STATE AND STATUS OF COMMERCIAL BANKING SYSTEM IN INDIA

Dr. HUMAIRA BEGUM

Asst. Prof.(c) University college for women, Koti, Hyderabad

Abstract

India's commercial banking system consists of non-scheduled banks and scheduled banks. Non-scheduled banks refers to those that are not included in the Second Schedule of the Banking Regulation Act of 1965 and, thus, do not satisfy the conditions laid down by that schedule. Non-scheduled banks are further divided into two classifications: central cooperative banks and primary credit societies. The progress of commercial banks in terms of various parameters like number of Reporting banks, Branch Network, Total Deposits, Total Advances, Credit-Deposit Ratio, Net Profit, Computerisation, Number of ATMs, Financial inclusion, and technological developments in Indian Commercial Banks is being discussed. Simple tools like averages and Annual growth rate in percentage is being calculated to know the progress made by Indian commercial banks.

Key words: commercial banks, Bank Branches, Total Deposits, Total Advances, Credit-Deposit Ratio, Net Profit, Computerisation, Number of ATMs, Financial inclusion, and technological developments.

Introduction

Banking is as old as authentic history. The system of banks was developed by Babylonians, as early as 2000BC. In Rome, the banks were called Tuberose Argentarioe while the bankers were called Argentarioe or Collybistoe. The first bank was the " Bank of- Venice" established in Italy in the year 1157 when there was financial trouble in Venice, due to war. In India, banking existed as early as Vedic Period but in the crude form. This is clear from the terms used in Manu pertaining to pledges, deposits, rates of interest etc. the maximum rate on interest on loans was prescribed in Kautilya's Arthasastra. Modern banking started in India, when the English Agency acted as Bankers to the East India Company. "Hindustan Bank" in the Calcutta, "Bank of Calcutta", Bank of Bombay and Bank of Madras, Allahabad Bank, Oudh Commercial Bank, Punjab National Bank and Peoples Bank etc. were established before independence. It was Warren Hastings, the Governor of Bengal, recommended the necessity for a Central Bank to be established in India, as early as 1773. Again in 1926, The Royal Commission on Indian Currency and Finance, popularly known as the Hilton Young Commission, suggested for a central bank in our country called the "Reserve Bank of India". However, it was dropped for various reasons. It took a new dimension on March 6, 1934, when a bill to this effect was passed and received the assent of the Governor General. RBI was established on April 1, 1935, under the RBI Act, 1934 as a Private Sector Bank by the British Government with a paid up capital of Rs. 5 crores, divided into five lakh shares of Rs.100 each. It became the banker's bank and banker to the Government apart from being the monopoly of notes issue.

The number of reporting banks including Scheduled and Non-scheduled banks in India which were 683 in 1939, were reduced to 405 by 1956. This was because of the closure of the nonviable banks to the tune of 278. However, there was a growth in the number of scheduled banks during the period while there was a decline in the number of non-scheduled banks. The RBI has initiated the first set of reforms in financial sector in April 1992 based on the recommendation of Narasimham Committee I and II, to increase the efficiency, productivity and profitability in banks. Further, to review the Financial Sector Reforms I and to suggest remedial measures to strengthen the banking system and to improve the efficiency, Narasimham committee II was appointed by the Government of India in December 1997.

Branch Network of Commercial Banks

Based on RBI's classification of centre, bank branches can also be classified into four groups i.e. branches in rural areas, semi-urban areas, urban areas and metropolitan areas. The Total number of Scheduled Commercial Banks shows a tremendous and remarkable growth from 8,262 in the year 1969 to 79,722 at the end of March 2009 and it declined to 69,160 in the year 2010. The number of banks which were 8 under State Bank of India in the year 1980 reduced to 7 due to the merger of State Bank of Sourashtra with State Bank of Travancor . The number of branches was 7,745 in the year 1980 and reached to more than doubled figure i.e. 16,062 by the year 2009.

Total Deposits of Commercial Banks

The Total Deposits of Scheduled Commercial Banks Group Wise is shown in the table2.5 From the table 2.5 it is seen that the total deposits of All Scheduled Commercial Banks in the year 1991 was 2,31,978 crores, consisting of SBI & Group Rs. 65,494 crores, Nationalised Banks Rs.1,45,318 crores, Foreign Banks Rs. 11,734 crores and Other Scheduled Banks Rs. 9,432 crores. During the twenty years it increased and reached to 11,08,085 crores for SBI and Group, 24,16,046 crores for Nationalised Banks, and Rs. 36,91,799 crores for All Scheduled Commercial Banks in the year 2010. Other Scheduled Banks recorded a highest annual growth rate i.e. 431.67 in terms of percentage.

