CHANGING PROFILE OF INDIAN BANKING SYSTEM

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ABSTRACT

Banking systems are adapted to the structure and needs of a particular economy they exist inIndian economy policy has been founded on the philosophy of economic growth with social justice. As a matter of fact the fact the concept on banking as under gone a dynamic change in keeping with the need to achieve rapid socio economic progress. Emerging market banks which are already growing faster than their developed world counter parts prior to the crisis have picked up the pace further in last few years. In this paper we speak about changing profile of Indian banking for achieving sustainable global economy.

Banking Industry is a piece of the economy in the world. Today we are placed in the time of globalization around the world. Worldwide acquaintances have acknowledged globalization as their first vital decision. Improvement in technology has encouraged globalization also. E-commerce, e-marketing, e-banking are today's buzzwords. Banks have transformed them and are offering services through the Internet. Remarkably overriding element in the Indian economy and the financial sector was assumed by overseeing an accounting industry. The Indian financial sector underwent a sweeping change during the nineties. From the moderately closed and regulated environment in which agents had to operate earlier, the sector was launched up as part of the efficiency; enhancing structural policies bring about high sustainable long-term growth of the economy. The banking sector in India has come upon a speedy transformation.

Key words: Economic growth, Socio economic progress, Emerging market banks, Changing profile. global economy, e-commerce, e-marketing, e-banking

I. Introduction

India's banking sector is correctly valued at 81 trillion (US $1.31 trillion). It as the potential to become the fifth largest bank in industry in the world by 2020 and the third largest by 2025, according to an industry report. The space of Indian banking has changed over the years. Banks are now reaching out to the masses with technology to facilitate greater ease of communication and transactions are carried out through the internet and mobile devices

With the apr5liment passing the Banking Laws (Amendment) Bill in 2012, the landscape o0f the sector will likely change. The bill allows the Reserve Bank of India (RBI) to make final guidelines on issuing new bank licenses. This could lead to a greater number of banks in the country, the style of operation could also evolve with the integration of modern technology into the industry.

The Indian banking sector has seen unprecedented growth along with remarkable improvement in its quality of assets and efficiency since economic liberalization began in the early 1990s from providing plain vanilla banking services, banks have gradually transformed themselves into universal banks. ATMs, Internet banking, mobile banking and social banking have made "anytime anywhere banking" the norm now.

In 2011/2012, non-cash payments comprised 91 percent of total transactio0ns in terms of value and 48 per cent in terms of volume. Within non cash payments, too, the share of payments through cheques has come down from 85% to 9% in value, and 83% to 52% in volume between 2005 and 2006 and 2011 and 2012.

Banks have taken over measures to improve their functioning too. As a result, there were 20 Indian banks in the UK-based brand finance's annual international ranking of top 500 in 2010 as compared to only six in 2007, according to a report in a leading financial daily. The growth is not restricted to the metropolitan or urban areas. Financial inclusion as been at the forefront of regulator and policy makers in India, a country were approximately half of the population still does not have access to banking services. There have been occasions when banks have acted beyond their role of finance providers. For example, a financial daily reported that AryavartGramin Bank, a regional rural bank sponsored by Bank of India, tied up with TATA BP Solar to finance "Solar Home Lighting System" for village homes in Uttar Pradesh. It extended finance of around Rs 10,000 with Rs 3,000 as margin money to be contributed by the beneficiary.The equated monthly installment towards the repayment of the loan amount the villagers had to spend on kerosene requirements per month. The bank's initiative resulted in 20,000 houses getting solar power. It also meant an annual saving of about 192 tanker loads of kerosene.

