Abstract

The life line of a modern economy is banking. It is considered as the financial pillar which plays a pivotal role in development of an economy. In today’s scenario of globalization, industrial advancement, rising competition, increasing modernization the role and the need of banking cannot be ignored. It is even said that the development of a country is linked with the development of banking. From this research paper an attempt is made to study the evolution of banking industry in India, role of banking industry and various schemes launched by government for promoting banking.

I. INTRODUCTION

Banking in India originated in the last decade of 18th century. From then it has been continuously developing and supporting the Indian economy. And it is rightly said that this sector has translated the hopes and aspirations of many into reality. Despite of the fact that it has faced many huddles in its development but today Indian banks can compete with the banks of other countries very confidently. Indian banking industry is classified into scheduled banks and non-scheduled banks. Scheduled banks are covered under 2nd schedule of reserve bank of India act, 1934. These are further categorized into commercial banks and cooperative banks. Under commercial banks private sector banks, public sector banks, and regional rural banks are included. Further public sector banks include SBI and its associates, other nationalized banks and other public sector banks and private sector include domestic private banks and foreign banks. Cooperative banks include both rural and urban cooperative banks. And non-scheduled banks are all those banks which are not included under 2nd schedule of reserve bank of India act, 1934. At present there are 85 commercial banks in India.
II. OBJECTIVES OF THE STUDY
1) To understand the Evolution of Indian banking industry.
2) To understand Role of banking industry.
3) Initiative of government for promoting banking in India.

III. RESEARCH METHODOLOGY
This paper is based on exploratory research sourced mainly from journals, articles, e-books, government data, RBI reports, news papers and other related secondary data.

IV. EVOLUTION OF INDIAN BANKING INDUSTRY
The very first bank established in 1770 in India was bank of Hindustan and was liquidated in 1829-32. And the oldest still in existence is the state bank of India. Further the journey of Indian banking system can be categorized into three different phases.

Phase 1:
The concept of banking has its origin in Vedas where the concept of ‘usury’ and ‘adesha’ were much common. Afterwards in the medieval era or mughal period terms like dastavez, hundi represented banking. It was in British rule when banks started incorporating. Bank of Calcutta was established in 1806 which later on was renamed as bank of Bengal. Bank of Bengal together with bank of madras and bank of Bombay amalgamated in the name of imperial bank of India which was in 1995 renamed as state bank of India. Then after Allahabad as established in 1865 which is one of the oldest banks still functioning.

It was only in 1860’s when foreign banks started operating in India. And most specifically in Calcutta as it was the trading destination of Britisher’s at that time. A foreign bank known as Comptoir D’escompte de Paris opened its branch in Calcutta. HSBC was established in 1869 in Bengal then in 1881 Indian joint stock bank Oudh commercial bank was established which failed in 1958. Punjab National Bank was established in Lahore in 1894 and is one of the leading banks of now a days. Later on somewhere between 1906 and 1911 banking activities got inspiration from ‘Swadeshi

Figure 1: Indian Banking Stages

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Samriti Datta :: Overview of Indian Banking Industry

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movement’ and then banks like Bank of Baroda, Corporation bank, Canara bank, Bank of India, South India bank were established.

An important mile stone was achieved in 1935 when reserve bank of India as established and Mr. Osborne smith (British) was made the first governor of RBI. And the first Indian governor of RBI was Mr.C.D deshmukh.

**Phase 2:**

After independence in 1947 the government of India started taking active role in the economy and regulations of industries. In 1949 RBI was nationalized and banking regulations act was enacted. Then in 1960’s came the step of nationalization of banks which is an important landmark in the history of banks. nationalisation was initiated on the orders of then prime minister late Mrs. Indira Gandhi who by issuing the ordinance of (banking companies) acquisitions and transfer of undertaking ordinance 1969 took the decision of nationalizing 14 largest commercial banks from the midnight of 19 July 1969. Afterwards in 1980 6 more commercial banks were nationalized and in 1993 Punjab national bank and new bank of India were merged which reduced the number of nationalized banks from 20 to 19 .the reason behind nationalization was that the government wanted to control the delivery of credit

**Phase 3:**

With the beginning of 1985 Indian economy started facing economic crisis and due to this it’s foreign reserves started to fell down which led the Indian government to pledge its national gold reserves to IMF so as to manage the then problem of balance of payment. Thus the 1991 policy is said to be an initiative which was proposed by IMF for Indian economy.1991 was the year in which government bought the concept of liberalization, privatization and globalization (LPG). wherein small private banks were issued licenses under liberalization. During this time period UTI (axis bank), HDFC, ICICI were established. Since then the Indian economy has been yielding satisfactory results. This could be viewed from the data that says the number of bank offices in India were 8300 in July in 1969 and rose to 47000 in June 1995.

