

## REFORMS IN INDIAN BANKING SECTOR: RETROSPECT & PROSPECTS

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### ABSTRACT

*In our country, commercial banks are the fastest and largest growing financial intermediaries in financial market. They have been playing a very crucial role in the process of development of our financial system. The banking system was developed during British era. British East India Company formed 3 major banks. After amalgamation of 3 banks, the name was given Imperial Bank which was taken over by SBI in 1955. The regulation of banking controlled by RBI & after nationalization of 14 large banks in 1969, an urgent need aroused in the Indian Money Market which could make the financial system more competitive, productive, and efficient and hence later on Private Banks like HDFC, ICICI banks etc came into existence. It brought Productivity and efficiency in the banking transactions. Now a days as banks are expanding various modern approach like internet banking, virtual banking, supervision and audit will have to be strengthened. Banks will have to pay greater attention to safeguard the interest of general public by creating transparency in the system.*

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**Keywords:** Banking System, Reforms in Banking, Economic Growth.

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### Introduction

In our country, Banking sector plays an important role in strengthen of our economy. The policy of Liberalization, Privatization & Globalization was adopted in July 1991. There was a need to improve our banking system to provide high tech services to the clients. The reform in banking sector was made by RBI on the basis of recommendations of different committees. The main focus was made on NPA, Capital adequacy & Diversification of operations. The famous committee on reform was Narsimhan committee in 1991 then other committees also made recommendations for the reforms.

### Objective of the Study

To Analyze the Indian banking sector and performance of Indian banks by the study of Retrospect & Prospect

### Review of Literature

- Kumar Sunil & Gulati Rachita analyze the performance of public sector banks & concludes that future reforms in the banking sector should be directed towards strengthening competitive and market focused policies.
- Khan MY focuses on decision of Government to permit the entry of New private sector banks in the country and recommended that new banks will be started in urban slums and rural sector.
- Singh Ram Pratap & Chatterjee Biswajit compares the performance of 40 Indian commercial banks regarding mobilization of deposit and its reforms. Conclusion was made about the survey and result tells that public sector banks fail to mobilize deposits in comparison with the private sector banks.

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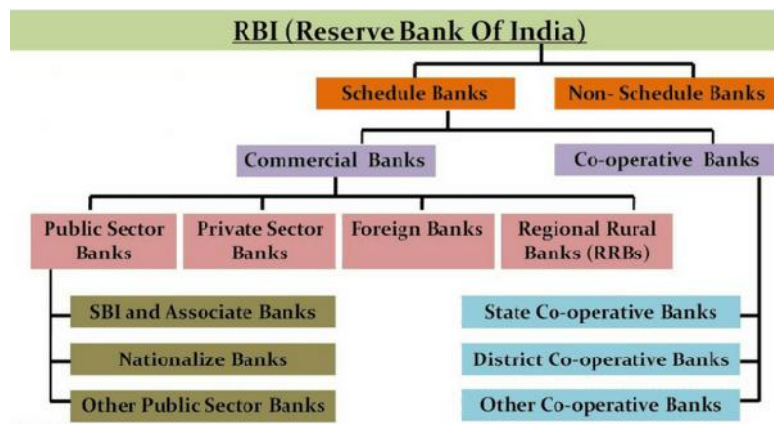


Fig. 1: Structure of Indian Banking

### History of Indian Banking Sector

- Three presidency banks Bank of Bengal, Bank of Bombay and Bank of Madras established in the 19<sup>th</sup> Century under the charter of the British East India Company.
- In 1935, the presidency banks combines together and formed a new bank named Imperial Bank of India.
- The Imperial Bank of India newly named the State Bank of India.
- The first Indian-owned Allahabad Bank was set up in 1865 in Allahabad.
- In 1895, the Punjab National Bank was established in 1895.
- The Bank of India founded in 1906 in Mumbai.
- Many more commercial banks such as Canara Bank, Indian Bank, Central Bank of India, Bank of Baroda etc established between 1906 and 1913 under the ownership of country.
- The central Bank of India, RBI establish in 1935 At that time, the Banking system was only for satisfying need of the urban population and need of rural and agriculture sector was totally ignored at that time
- In 1969, Government of our country makes Nationalization of 14 major banks for improving the efficiency of banking sector. In 1980, six more banks were nationalized.
- Foreign banks were also allowed to open offices in India either as a main branch or subsidiary branch.

### Research Methodology

The procedure to make research requires lots of attention on accuracy, reliability and the result obtained from study. Research may be called science of study scientifically about particular topic or area. Research requires specific objective and clear cut data requirements. In this Research paper study was done by collecting data about position of banks in past and its future prospects.

### Data Collection Methods

There are two types of data which will be used for the study. It includes:

- **Primary Data**

It is original data, which is collected by researcher itself. Primary data is collected by various approaches so as to make accurate and detail survey of any topic. The main tool is gathering primary data was Observation, Experiments interview etc.

- **Secondary Data**

It is the data which is already collected by someone else in the past and. Researcher has to analyze the data and interprets the results.

### **Types of Data Used in the Study**

The data for the study in this paper are basically secondary in nature and the data are collected from the annual report of the Indian banks & use of internet which includes required Numerical data collected from Indian Bank's official websites

### **Major Reforms in Banking Sector**

- Permission was given to banks to select the rates of lending & Deposit
- Increasing access of banking services from anywhere through digital and mobile banking and increasing customer base
- Easy services given to senior citizens through online updates regarding pension scheme and certificates
- Detail checking of all accounts above ₹ 50 crore that turn NPA being checked for willful default and fraud.
- The act of securitization & reconstruction of financial assets Act has been amended to make the system more effective, with provision for three months' imprisonment in case the borrower does not provide asset details to the lender to get possession of mortgaged property within 30 days.
- Credit Delivery was shifted from cash credit to Loan Method and process also becomes easy.
- Six new Debts Recovery Tribunals have been established to expedite recovery from the borrower legally.
- Customers were motivated to Move away from Physical cash by giving them facility of smart cards and online transfer.
- The budget Provide direction to the public sector bank by consolidation of their journey. As a Result Dena bank & Vijya bank merged in Bank of Baroda from 1<sup>st</sup> April to create third largest lender of Our India.
- Bank of Baroda is second-largest public sector bank after State Bank of India, now has over 9,500 branches, 13,400 ATMs, and 85,000 employees to serve 12 crore customers.
- Promote and Regulate Self Regulatory organizations
- Creates awareness among the investors and Trainings to various intermediaries for the safety of market

### **Areas of Reform in Banking & Financial Sector**

- Regulators
- The banking system
- Non-banking finance companies(NBFC)
- The capital market
- Mutual funds sectors
- Overall approach to reforms in banking
- Deregulation of banking system
- Capital market developments
- Consolidation imperative

Banking reforms were suggested by Narsimhan committee & it includes reforms in following system:

- Strengthen of banking sector
- Quality of Assets
- System & Methods in banks
- Structural issues in banks
- Up gradation of Technologies
  - In the Reforms regarding regulators RBI, SEBI & IRDA becomes the Top institutions to make control over Regulators & its work.

- In India, around 80% of businesses are regulated by public sector banks. PSBs are still at the top of commercial banking system. The RBI has given licenses to new private sector banks as part of the liberalization process & Strengthen our economy
- In private sector branch licensing restrictions were also relaxed
- Modernization of Trading & Settlement system comes into action. The paperless work was put in place by allowing dematerialization of share certificate through settlement by electronic transfer from one account to another with the help of depository participant.

### **Digitalization in Banking Industry**

Digitalization in banking industry means services rendered by bank which can be available online.

- **Fund Transfer**

Indian banking industry introduces various fund transfer option to make the transaction easy. NEFT, RTGS and Electronic fund transfer facility is given to the client for transfer of money. Most of the large companies and government organizations are using Electronic clearing services through which they can make bulk payment to multiple parties.

- **Tele Banking**

Banks have started Tele banking services under which services are provided through telephone. Chat boats are used for solving number of queries and phone banking executive handle other queries.

- **Digital Wallet Technology**

Bank will issue magnetically encoded credit & Debit card to make fund transfer from the customer to business. Digital wallet technology enable customer to electronically debit certain amount from his account and credit to another party. Pay tm, Phone Pe, Mobikwik etc are common wallet now a days. Government is also encouraging cashless Transactions.

- **Automatic Teller Machines**

ATMs are the most widely use in banking services Presently, ATMs not only allow a person to withdraw cash at any time, but also allow an individual to pay their bills, transfer funds between different accounts etc.

### **Prospect of Banking Technology**

The future of indian banking sector depends on future banking technology.

- In future data science can be use to predict the needs of customers and banks will provide services to the customers at anytime they need.
- There will be change in the banking process in future we can see high tech services in banking sector which makes the work anyone very easy.
- Password and OTPs are in present use for banking services now we can look forward to advance Biometric authentication , Voice recognition & Face recognition in future.
- Banks will adopt block chain technology in which the account details of a customer will be maintained in real-time across banks while reducing the risk of hacking by criminals. Financial transactions become encrypted packets called blocks and added to an encrypted chain, something like an email chain.
- As RBI is building up around 2000 branches all over the country. Fresher does can get the advantage of such decisions.
- RBI will think about timings for banking sector. It will be 9AM to 3PM

The future of banking sector is bright because we have seen them take on smart technology, innovate its use, and improve the customer services with digitalization. Recent developments in the banking sector give strength in the growth of banking sector in our country.

### **Success Mantra of Banks in Future**

- The structure of India's banking industry would be completely different from the present. The strength required to compete as an independent bank, are going up smartly & sharply.

- Banks can also improve their business for customers by providing them Deep connection with accounting software's. A banking system connected with the accounts of different clients monitor the cash flow of the clients for giving them credit. This work is totally paperless.
- Banking sector will adopt best practices in corporate governance and corporate social responsibility to create their image in the mind of international investors.
- Web page of banks should be informative and easy for customer to access so customer will get information from the webpage of the banks easily.
- Bank will give information to educated customers about security so customer has more faith in their mind about digital security and online transactions.
- Number of users for internet banking increase day by day because Android mobile technology is now common for each and every people of our country so bank will more focus on digitalization in every work to get success in next coming years.
- Bank will develop monitoring and feedback system to make instant feedback and to handle queries of customers effectively. Now a day's banks will focus on retaining their existing customers and providing them exclusive services to get more and more customers in future. The public sector unit focuses on transparent and robust online mechanism with automated monitoring. Now our country will made the reforms in core areas of services related to banking and becomes top most sectors in the world so every customer will get benefit of such high tech services

### **Conclusion**

The banking sector of our country adopts reforms to modernize our banking system and strengthen our economy. India is now close to the vision of cash less economy. Bank also improves their business by deep integration with accounting soft wares. The banking sector change globally. The Indian retail banking is also progressing now days and provides more convenient facility to the client. India becomes third largest domestic sector by 2050 after china and US.

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