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REFORMS IN BANKING SECTOR IN INDIA

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ABSTRACT

Banking Sector is the backbone of the Indian Economy. The economy performance is largely reflected by the performance of banking sector in the country. It represents the Indian Economy at the world level. Banking system comprises of various banking institutions functioning in different areas like agriculture, industry, trade, housing etc. Indian banking system comprises of various banks with Reserve Bank Of India as an apex institution. As the time grows, government is taking various initiatives regarding strenghtning the Indian financial system. This paper focuses on the reforms that takes place in the economy and its future ahead.

Keywords:- Banking, Reforms.

MEANING OF BANK

Banks are the financial institution that accepts the deposit, lend loans and offer other financial services to its customers. Customers deposits money with the bank in the form of saving , fixed or current accounts. The amount deposited in saving accounts can be withdrawn by the customer at any time. Banks are obligated to pay the amount on demand or when it becomes due. Banks have to pay interest to the customers on the amount deposited with the bank. They earn profits by charging interest on loans and by offering other financial services to its customers.

OBJECTIVES OF THE STUDY

❖ To have a review on the reforms in banking sector in India.

❖ To have a clear view on the overall banking system.

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STRUCTURE OF BANKING SYSTEM IN INDIA

Banking system is the backbone of Indian economy. It plays a very important role in the economic development of the country. Banking system comprises of various banking institutions functioning in different areas like agriculture, industry, trade, housing etc. Indian banking system comprises of various banks with Reserve Bank Of India as an apex institution. It is the central bank of India. It acts as regulator, controller of all the banking institution in India. Banking system is explained in the figure below:

