CHAPTER-24

BANKS

24.1 Development of Banking In India - Historical Perspective: In India, the modern banking system was initiated with the establishment of the Presidency Bank of Bengal in 1806, and the Presidency bank of Madras in 1840. Reserve Bank of India, was nationalized on January 1, 1949 under the terms of the Reserve Bank of India Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India to regularize, control and inspect the banks in 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 and state government. 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.

24.2 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 nationalization of the Imperial Bank of India.

(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 nationalized and Regional Rural Banks.

(iii) **Foreign Banks:** Foreign banks are those who have their registered offices outside India.

Performance of Banking Sector in India :

24.3 The business of scheduled commercial banks (SCBs) slowed significantly during 2015-16. The gross nonperforming advances (GNPAs) ratio increased sharply, largely reflecting reclassification of restructured standard advances as non-performing. As a part of sustained efforts to address NPAs in the banking sector, the Central Repository of Information on Large Credits (CRILC) is collecting and disseminating data. The system has been further strengthened to capture red flagged accounts, fraud accounts, updates on positions of special mention accounts-211 (SMA-2), status of the joint lenders' forum (JLF) and non-cooperative borrowers.

Challenges & Opportunities Before the Banking Sector :

24.4 Rural Markets: Large number of people do not have access to banking facilities due to scattered and fragmented locations. Significant proportion of the same lies in rural areas where private banks have little incentive to invest.One example of the trend was the recent merger of Bank of Rajasthan with ICICI Bank Ltd which the latter resorted to in order to increase its reach in rural market and market share significantly.

24.5 Increased competition: Profits of banks are being affected by increased competition, with different public and private sector banks vying for increased share of customers. But increased competition has also resulted in increased efficiency, improved customer services and profitability in terms of returns on both equity and assets. Banks, now have to continuously innovate their practices to stay ahead in the market. Increasing competition, however, might also induce the banks to higher risk taking strategies.

24.6 Management of Risks: Researchers have found that Indian banks risk management capabilities has been improving over time. However, due to cyber banking, global banking scenario in recent past etc have introduced newer types of risk. International regulatory norms have become more stringent in view of failure of many financial institutions.

24.7 Compliance with International Requirements : In the background of recent global regulatory developments , **Basel III** largely aiming at higher and better quality capital; an internationally harmonised leverage ratio to constrain excessive risk taking; capital buffers which would be built up in good times so that they can be drawn down in times of stress; minimum global liquidity standards; and stronger standards for supervision, public disclosure and risk management, was introduced. Introduction of **International Financial Reporting System (IFRS)** to facilitate comparability between enterprises operating in different jurisdictions, has also placed additional demands on Indian banks . In order to make the transition to IFRS they would have to handle accounting issues and upgrade their infrastructure including IT & human resource.

Source of Data on Banking Statistics :

24.8 The database maintained by **RBI** includes weekly information on Forex reserve, Reserve Money & Bank Money, fortnightly information on Scheduled Banks statement of position in India, quarterly information on Balance of Payments, Banking Statistics – deposits & credits , Statewise & Region wise deployment of ATM's , Annual accounts data of scheduled commercial banks, branch banking statistics, profile of banks etc besides other occasional subjects. RBI brings out various reports on annual (Trend & Progress of Banking in India, Currency & Finance etc) , half yearly (Financial Stability Reports, Macro Economic & Monetary Developments and Report on Forex reserves),quarterly, monthly (RBI Bulletin) & weekly Basis(Weekly Statistical Supplement) . The information on performance of State Financial Corporations is maintained by **Small Industries Development Bank of India , SIDBI** . Even though organizations like IFCI, IDBI maintain their own statistics , usually , the consolidated information is usually available with RBI. **National Bank for Agriculture & Rural Development (NABARD)** maintains information on rural credit .

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