Total Advances of Commercial Banks

In the year 1991 the total advances provided by All Scheduled Commercial Banks was Rs. 1,43,692 crores, out of which, State Bank and Group's share was 49,139 crores, Nationalised Banks contributed to Rs. 82,483 crores, Other Scheduled Commercial Banks (includes New Private Sector Banks and Old Private Sector Banks) share was 4,949 crores and Foreign Banks total advances were Rs. 7,120 crores. By the end of March 2010, it reached to 8,58,198 crores for State Bank and Group, 17,07,411 crores for Nationalized Banks, Other Scheduled Commercial Banks contribution is Rs.6,32,494 crores and Foreign Banks Rs.34,97,054Crores.

Credit-deposit ratio of commercial banks

Credit-Deposit Ratio shows the bank's behavior in respect of investments and credit. It is an important index for analyzing the role of banks in promoting productive sectors and contributing to economic growth of the country. Higher C-D ratio implies greater credit orientation of banks. It can be seen that in the year 1980 the credit –deposit ratio of All Scheduled Commercial Banks stood 63.3 percent, consisting of SBI and Group74.4 percent, Nationalized Banks 58.9 percent, Foreign Banks stood at 54.3 percent, and Private Sector banks 54.3 per cent. During the period of 30 years, with all fluctuations, it remained at almost same level i.e. 77.44 percent for SBI and Group. Nationalized banks C-D ratio increased to 70.67 percent, and this shows bank's preference for lending, for Other Private Sector banks it improved and reached 76.8 percent and for foreign banks it slightly increased to 77.3 per cent and came down to 68.6 percent in the year 2009-10.

Net Profits of Scheduled Commercial Banks

The Net Profit shows the net result of any business activity during a particular period. The table 2.8 shows the Net Profit earned by Commercial Banks Group Wise, during the year 1991 to 2010. From the table 2.8, it can be seen that the net profit of All Scheduled Commercial Banks increased from Rs. 721 crores, in 1991 to Rs. 57,109 crores by the year 2010. For SBI and Group, it increased from 150 crores to 12,433 crores, Nationalized Banks had Rs.315 crores and incurred a loss of Rs. 3,649 crores in the year 1993 and it increased to Rs. 4,705 in the year 1994, due to the adjustments of implementation of Narasimham Committee recommendations and it reached to Rs. 25,797 crores as on31-3-2010.

Private Sector banks were very few and its net profit was Rs. 38 crores in the year 1991 and reached to Rs. 14,844 crores Foreign Banks also showed the growth in the net profit from 218 crores to Rs. 7,510 crores as at the end of March, 2009 and reduced to Rs. 4,733 crores in the year 2010.It is the Private Sector Banks recorded highest growth rate in net profits followed by SBI & Group and Nationalized Banks and least is recorded by Foreign Banks. The All Scheduled Banks recorded the growth rate of 391.04 percent.

Financial Inclusion:

The term financial inclusion refers to delivery of banking services at an affordable terms and conditions to masses including disadvantaged and under-privileged people. In August,2005, the RBI advised the banks to ensure that customers belonging to poor sections of the society are not kept away from banking system on account of difficulties in meeting the 'know your customers' (KYC) requirements for opening bank account. The KYC procedure was simplified for persons who intend to keep balances not exceeding Rs. 50,000/- in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs. 2,00,000 in a year. In January, 2006, banks were permitted to utilize the services of non-governmental organizations and self-help groups(NGOs/SHGs), micro-finance institutions and other civil society organisation as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. The data related to 'no-frills' account from March 2007 to March 2009 is shown in table 2.15 and it can be observed that the total number of accounts in 'no-frills' were 67,32,335 at the end of 2007, 1,57,88,919 at the end of March 2008 and 3,30,24,761 at the end of March 2009.

Technological Developments in Indian Commercial Banks

The banks in India are using Information Technology (IT) not only to improve their own internal processes but also to increase facilities and services to their customers. Efficient use of technology has facilitated accurate and timely management of the increased transaction volume of banks that comes with a larger customer base. One of the visible outcomes of this is that banks are aiming to serve the hitherto unbanked population of the country at their doorstep by understanding large scale financial inclusion by offering specially designed, simple, safe, yet technology based products.

