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GROWTH OF INDIAN BANKING SYSTEM AND ITS PROBLEMS

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ABSTRACT

The financial sector is the engine that drives any advanced economy forward. It is one of the important monetary pillars that support the monetary area, which plays an essential role in the operation of an economy. It is essential for the economic development of a nation that its financial requirements for trade, industry, and agriculture are met with a significantly increased level of duty and obligation. As a result, the development of a nation's financial sector is inextricably linked to that nation's overall progress. In a cutting-edge economy, banks are not to be considered as merchants in cash but rather as the heads of improvement. This shift in perspective is necessary in order to maintain a competitive advantage. They play a vital role in the organization of stores and the distribution of credit to various sectors of the economy. The regulatory structure of the banking industry is a reflection of the monetary power of the nation. An economy's vitality is directly proportional to the robustness and efficiency of its monetary system, which in turn is predicated on the existence of a financially stable and easily navigable banking system. A solvent banking framework assures that the bank is equipped for satisfying its promise to the people who have contributed to it, while a sound banking framework ensures that reserve funds are arranged in a competent manner in areas that are beneficial.

Since India gained its independence in 1947, banks have played a vital role in the country's subsequent financial development. Due to the fact that it holds the majority of the monetary area's assets, India's banking sector is the country's most important economic sector. The Indian banking sector has been undergoing an exciting stage as a result of the rapid adjustments brought about by the modifications to the monetary area, which are being carried out in a phased manner.

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INTRODUCTION

The current global crisis that has affected each nation has presented the people responsible for developing strategy with a unique challenge in terms of the productivity and dissolvability of the financial system. At the moment, the state of emergency has been lifted almost entirely, and the Government of India (GOI) and the Reserve Bank of India (RBI) are striving to make some conclusions. RBI is in the process of implementing major modifications to his strategy in order to maintain price stability in the economy. These developments are being made with the primary intention of enhancing both the efficiency of the banking system as a whole and the performance of specific financial institutions. As a result, it is essential to assess the level of competence possessed by Indian banks in order to make remedial progress toward enhancing the general health of the banking system.

Evidence of the existence of sresthis, also known as brokers, may be found in the writings of the Buddhist time frame, such as the Jatakas, as well as in more recent archaeological discoveries. It would appear that both cash loaning and united concerns have anticipated major relevance in ancient India on the basis of the rules of Manu. The primary functions of banks are to accept deposits from customers, distribute those deposits to other customers, and extend credit to those who demonstrate an extreme need for it. The concept of a bank has been around for a very long time; the main difference between now and traditional times is that modern banking practises are now utilized in banks, whereas in traditional times only cash moneylenders provided loans to those in need. A nation's economic health is directly correlated to the structure of its financial system. The establishment of a banking system is essential to the growth of a nation's economy as well as its overall progress.

Banks are unique in that they not only accept and transfer a significant amount of unsecured public funds within a trustee limit, but they also have the ability to influence such supports through the creation of credit. The Indian banking system may be broken down into four distinct periods, such as the starting stage time period of 1770–1905, the pre–autonomy period of 1906–1946, the post–freedom controlled time period of 1947–1993, and the post–autonomy liberated time period of 1993 and beyond. The General Bank of India was the first bank to be established in quite some time when it was established in the year 1786. Bank of Bengal was established in 1809, Bank of Mumbai in 1840, and Bank of Madras in 1843 were the three primary banks that were established by the eastern organisation; later on, these three banks combined and were known as administration banks. The expansion of the banking sector moved at an unusually snail's pace during the first stage (1913–1948), which occurred at the time. Because of the influence of British rule in India on the construction and growth of Indian banks, the functioning and activities of business banks were severely slowed down at this time. The banking organisations' demonstration, which was passed in 1949 and afterwards renamed the banking guideline Act 1949 in accordance with the revising Act of 1965, was conceived by the government of India. Following independence, the government has made the most important strides with respect to improvements in the Indian financial field. The Imperial Bank of India was nationalized

In 1955 and renamed the State Bank of India. Since then, it has served as the primary financial institution for the Reserve Bank of India (RBI) and has been responsible for banking transactions across the whole nation. The State Bank of India Act from 1955 provided the foundation for it. On July 19, 1969, a key step toward nationalisation was brought to a successful conclusion. At the same time, 14 of the most major Indian business banks in the nation were taken over by the government.

