non-Schduled Indian Commercial Bank

Besides the above information, tables showing

(i) the total number and amount of cheques cleared
(ii) percentage of cash balances to deposit
(iii) liabilities of several classes of banks eg liabilities and assets of IFCI Ltd, State Financial Corporations, Industrial Development Bank of India.

The RBI acts as banker, both to the central government and state governments. It manages all the banking transactions of the government involving the receipt and payment of money. In addition, RBI remits exchange and performs other banking operations. RBI provides short-term credit to the central government. Such credit helps the government to meet any shortfalls in its receipts over its disbursements. RBI also provides short term credit to state governments as advances.

The issue department of RBI is dedicated to issuing currency. All the currency issued is the monetary liability of RBI that is backed by assets of equal value held by this department. Assets consist of gold, coin, bullion, foreign securities, rupee coins, and the government's rupee securities.

Scheduled Commercial Banks: The banks, which carry on business of banking in India and which are included in the second schedule to the Reserve Bank of India Act, 1934 are known as Scheduled Banks.
These include the State Bank of India, other Indian Banks and Foreign Banks.

(i) **State Bank of India:** The State Bank of India was formed in July, 1955 after the natoinalisation of the Imperial Bank of India. Figures in this table relate to the business of the Bank in India and abroad.

(ii) **Other Indian Banks:** Indian banks are those who have their registered offices in India. These include Private Sector Banks, Associates of State Bank of India, 19 nationalised and Regional Rural Banks. The data presented in the subsequent tables relate to the business both in India and abroad.

(iii) **Foreign Banks:** Foreign banks are those who have their registered offices outside India. The data relate to their business in the Indian Union.

Highlights

- Total assets of banking department of Reserve Bank of India increased from ₹1.8 lakh crores in 2001 to ₹7.1 lakh crores in 2009.

- Total assets of Issue Department of Reserve bank of India grew from ₹2.3 lakh crores in 2001 to ₹7.0 lakh crores in 2009.

- Note in circulation has increased from ₹2.2 lakh crores in 2001 to ₹7.0 lakh crores in 2009.

- Loan and Advances of State Bank of India including bills discounted has increased from ₹1.1 lakh crores in 2001 to ₹5.4 lakh crores in 2009.

- Loan and Advances of other Scheduled Commercial Banks (Other than SBI) has increased from ₹3.8 lakh crores in 2001 to ₹22.9 lakh crores in 2009.

- Loan and Advances of Foreign Banks including bills discounted has increased from ₹0.4 lakh crores in 2001 to ₹1.6 lakh crores in 2009.
- Number and amount of cheques cleared from Mumbai is largest among all the Centres in India. This is true for all the years from 2002-03 to 2009-10.
- Total Assets of IFCI has come down from ₹0.22 lakh crores to ₹0.19 lakh crores.
- The assets of State Finance Corporation increased from ₹16622 corers in 2000-2001 to ₹18000 crores in 2008-09. During 2008-09 the maximum asset of State Finance Corporation is from Karnatka.

This chapter contains the following tables: