

# Analytical Study of Indian Banking System

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## Abstract

The main purpose of this paper is to explain the origin and development of Indian banking system. It is great opportunity for country that the Indian banking structure is developed to assist the weaker as well as businessman in the area of economic sector. The Indian banking system was not developed in a particular period, but developed in various periods, which have been analysed in this paper. In this paper the scheduled commercial banking is also discussed. The bank which is listed in the reserve bank of India act, 1934. Here pointed out the advent of East India Company and described the period from the East India Company started. In this paper explained joint stock banks and time of establishing the reserve bank of India and its functions. In this paper it also be redeposition of banking system after impudence. Post liberalization developments are also discussing.

**Keywords:** Post Liberalization Development, Prevailing Economy Policy, Fixing Priorities, National Credit Council, Social Control over Banks, Social Control over Banks.

## Introduction

It is great opportunity for country that the Indian banking structure has been developed. The Indian banking structure a heterogeneous mass covering a wide spectrum ranging from the unorganised indigenous bankers at the one end to the foreign banks at the other. The banking system as it exists today is the product of a number of centuries and it was not the development of any particular period. Here it would be necessary to make a detailed analysis of its development during the course of century that is, how banking has come to its present stage.

## Discussion of Various Periods

If we analyse the Vedic period then found the banking system in India is of ancient origin. According to Vedic banking system in India existed as early as the Vedic period. During the Ramayana and Mahabharat banking need become a full-fledged business activity and during the smriti period business of banking was carried on by the members of the vaish community. Manu, the great law-giver of time, speaks of the earning of interest as the business of Vaishyas. Smriti explained that the banking developed in India during smriti period. Buddhist period explains that the business of banking further developed and bills of exchange had come into use and practice.

## Muslim Period

Pointed out that the business of banking further developed in India. During this period the, various kinds of metallic money were issued in different parts of the country which gave the indigenous bankers an opportunity to undertake the business of money changing.

## Mughal Period

In Mughal period, there was a set back to the business of banking as according to Koran, charging of interest on money lent to somebody is a sin.

## Modern Banking

Modern banking in India began with the rise to power's of the British. The arrival of British in our country heralded a life. India as an extensive banking network. The banking system in India has four tiers:

1. Scheduled commercial banking: The bank which is listed in the second schedule of the reserve bank of India act, 1934. Scheduled banks are usually private sector banks, foreign banks.
2. Regional rural banks: these banks are called Gramin banks.
3. Co-operative bank: these banks mainly lend to small business group and provide finance to the agriculture sector.



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4. Payment banks and small finance banks: these are newly modelled small finance banks conceptualized by the RBI.

#### **Objective of the Study**

It is very clear that object of this article is to disclose actual process and object of Indian banking system. Second object is that to suggest that our regulatory mechanism must be effective according demand of time. Third object is that its process should be easy and approachable to layman.

#### **Advent of East India Company**

After the advent of east India Company in India for doing trade, jagat Seths were providing assistance to British.

#### **The Period Beginning From East India Company Upto 1920**

With the flourishing of east India company. The company greatly felt the necessity of the banking concerns of the English type.

A major cause of the crisis was said to be mis-management, due to incompetence of directors and of acers and also their deliberate and fraudulent misuse of funds.

Business and industrialist were making huge profits. The banking crisis had a silver lining too. It held to draw the attention of the state and the public of the short-comings in the bank.

#### **Establishment of Joint Stocks Banks**

The banks of Bengal was established in Calcutta, with a capital of 5,00,000 pounds. Though the date of establishment of this bank is not known, there is record that the bank was functioning for some years before the year 1784.

In 1862 the government took away the right of note issue given to the presidency bank. But they were allowed to transact paper currency business on behalf of the government and right of management of the treasury at the presidency towns and at their branches in which connection, the govt balances were left with them for use.

#### **Establishment of Reserve Bank of India**

The setting up of banking institution with the central banking functions was attempted as early as January, 1773, when Warren Hasting, Governor of Bengal recommended the establishment of general bank of Bengal and Bihar.