GROWTH OF INDIAN BANKING SYSTEM

In 1980, the government took control of an additional six financial institutions, bringing the total number of nationalised financial institutions to twenty. Seven additional banks with assets greater than Rs. 200 crores each were taken over by the government. Up to the year 1980, over 80 percent of the banking sector in India was owned and operated by the government. Before India's banking system was nationalised, most banking activity took place in the country's metropolitan areas, while the country's provincial and semi-metropolitan areas were neglected. Massive corporations and colossal business conglomerates were grateful for a sizeable portion of the credit offices. Horticulture, firms with a restricted scope, and experts did not receive the appropriate amount of consideration.

The realisation that private business banks were not meeting the social formative aims of banking, which are absolutely necessary for any society that is in the process of industrialization, was the primary factor that led to the realisation that nationalisation was necessary. The formative goals of monetary intermediation were not successfully completed. In spite of the fact that significant advancements had been made in the Indian banking system throughout the 1950s and 1960s, the benefits of these advancements did not trickle down to the general populace in the form of easier access to credit. Up to the year 1968, commercial banks did not play a significant role in any way, shape, or form in the process of directly donating money to farmers. The number of bank branches increased from 8262 to 62849 between 1969 and 1996, representing an annual growth rate of 7.80 percent. During the same time span, the total value of the bank's stores and advances increased from Rs. 4646 crore and Rs.3599 crore respectively in 1969 to Rs. 4,26,073crore and Rs.2,63,533crore in 1996. The rate of development was 18.22 percent, while the rate was 17.24. In 1991, M. Narasimham served as the head of a panel that was later given his name and was tasked with advancing banking procedures. This panel was established in his honour. Because of the shifts, there was a precipitous increase in the number of banks. In November of 1991, the board made public its findings and recommendations, which included a reduction in the proportion of liquid assets, the elimination of direct credit programmes on purpose, a redefinition of the areas of greatest need, an assurance of the rate of revenue without the involvement of the Reserve Bank of India (RBI), the elimination of branch authorising, and an end to the dual control exercised by the Financial Service and the Hold Bank over the Banking System. As a result of the recommendations made by the Narasimham Committee, the Banking Regulation Act was amended in 1993, and shortly after that, the gates were thrown open to the new confidential area banks. Expansion in the different areas of Indian banks, as seen in table no. 1, where we find that public area banks have 45293 branches, confidential area banks have 4665 branches, and unfamiliar banks have 182 branches, which is a significant increase in comparison to the time before the banks were nationalised.

As a result of the COVID-19 pandemic, which has caused major harm, and a second wave, which has taken steps to slow down development, venture, and exchange, the global economy is currently through its hardest test, which is unequalled in the ongoing history of the globe.

As a consequence of the pandemic, the International Monetary Fund (IMF) forecasts a potentially disastrous contraction in the global economy in the year 2020. The global monetary framework, which has banks at its core, was gaining strength through 2019, with the ongoing alterations in monetary administrative procedures being the primary driving force behind this trend. As a direct result of the arrangement actions, bank credit to the non-monetary area started to increase during the second quarter of 2019. The global financial system was able to successfully withstand the underlying effect of the COVID-19 shock thanks to the protection provided by increased capital and liquidity proportions, as well as the assistance provided by rapid and remarkable approach operations. In any event, the commencement of the COVID-19 pandemic caused a dramatic interference with the development of bank credit in the first quarter of 2020, particularly in growing business sector economies (EMEs). The replies to the approach helped to facilitate a recovery in the financial circumstances and bank credit development in the succeeding quarter.

Beginning somewhere before the year 2019, the Basel Committee on Banking Supervision (BCBS) subcommittees began making progress toward fully implementing the Basel III standards2. As was alluded to before, banks made use of this era to build up their capital and liquidity supports while simultaneously reducing their influence. However, in light of the extraordinary conditions brought about by the pandemic, the implementation dates of the Basel III norms (which were settled in December 2017), the updated Pillar 3 disclosure prerequisites (which were settled in December 2018), and the reconsidered market risk structure (which was settled in January 2019) have all been pushed back by one year to January 1, 2022. By the way, it is expected that the epidemic would leave permanent scars on the capital of banks.

PROBLEMS AND CHALLENGES FACED BY INDIAN BANKING SYSTEM

As banks foster their procedures for giving clients admittance to their records through different high-level administrations like e-banking, versatile banking and net banking, they ought to likewise view this arising stage as a possible impetus for creating functional efficiencies and as a vehicle for new income sources.

India's banking area has taken quick steps in transforming and adjusting itself to the new cutthroat business climate. The significant difficulties looked by banks are:

- **High Transaction Costs:** A main pressing issue before the banking business is the high transaction cost of conveying non-performing assets in their books. The development prompted strains in the functional effectiveness of banks and the gathering of non-performing assets (Npa's) in their advance portfolios.