II. Objective of the Study

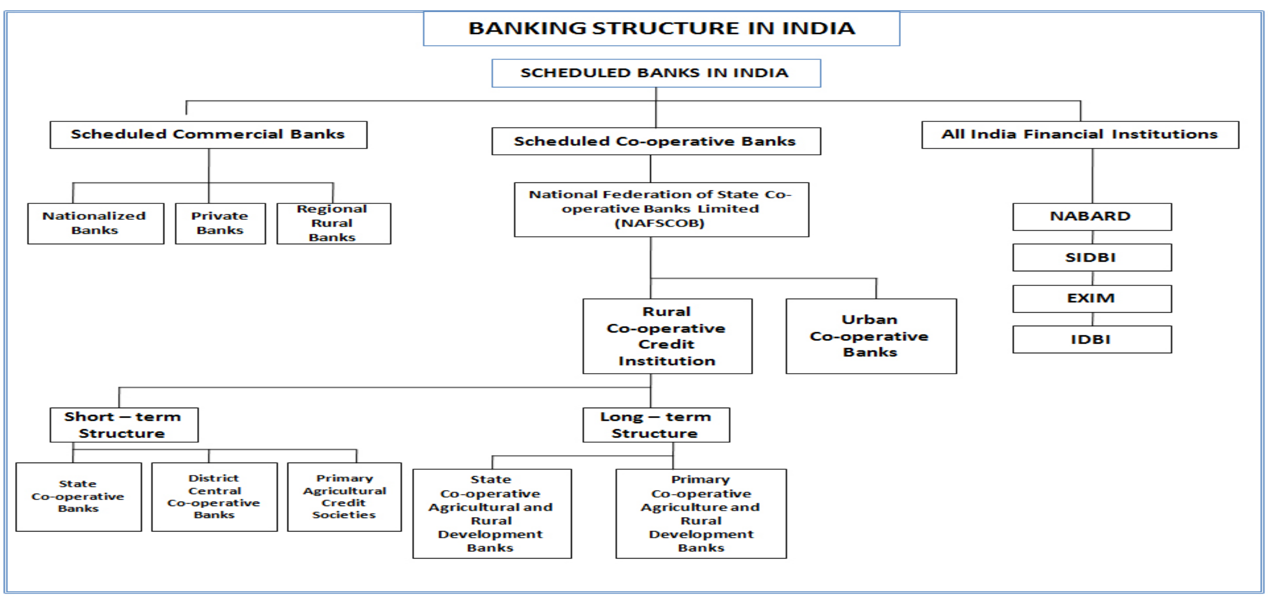
1. To know the outstaying achievements of the Indian banking system
2. To know the role of changing profile of bank in overall development of economy
3. To know the move towards universal banking
4. To know about recent trends in banking

III. Research Methodology

The study is based on secondary data which is collected from the published books, reports, newspapers, websites etc. The research is based on secondary data. It is descriptive in nature. The secondary data is collected from review of post researchers and other books and reports.

IV. Indian banking structure

The exact date of existence of indigenous bank is not known. But, it is certain that the old banking system has been functioning for centuries. Some people trace the presence of indigenous banks to the Vedic times of 2000-1400 BC. It has admirably fulfilled the needs of the country in the past.



Banks which are integrated in the second phase of the RBI are called schedule banks. These banks comprise into two banks, which are termed as Scheduled Commercial Banks and Scheduled Cooperative Banks. These banks are eligible for certain amenities such as financial accommodations from Reserve Bank of India and have obligations to fulfil certain statutory obligations. Thirteen types of banks available in India are described below.

- **Reserve Bank of India (RBI):**

The country had no central bank prior to the establishment of the RBI. The RBI is the supreme+e monetary and banking authority in the country and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

- **Commercial Banks:**

Commercial banks mobilise savings of general public and make them available to large and small industrial and trading units mainly for working capital requirements. The commercial banks in India are largely Indian-public sector and private sector with a few foreign banks. The public sector banks account for more than 92 percent of the entire banking business in India—occupying a dominant position in the commercial banking. The State Bank of India and its 7 associate banks along with another 19 banks are the public sector banks.

- **Scheduled and Non-Scheduled Banks:**

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs, hey have to satisfy the RBI that their affairs are carried out in the interest of their depositors.

All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

- **Regional Rural Banks:**

The Regional Rural Banks (RRBs) the newest form of banks, came into existence in the middle of 1970s (sponsored by individual nationalised commercial banks) with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of al kinds in rural areas.The emphasis is on providing such facilities to small and marginal farmers, agricultural labourers, rural artisans and other small entrepreneurs in rural areas.

- **Other special features of these banks are:**

(i) their area of operation is limited to a specified region, comprising one or more districts in any state; (ii) their lending rates cannot be higher than the prevailing lending rates of cooperative credit societies in any particular state; (iii) the paid-up capital of each rural bank is Rs. 25 lakh, 50 percent of which has been contributed by the Central Government, 15 percent by State Government and 35 percent by sponsoring public sector commercial banks which are also responsible for actual setting up of the RRBs.

These banks are helped by higher-level agencies: the sponsoring banks lend them funds and advise and train their senior staff, the NABARD (National Bank for Agriculture and Rural Development) gives them short-term and medium, term loans: the RBI has kept CRR (Cash Reserve Requirements) of them at 3% and SLR (Statutory Liquidity Requirement) at 25% of their total net liabilities, whereas for other commercial banks the required minimum ratios have been varied over time.

- **Cooperative Banks:**

Cooperative banks are so-called because they are organised under the provisions of the Cooperative Credit Societies Act of the states. The major beneficiary of the Cooperative Banking is the agricultural sector in particular and the rural sector in general.The cooperative credit institutions operating in the country are mainly of two kinds: agricultural (dominant) and non-agricultural. There are two separate cooperative agencies for the provision of agricultural credit: one for short and medium-term credit, and the other for long-term credit. The former has three tier and federal structure.