The Institute for Development and Research in Banking Technology(IDRBT), as 'certifying authority' for the banking sector in India, has issued over 1,20,000 Digital Certificates enabling banks to work in secured environment while operating Real Time Gross Settlement(RTGS), Centralized Funds Management System(CFMS), Corporate e-mail, Structured Financial Messaging System(SFMS), Cheque Truncation System(CTS), Internet Banking Web Server, On-line Tax Accounting System(OLTAS) and Clearing Corporation of India Ltd.(CCIL) settlement applications etc. There are 133 Registration Authority(RA) covering 33 Public Sector Banks, 31 Private Sector Banks, 5 Financial Institutiuons, including 16 Registration Authority Offices created for SBI . The total number of branches of public sector banks which have implemented Core Banking Solution is 44,304 as on March 31, 2009.

Automatic Teller Machines(ATMs)

The Automatic Teller Machine (ATM) has been used by the customers to withdraw the money from their accounts at 'anytime and anywhere'. The total number of all the ATMs installed in the country can be seen that Nationalised banks have the highest share on 15,938 ATMs and on the second position is occupied by New Private Sector Banks consisting of 12,646 ATMs followed by SBI & Group with 11,339 ATMs and Foreign Banks have the least number of ATMs i.e. 1054.

Conclusions

Though there was a steady growth in the expansion of branches after Independence, it gained its momentum tremendously only after nationalization of the bank in two phases. In the recent past, the profitability of commercial banks have been eroded to a greater extent as they were not able to immediately adjust to the prudential norms by Narasimham committee in 1992 and 1998 which resulted in a rapid change in the banking activities. Later, they started recovering by taking measures to arrest Non- Performing Assets. The period witnessed a series of mergers and acquisition. The aim of mergers and amalgamation was to strengthen the banking system by merging weak, small and inefficient bank with scheduled bank. During 1991-92, banks were at freedom to open branches and upgrade extension counter on attaining Capital Adequacy Norms and Prudential Accounting Standards. Banks were permitted to close down non-viable branches other than in rural areas.

After nationalization of Bank on 15th April 1980, the growth of branches in rural and semi- urban areas was more than the growth of branches in urban and metropolitan areas. The Bank had been successfully striving hard to build up its business. The various measures taken by the bank paved the way for achieving higher productivity, efficiency and reduction in transaction costs. The Bank has affiliation with major international credit card agencies, viz. Visa International, Master Card and Japan Credit Bureau.

The traditional system of class banking has changed to mass banking, big customer to small customer, profit motive to service motive; security based lending to purpose oriented banking, traditional to innovative banking and so on. Since then, the banks were expected to work in the interest of the national growth and social justice.

This paper is part of the thesis submitted to Dr. B.R. Ambedkar Open University for the award of Ph.D Degree.

REFERENCES

1. K.C. Shekhar – "Banking Theory and Practice", Seventeenth Revised Edition, Vikas Publishing Home Pvt. Ltd. New Delhi, 1982.
2. Mithani & Gordon – "Banking and Financial System", Himalaya Publishing House, September, 2001, p.4
3. Mali Ram – "Currency Banking" – p.296, Agra Book Store (1965).
4. Government Of India – "Banking Commission Report 1972", New Delhi, p.39
5. Trend and Progress of Banking in India – 1970-71 p. 30 & 1979-80 p.5- RBI
6. Specified in the Annual Report – RBI – 1978 – 79 p.33
7. "The Journal of the Indian Institute of Bankers", VOl. 49,No. 4, October –December 78, p. 157
8. "Souvenir- Platinum Jubilee 1923-98", Andhra Bank.
9. Annual Report of Andhra Bank, 2002-02, p.21 Andhra Bank.
10. Annual Report of Andhra Bank 1988-89. Andhra Bank.
11. Narayana G. –"Fifty Years of Indian Banking : Andhra Bank," IBA Bulletin, March 1998,p.
12. Annual Report of Andhra Bank, 2001-02, p.16 Andhra Bank.
13. "IBA Bulletin, 2002",p.371 Indian Bank Association.
18. Report on Trend and Progress of Banking in India 2008-09. RBI
19. Centre for the study of Financial Innovation (2009) 'Microfinance Banana Skins: Confronting Crisis and Change', June. http://www.cgap.org.
20. Annual Report, 2006-7, RBI p.139
21. NABARD.
22. Report on Trend and Progress on Indian Banking in India. *Various issues* RB I.