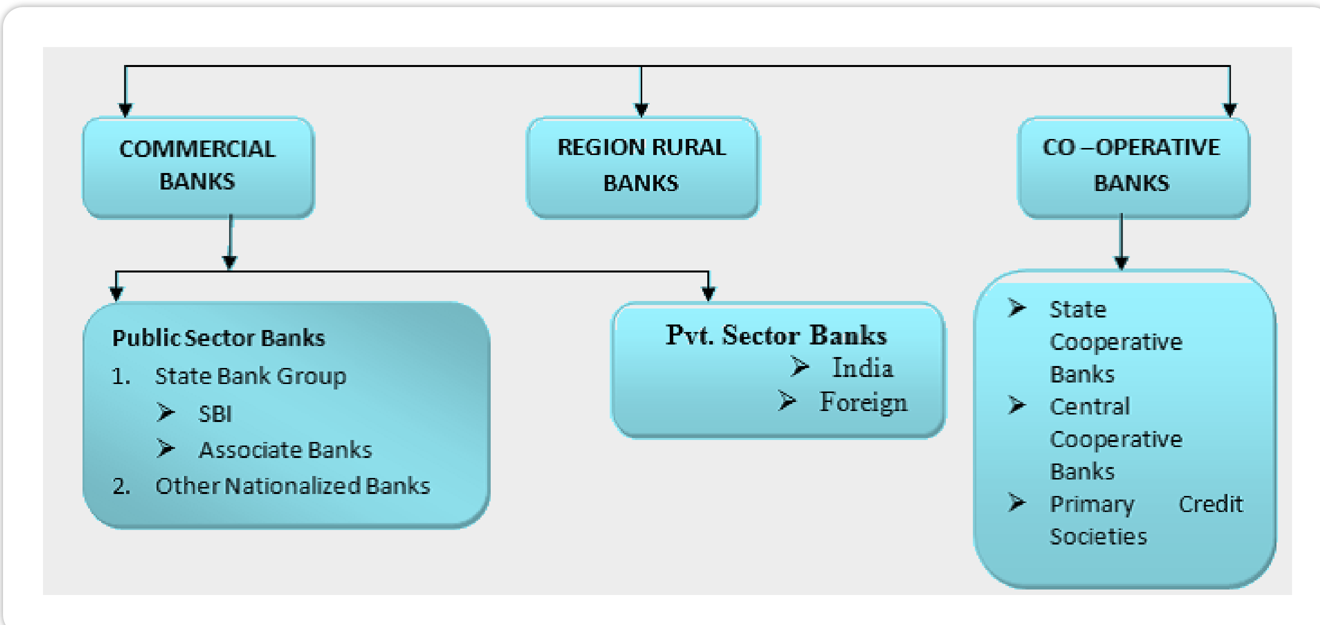

Figure 1: Structure of Indian banking system – Reserve Bank of India

Commercial Banks:- Commercial Banks are the banks that mobilize the saving of public and provide loans out of these saving to industrial and trading units. These can be categorised under Public and Private sector banks. Public sector banks comprises of SBI & its associates banks and other nationalized banks. Private sector banks comprises of India private as well as foreign banks. Public sector banks covered a major portion of entire banking business in India.

Regional Rural Banks:- RRB's came into existence for developing the rural economy. It provides facilities to small farmers, rural artisans, agricultural labourers and other small entrepreneurs in rural areas. NABARD is the apex bank for agricultural and rural areas.

Cooperative Banks:- Cooperative banks are organised under the provisions of Cooperative credit societies. These societies provide assistance to the agricultural sector. These are categorized under three tier structure. At the apex level is the State Cooperative banks, at the intermediate level Central Cooperative banks and at the village level Primary Agricultural Credit societies.

EVOLUTION OF BANKING SYSTEM IN INDIA

The first bank in the Indian history, called The General Bank Of India, was established in the year 1786. The East India Company in the year 1809 established “The Bank of Bengal/ Calcutta”, in 1840 “The Bank of Bombay” and in 1843, “The Bank of Madras” . In 1870, Bank Of Hindustan was established. These three banks were knows as The Presidency Banks. In 1865, for the first time a bank was established which was completely run by Indians “Allahabad Bank”. In 1894, Punjab National Bank was established with headquarters at Lahore. Between the period of 1906 to 1913, many banks were set up like Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank & Bank of Mysore. In 1921, all the presidency banks were amalgamated to form The Imperial Bank of India. In 1935, The Reserve Bank of India came into existence. Between the period of 1913 to 1948,their was very slow growth in banking sector. So in 1949, Banking Companies Act, 1949 came up which was later changed to Banking Regulation Act, 1949. In 1955, the Imperial bank of India was nationalized & was given the Name “ State Bank of India”. In July, 1969, 14 major Indian commercial banks of the country were nationalized. In 1980, 6 another banks were nationalized. In 1993,Banking Regulation Act was amended on the recommendations of Narasimham Committee & thus new private sector banks were opened. So the India banking sector constitutes the major segment of the Indian financial system. In the recent years, their is noticeable upsurge in the transactions through Internet banking, Mobile banking , ATM’s etc.

REFORMS IN INDIAN BANKING SECTOR

Banking sector reforms were recognized on the recommendations of different committees. Different committees that brought a total change in the banking sectors are:-

- ❖ The first Narasimham Committee (1991)
- ❖ The Verma Committee (1996)
- ❖ The Khan Committee (1997)
- ❖ The Second Narasimham Committee (1998)
- ❖ Nachiket Mor Committee (2013)
- ❖ PJ Nayak Committee (2014)

The major reforms in the Indian banking sector are explained as below:-

1) Reduction in Reserves Ratios:- The major reform implemented by the GOI is reduction in CRR and SLR ratio. At present Cash Reserve Ratio in 4% and Statutory Liquidity Ratio is 19.5%.

2) Deregulation of Interest rates:- The interest rates are deregulated both for lending as well as well as deposits. The interest rates are determined on the basis of demand for and supply of funds.

3) Priority sector lending certificates (PSLCs):- During the year 2016-17 , PSLC scheme was operationalised. Under this scheme, banks get incentives for providing loans to the priority sectors. The Reserve Bank of India has provided a portal e-Kuber for trading in PSLCs.