#### **Establishment of State Bank of India**

The imperial bank was established by amalgamating three presidency banks, banks of Bombay, bank of Bengal and bank of Madras.

Other joint stocks Banks- the joint stock bank with limited liability were established in India after 1862. The Allahabad bank Ltd. was the first bank either European management which was established in the year 1865. Subsequently the following banks were established in the following years:

1. Punjab National Bank Ltd. in the year 1895.
2. The Bank of India Ltd. in the year 1906.
3. Canara Bank Ltd. in the year 1906.
4. The Indian Bank Ltd in the year 1907.
5. Bank of Baroda Ltd. in the year 1908.
6. Central bank of India Ltd, in the year 1911.
7. Union Bank of India Ltd. in the year 1919.
8. Andhra Bank Ltd. in the year 1923.

9. Syndicate bank Ltd. in the year 1925.

#### **Performance of Commercial Banking as in 1950**

Thought there was marks able growth of India banking during and immediately after the Second World War it was not sufficient to meet the requirement of such a vast country like India with a large population and untapped resources.

The part played by Indian banks in financing industries was extremely in adequate. Banks generally followed the traditional theory of commercial banking by confining their advances to short term in answer only.

Bank failures have been a chronic disease with India banking and occurred more or less in a cyclic order. This was the result of unplanned and unrestricted expansion of banks offices during and immediately after the Second World War many banks with in adequate capital resources and in experienced and in efficient managements had come in to existence.

#### **After Independence Banking System in India**

#### **Banking in the early years of independent India – 1947 to 1967**

When the country attained independence, India banking was entirely in the private sector. In addition to the imperial bank, there were five big banks, each holding public deposits aggregating Rs.100 crore and more, viz. Central bank of India, Punjab national bank Ltd, Bank of India Ltd, Bank of Baroda Ltd, and United commercial bank Ltd.

All other commercial banks were also in private sector and had a regional character; most of them held deposit of less than Rs 50 crore.

#### **Nationalisation of Banks**

The nationalization of the commercial banks was a revolution in the Indian banking system. It was a "historic" and momentous event in the history of India.

The then PM Mrs. Gandhi made the policy in the following words, "An institution such as the banking system which touches and should touch the lives of millions has necessarily to be inspired by a larger social purpose and has to subserve national priorities and objectives.

#### **Social Control over Banks 1967 To 1991**

The concept of "social control" in the field of banking sector was introduced by the government of India for the first times in 1967 and with that view, the Banking regulation act, 1949 was amended to provide that at least 51% of the directors of a bank were have special knowledge or practical experience in Accountancy, Agriculture and Rural economy Banking, co-operative, economics, finance, law, small scale industry and any others matter as may be useful to the banking company.

The national credit council (NCC) was set up in February 1968 to assist the RESERVE BANK and the government to allocate credit according to plane priorities. It was entrusted with the task of –

1. Estimating the demand for bank credit from different sectors of the economy; and
2. Fixing priorities for grant of loans or for investment after taking into account the availability of resources, and needs of the priority

sectors, especially agriculture, small scale industries and exports.

#### **Post Liberalization Developments**

The year 1991 marked a decisive changing point in India's economy policy since independence in 1947. Following the 1991 balance of payment crisis, structural reforms were initiated that fundamentally changes the prevailing economy policy in which the state was supposed to take the commanding heights of the economy. After decades of far-reaching government involvement in the business world.

#### **Suggestions and Conclusion**

1. Banking system provides us new opportunity to start business activities But it is demand of time that regulatory mechanism of the banking activities must be improved so that fraud unfair practices may be controlled.
2. Banking process should be easy and in approachable to layman, today it has become estate of the rich and high profile society because

actual benefit of the banking system is full inserted lack of process and norms, therefore intellectual and listening holders are taking advantage of this system. likely. nirajmodi, malya etc.

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