At the apex is the State Co-operative Bank (SCB) (cooperation being a state subject in India), at the intermediate (district) level are the Central Cooperative Banks (CCBs) and at the village level are Primary Agricultural Credit Societies (PACs).Long-term agriculture credit is provided by the Land Development Banks. The funds of the RBI meant for the agriculture sector actually pass through SCBs and CCBs. Originally based in rural sector, the cooperative credit movement has now spread to urban areas also and there are many urban cooperative banks coming under SCBs.

V. Changing Profile of Indian Banking Recent Development

The Indian banking sector is distinctive from the rest of the world's banking system because of the distinctive geographic, social and economic characteristics of the country. India is located in the second position in the case of the country's population in all over the world. It has marked economic disparities and high levels of illiteracy.

The central bank of Japan and India have agreed to a proposal that expands the maximum amount of the Bilateral Swap Arrangement (BSA) between the two countries to US $ 50 billion. The agreement is for a three Year Period (2012-2015); the previous size of the BSA was US $ 15 million. The new agreement will enable the two countries to swap their local currencies against the US dollar for an amount up to US $ 50 billion.

Public sector banks will soon offer customers insurance products from different companies as against products from one company. The finance ministry has asked public sector banks to become insurance brokers instead of corporate agents. This move was one of the steps stated by finance minister Mr P Chidambaram in early 2013, as a way to increase insurance penetration.

City has promoted Mr AnandSelvakesari as the head of consumer banking for the Association of Southeast Asian Nations (ASEAN) region. Indian Overseas Bank (IOB) has received approval from the RBI to open a second branch in Bangkok, according to the bank's chairman and managing director Mr M Narendra . The bank will likely open the second branch before March 31,2014. Also , the bank is looking to expand its presence . “Our focus is on opening more rural branches and taking banking to Villages. We have covered3,000 Villages under the financial inclusion scheme”, said Mr Narendra.

The Reserve Bank of India issued guidelines on May 11, 2005 for merger/ amalgamation of private sector banks for consolidation in the banking sector. The guidelines are applicable where the merger takes place between two banking companies or between a banking company and a non-banking financial company.

VI. Globalization / Overseas Expansion:

Growing integration of economics and the markets around the world is making global banking a reality. The surge in globalization of finance has already begun to gain momentum with the technological advancements which have effectively overcome the national borders in the financial services business.

- **Technology:** There is an imperative need for not mere technology up gradation but also its integration with the general way of functioning of banks to give them an edge in respect of services provided to their constituents, better housekeeping, optimizing the use of funds and building up of MIS for decision making, better management of assets & liabilities and the risks assumed which in turn have a direct impact on the balance sheets of banks as a whole
- **Skilled Manpower:** There will be a sea change for employees too. Secure jobs will be replaced by contractual appointments, for a specified period of time. The unions will merge into the shadows and bank managements will turn effective. As a personnel from other disciplines will skilled personnel from other disciplines will enter banks in increasing numbers. Factors like skill , attitudes and knowledge of the human capital play a crucial role in determining the competitiveness of the financial sector. The quality of human resources indicates the ability of banks to deliver value to customers. Capital and technology are replicable but not the human capital which needs to be valued as a highly valuable resource for achieving that competitive edge.
- **Key Statistics:** The revenue of Indian banks increased four-fold from US$ 11.8 billion to US$ 46.9 billion in the period 2001-2010. In that phase, the profit after tax rose about nine-fold from US$ 1.4 billion to US$ 12 billion. Banking Index with the Sensex (Bankex) that tracks the performance of primary banking sector grew at a compounded annual growth rate (CAGR) of nearly 20 percent over the period 2003-2012. Total number of onsite and offsite ATMs of Indian Banks reached 100042 in july 2012.

VII. Suggestions for Improvements

i. The banking practices need to be upgraded.
ii. Encouraging them to avail of certain facilities from the banking system, including the RBI.
iii. These banks should be linked with commercial banks on the basis of certain understanding in the respect of interest charged from the borrowers, the verification of the same by the commercial banks and the passing of the concessions to the priority sectors etc.
iv. These banks should be encouraged to become corporate bodies rather than continuing as family based enterprises.
v. The level of consumer awareness is significantly higher as compared to previous years. Now-a-days they need internet banking, mobile banking and ATM services.
vi. The better we understand our customers, the more successful w will be meeting their needs.

vii. Technology up gradation is an inevitable aspect to face challenges on rural areas.

Conclusion

Indian banking system will further grow in size and complexity while acting as an important agent of economic growth and intermingling different segments of the financial sector. The second generation returns will play a crucial role in for the strengthening a system. Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking".

The role of banks is not only directly important, but also it is enormously needful in the precise conduct of the programs projected by the government. So that it may revolutionize in the provision of loans from time to time along with their views and behaviour also to the people of weaker sections of the society. In order to change the social and economic structure of the country, the bank shall have to adopt the advanced technologies with innovative services to increase the customers of the bank.

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