4) Insolvency and Bankruptcy code, 2016:- The enactment of Insolvency and Bankruptcy code, 2016 has significantly brought optimism regarding the financial system that is suffering with the stressed balance sheet positions of the banks. It aims at to provide insolvency resolution within 180 days by the insolvency professionals. This time can further be extended by 90 days. The salient features of IBC, 2016 are:-

a) It comprises of four pillars:- insolvency professionals, National Company Law Tribunal & Debt Recovery Tribunal, information utilities and Insolvency and Bankruptcy Board of India.

b) When a firm or company shows early signs of insolvency it will make quick intervention.

c) On the realisation of sale of assets of firm, first priority will be given to insolvency costs then secured creditors.

5) Recapitalisation of Banks:- In October, 2017 massive recapitalisation plans are introduced for the Public Sector Banks. So the IBC & Recapitalisation will helps the banks to clean their balance sheets.

6) Promotion of Differentiated banking:- In 2016-17, Small Finance Banks (SFBs) and Payment Banks (PBs) have started their operations. The Govt. is also looking forward to set up wholesale and long term finance banks. So with the promotion of differentiated banks in India, it is easy to compete with the universal banks on one hand and to also enhance the financial inclusion in the different sectors of economy on the other.

7) Promotion of digitisation:- The traditional physical banking has moved to cashless, paperless, branchless banking. This all was possible with the digitisation in banking. FinTech companies are providing new innovative ways to further boost the financial inclusion. The Govt. initiative Digital India, Startup India has brought technological upgradations in the banking system as well.

8) Credit delivery:- It ensures the smooth flow of credit to the weaker and vulnerable sections of the society. Interest Subvention scheme that was announced in the year 2006-07 is still continuing to provide credit to farmers at 2% only on short term crop laons. Kisan Credit Card Scheme was launched in Aug 1998. It is still in existence. It provides credit support to farmers for cultivation and their other needs.

9) Transparency:- In August 2017, a high level task force on public credit registry (PCR) came into existence. It brings transparency in the credit operations and helps the borrowers as well as creditors. So it is proposed to set up a Public Credit Registry as a separate non profit entity. It will enable the banks to differentiate between good and bad borrowers and they can charge interest rates according to that. RBI said in a statement that it will set up PCR in a modular and phased manner.

10) Prescribing Prudential Regulatory policies:- The Regulatory policies are developed to promote overall development in banking operations and to protect the interest of the depositors. Early recognition of stressed assets is necessary. So the RBI and Government have been working upon the quick resolution of stressed assets. The system of Prompt Corrective Action have been in existence. To ensure effective supervisory actions, an Enforcement Department has been established.

11) Customer Protection:- With the more electronic transactions in place, the risk of fraudulent transaction have also been increased. So the Government in July, 2017 set the guidelines regarding limited customer liability in case of fraudulent transactions.

WAY FORWARD

- India should have more robust and well capitalised banking system so that it can provide credit to various sections of the society. Their should be productive allocation of credit facilities.
- Greater accountability can ensure the productive allocation of credit.
- IT based solutions to be adopted so that proper enquiries can be made regarding the borrowers. AI (Artificial Intelligence) can be used to predict the default in advance.
- To provide training to the young workforce which lacks training and upgrade their skills.
- Wilful default by the borrowers should be made a serious crime as in other countries.
- NABARD must be made accountable for development in rural areas.
- Their is a need for flexibility in financial schemes design for the unbanked population.
- Their is need for financial inclusion to the disabled.
- For achieving the financial inclusion, banks should focus on providing credit facilities to small farmers.
- Their is a need for providing innovative products to rural areas at affordable prices.
- For providing proper facilities adequate infrastructure such as physical as well digital connectivity, uninterrupted power supply etc should be provided.

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