- **IT Revolution:** Its use and E-banking is turning into the thing to address with the banking framework heading towards virtual banking.

- **Opportune Technological up degree:** Already electronic exchanges, clearings, settlements have decreased interpretation times. To confront rivalry it is important for banks to ingest the innovation and redesign their administrations.

- **Serious Competition:** The RBI and Government of India continued to bank industry open for the members of private area banks and unfamiliar banks and these banks have initiate the hey tech transformation.

- **Security and wellbeing:** Privacy of client's data and wellbeing of their investment funds is one of the highest need of bank. This goes quite far in impacting client conduct in the decision of installment techniques.

- **Worldwide Banking:** The effect of globalization becomes difficulties for the homegrown endeavors as they will undoubtedly rival worldwide players. There are 36 unfamiliar banks working in India which turns into a significant test for Nationalized and Private Sector Banks.

- **Financial Inclusion:** Most of the Indian residents don't involve banking framework for their financial prerequisites. It has turned into a need to make the mindfulness and significance of banks among individuals.

- **Risk Management System:** Banks need to have in set a fair and separated risk based valuing of items and administrations since capital includes some significant downfalls. Banks set up the gamble the board engineering to meet the administrative prerequisites without utilizing the gamble inputs for taking business choices. The gamble isn't as expected valued for different items. The most difficult aspect is the accessibility, honesty and dependability of information.

- **HR Management:** This is a region where the vast majority of our banks, particularly the PSBs, are viewed as lacking. In their energy to extend their center business they will generally fail to remember the significance of human mastery which drives their business in a maintainable way. The intricacies of current banking and the reliance on IT makes it even more significant why the banks ought to have imperative labor with perfect proportion of information and involvement with proper spots .

- **Normalization and limit develop:** While any advancement in offering electronic administrations is gladly received, independent frameworks work in storehouses as well as part the market somewhat. Subsequently, as the installments eco-framework develops, between operability becomes fundamental, for which normalization in cycles and strategies is a pre-imperative. This works with consistency in transaction taking care of as well as empowers uniform client encounters.

- **Organizations with non-banks:** It is basic that banks likewise see the potential for synergetic development by cooperating with these non-banks and utilizing on their assets to procure productivity gains for both the substances. We have seen examples of such organization, especially with MNOs going about as BCs. Comparative advancements ought to happen in different regions as well. A fair warning is, be that as it may, fundamental - banks can't resign their obligations towards clients, in guaranteeing free from even a hint of harm administrations, especially in situations where a huge piece of the exercises engaged with installments are re-appropriated.

- **Development of Banking:** The Indian banking industry experienced supported efficiency development, which was driven principally by mechanical advancement. Unfamiliar banks seem to have gone about as mechanical trend-setters when contest expanded, which added to the cutthroat strain on the lookout.

- **Workers Retention:** Long-time banking representatives are becoming disenthralled with the business and are frequently impervious to perform up to new assumptions. The reducing worker confidence brings about diminished income. Because of the inherently close ties among staff and clients, losing those workers totally can mean the deficiency of significant client connections.

- **Social and Ethical Aspects:** There are a few banks, which proactively embrace the obligation to bear the social and moral parts of banking. This is quite difficult for business banks to think about these angles in their working. Aside from benefit boost, business banks should uphold those associations, which have a few social worries.

- **Rustic Market:** Banking in India is genuinely experienced as far as supply, item reach and reach, despite the fact that arrive at in country India actually stays a test for the confidential area and unfamiliar banks. As far as nature of assets and capital ampleness, Indian banks are considered to have, areas of strength for spotless straightforward monetary records comparative with different banks in similar economies in its district. For instance as of late, ICICI Bank Ltd. consolidated the Bank of Rajasthan Ltd. to build its range in rustic endlessly piece of the pie fundamentally. As of late, SBI has consolidated State Bank of Indore in 2010.

- **Upgrading Corporate Governance:** Banks are exceptional associations in light of the fact that their chiefs have a guardian obligation to contributors as well as investors and consequently an answer for the 'head specialist issue' pointed toward expanding investor esteem is improper .Therefore, the great Corporate Governance of banks expects guideline to adjust the interests of contributors and citizens with those of the investors. Also, banks are significant members in the installment and settlement framework and as such corporate administration is exceptionally pertinent for them .

CONCLUSION

The continuous process of transformation should be viewed as a possible opportunity to transform Indian banking into a strong, stable, and dynamic system that is capable of playing its part effectively and truly all by itself without placing any pressure on the government. The Indian government, in response to the development of the Indian economy, has announced different modification estimates based on the recommendation of the Narasimhan Committee in order to make the banking sector monetarily realistic and seriously solid.

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