**V. ROLE OF INDIAN BANKING INDUSTRY**

Banking sector plays a significant role in Indian economy as it is central point to a nation’s economy by catering to the needs of different sections of the economy, further the role of banking is discussed in the following points:

1. **Boom for farmers:**

According to census India 2001 main workers involved in agriculture and allied activities were 56.6% which showed that agriculture sector employed the largest workforce. And accordingly the credit needs of the largest section of society needed to be regulated and for these banks on the initiative of government launched kisan credit cards which are implemented by commercial banks, cooperative banks and RRB’S under which farmers like marginal farmers, share croppers, oral lessees and tenant farmers are eligible. Another concept in this line is the priority sector lending under which the objective of
the government is to ensure credit to the unguarded section of society which include small value loans to farmers for farming and allied activities, MSMEs, infrastructures, education. Though this sector remain deprived from these services but recent data shows some improvement in lending by banks towards banking sectors.

### Table 1: Performance of banks in achieving targets Priority Sector lending

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-March</td>
<td>(` Billion)</td>
<td>(` Billion)</td>
<td>(` Billion)</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>2015</td>
<td>17,512 (37.3)</td>
<td>5,303 (42.8)</td>
<td>970 (35.9)</td>
</tr>
<tr>
<td>2016*</td>
<td>19,850 (39.3)</td>
<td>6,480 (44.1)</td>
<td>1,104 (35.3)</td>
</tr>
</tbody>
</table>

Notes: Figures in parentheses are percentage to adjusted net bank credit (ANBC) or credit equivalent of off balance sheet exposures (OBE), whichever is higher, in the respective groups.

*Provisional

### Table 2: Flow of credit to MSMEs

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Accounts (Million)</th>
<th>Amount outstanding (Billion)</th>
<th>MSE Credit as per ANBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>13.8</td>
<td>9,612</td>
<td>15.5</td>
</tr>
<tr>
<td>2015-16*</td>
<td>20.5</td>
<td>9,957</td>
<td>14.6</td>
</tr>
</tbody>
</table>

*Provisional

2. Promotes education:

The Hindu edition2014 says that India’s 356 million people are in the age group of 10-24years which makes Indian as one of those countries with large youth population and it is viewed that youth is the future and for a economy to rise imparting education to youth is of prime importance hence banks helps government by proving educational loans to aspiring students, scholarship plans, overseas educational loans are provided which in turn helps developing the human resources.

3. Boost to entrepreneurial skills:

Government of India has setup Mudra Bank in2015 whose purpose is to provide services to small entrepreneurs who are outside the scope others banks. small manufacturing units, shopkeepers, small business houses are financed by this and Mudra Bank has classified its clients into three categories like:

### Table 3: Boost to entrepreneurial skills

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SISHU</td>
<td>Covering loans up to 50,000</td>
</tr>
<tr>
<td>KISHOR</td>
<td>Covering loans above50,000 &amp; up to 500,000</td>
</tr>
<tr>
<td>TARUN</td>
<td>Covering loans above 500,000 &amp; up to 100,000</td>
</tr>
</tbody>
</table>

4. Retail banking:
Retail banking is a form of banking in which banks deal directly with customers for facilitating transactions rather than with corporates or other banks. It is considered an important innovation in banking sector and moreover it is considered as a market segment with bright future. Retail banking includes products like saving bank accounts, recurring bank account, current bank account, term deposits and zero balance account and provides services of safe lockers, bank assurance products and includes other services like ATM, internet banking, mobile banking. Thus retail banking through its diversified products and services is serving heterogeneous needs of customers.

![Retail loans by banks (in percent-as at end-march 2016)](image)

**Figure 2: Retail loans provided by the banks**

Source: RBI supervisory returns.

**Observation:**
According to RBI supervisory returns the housing loan component in the retail loans constitute more than 50% of the total lending sector and has shown an increase of 16.4% from the data of previous year.

5. **Employment Opportunities:**
Banking sector is considered as one of the fastest growing sector in India and on an average it is said that public sector employ more than 7 lakhs people and this number is further increasing. Hence by providing employment to people banks are playing an important role in enhancing the standard of living of people and in turn increasing the contribution of people in the national income of the country.

6. **Infrastructural Development:**
Infrastructural development is largely dependent on banking as banks fulfill the huge capital requirements of industrialists and infrastructural firm’s. Specially the development banks play integral part in infrastructural development from providing loans, underwriting the shares and debentures, subscribing the shares and debentures of firms to providing training for developing entrepreneur skills. Banks like IDBI,
SIDBI and IFCI are continuously working towards these objectives. In financial year 2016, in budget 2016-17 total outlay for infrastructure has been kept at 2,21,246 crores.

Table 4: Progress made by banks under financial inclusions plans-as on September 2016 (Scheduled commercial banks and RRBs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year ended March-2010</th>
<th>Year ended March-2016</th>
<th>Year ended September-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking outlets in rural locations-branches</td>
<td>333,78</td>
<td>51,830</td>
<td>52,240</td>
</tr>
<tr>
<td>Banking outlets in rural locations-branchless mode</td>
<td>34,316</td>
<td>534,477</td>
<td>537,609</td>
</tr>
<tr>
<td>BSBDA-total amount in (billions)</td>
<td>55.0</td>
<td>638.2</td>
<td>719.0</td>
</tr>
<tr>
<td>BSBDA-total number in (millions)</td>
<td>73.5</td>
<td>469.0</td>
<td>495.2</td>
</tr>
</tbody>
</table>

Source: Report on trend and progress of banking in India 2015-16 by RBI

Observation:
According to the above table there has been a significant increase in the number of banking branches by 18,452 till September 2016 which showed that rural connectivity by banks has been significantly improved. And on the other hand BSBDA (basic saving bank deposit account) has significantly increased by 395.5 million which depict that number of users of banking services increased and this can be allocated to Jan Dhan scheme of government.

7. Capital formation
Capital formation refers to amount of capital accumulated by a country during a year. A developing country like India needs capital for developmental activities and for this major role is played by banking sector that is it channelizes the savings of millions so that the money could reach from savers to investors so that capital formation could take place. According to RBI handbook of statistics of Indian economy (source CSO) the net capital formation for the year 2014-15 was 26003.24 billion at constant prices and 29429.78 billion at current prices.

VI. VARIOUS SCHEMES OF GOVERNMENT FOR PROMOTING BANKING IN INDIA
1. Atal pension yojana started by government on March 2015.
2. Sukanya samriddhi account launched by Prime Minister Mr. Narendra Modi so as to ensure bright future for girls in India.
3. Pardhan Mantra Suraksha Beema Yojana (PMSBY)
4. Pardhan Mantra Jeevan Jyoti Bema Yojana (PMJJBY)
5. Pardhan Mantra Jhan Dhan Yojana (PMJDY) it is a national mission for financial inclusion under which zero balance account were opened so as to render facilities to people of basic bank accounts, insurance, pension schemes to the deprived sector.
6. No frill accounts: Under this bank accounts with very low balance or nil balance are opened.
7. Relaxed know your customers (KYC) conditions.

VII. CONCLUSION
On concluding this can be said that Indian banking sector has been developing in many folds since its inception. It has rightly worked in developing and in chanelising the money in the Indian economy. Role of banking in different sectors is never ending weather it is a infrastructure or rural development banking has made the life of many secure by promoting various savings schemes, pension schemes, mutual funds and has saved people from exorbitant interest rates charged by indigenous bankers on the other hand facilitated loans to entrepreneurs for economic development .and with the support of government of India it has successfully able to connect people to digital India initiative that is to make India a “cashless economy”.

VIII. REFERENCES
[3] https://rbi.org.in/commonman/English/Scripts/BanksInIndia.
[4] business.gov.in

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