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Dr. Preeti Shrivastava
HOD, Faculty of Management Rabindranath Tagore University, Bhopal, Madhya Pradesh, India

Garima Paliya
Research Scholar, Rabindranath Tagore University, Bhopal, Madhya Pradesh, India

Corresponding Author:
Dr. Preeti Shrivastava
HOD, Faculty of Management Rabindranath Tagore University, Bhopal, Madhya Pradesh, India

Commercial development and banking sector management in India

Pooja Pandey, Bulbul Ali and Abha Mishra

Abstract
The main objective of reforms in India was to enhance the efficiency and performance of banks so that their economic standing also improves. In the early years of 1990's when the Government of India, opened the market through LPG, many private and foreign banks rushed to set up their business in India, as there was a gap (Gap of service given by public banks and services expected). In order to pull up the socks and prepare our banking sector for this change, the Indian government started diluting its equity in Public /Private Sector Banks from early 1990s in a phased manner. In recent years the economist and banking sector specialist witnessed that though the public bank's infrastructure and size of business is too large and have enough experience, but they are facing the problems and difficulties from the functioning of private banks.
India is the largest country having many and varied financial institutions both public and private banks, who are controlled and governed by Reserve Bank of India, and Ministry of Finance.

Keywords: Curcumin, antioxidant, anticancer, antimicrobial

Introductions

India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The last decade saw customers embracing ATM, internet and mobile banking. India's banking sector is currently valued at Rs. 81 trillion (US$ 1.31 trillion). It has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report. The face of Indian banking has changed over the years. Banks are now reaching out to the masses with technology to facilitate greater ease of communication, and transactions are carried out through the Internet and mobile devices.

In November 1991, The Narasimham Committee placed the report in front of the central government containing the reforms of the financial sector, which was later issued. These reforms aimed at improving the efficiency of the banking system, introducing transparency in operations, and ensuring that the sector is operating on a sound financial grip. The Committee came into conclusion that government sector banks are ailing with acute problems such as - poor loan recovery, weak capital position, high cost and low profitability, etc. and such problems were not aroused by / due to ownership i.e. they are government or public banks, but due to the various policies that are being practiced by the banks (Bery, 1994). The performance of the private and foreign banks has been stronger than that of the public sector banks. The reason is that private banks are not having the burden of a large network of branches, especially in low range of business areas, they have been able to introduce technology to upgrade operational efficiency, and their business strategy has concentrated more on high yielding and profitable areas. The non - performing assets of public sector banks is also high in comparison with their counterparts.

The economic reforms initiated by the Government of India about two decades ago have changed the landscape of several sectors of the Indian economy. The Indian banking sector is no exception. This sector is going through major changes as a consequence of economic reforms.

Evolution of the Indian Banking Industry

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and

Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865, was for the first time completely run by Indians. Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to 22 forms the Imperial Bank of India which was run by European Shareholders. After that the Reserve Bank of India was established in April 1935.

The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India‘s banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier‘s cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits

The following are the major steps taken by the Government of India to Regulate Banking institutions in the country:- 1949: Enactment of Banking Regulation Act. 1955: Nationalisation of State Bank of India. 1959: Nationalization of SBI subsidiaries. 1961: Insurance cover extended to deposits. 1969: Nationalisation of 14 major Banks. 1971: Creation of credit guarantee corporation. 1975: Creation of regional rural banks. 1980: Nationalisation of seven banks with deposits over 200 Crores

Scheduled Commercial Banks (SCBs)

Scheduled commercial banks (SCBs) account for a major proportion of the business of the scheduled banks. As at end-March, 2009, 80 SCBs were operational in India. SCBs in India are categorized into the five groups based on their ownership and/or their nature of operations. State Bank of India and its six associates (excluding State Bank of Saurashtra, which has been merged with the SBI with effect from August 13, 2008) are recognised as a separate category of SCBs, because of the distinct statutes (SBI Act, 1955 and SBI Subsidiary Banks Act, 1959) that govern them. Nationalised banks (10) and SBI and associates (7), together form the public sector banks group and control around 70% of the total credit and deposits businesses in India. IDBI ltd. has been included in the nationalised banks group since December 2004. Private sector banks include the old private sector banks and the new generation private sector banks- which were incorporated according to the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993. As at end-March 2009, there were 15 old and 7 new generation private sector banks operating in India.

Foreign banks are present in the country either through complete branch/subsidiary route presence or through their representative offices. At end-June 2009, 32 foreign banks were operating in India with 293 branches. Besides, 43 foreign banks were also operating in India through representative offices.

Between 1975 and 1987, 196 RRBs were established. RRBs have grown in geographical coverage, reaching out to increasing number of rural clientele. At the end of June 2008, they covered 585 out of the 622 districts of the country. Despite growing in geographical coverage, the number of RRBs operational in the country has been declining over the past five years due to rapid consolidation among them. As a result of state wise amalgamation of RRBs sponsored by the same sponsor bank, the number of RRBs fell to 86 by end March 2009.

Non-Scheduled Banks

Non-scheduled banks also function in the Indian banking space, in the form of Local Area Banks (LAB). As at end-March 2009 there were only 4 LABs operating in India. Local area banks are banks that are set up under the scheme announced by the government of India in 1996, for the establishment of new private banks of a local nature; with jurisdiction over a maximum of three contiguous districts. LABs aid in the mobilisation of funds of rural and semi urban districts. Six LABs were originally licensed, but the license of one of them was cancelled due to irregularities in operations, and the other was amalgamated with Bank of Baroda in 2004 due to its weak financial position.

Retail Banking

It includes exposures to individuals or small businesses. Retail banking activities are identified based on four criteria of orientation, granularity, product criterion and low value of individual exposures. In essence, these qualifiers imply that retail exposures should be to individuals or small businesses (whose annual turnover is limited to Rs. 0.50 billion) and could take any form of credit like cash credit, overdrafts etc. Retail banking exposures to one entity is limited to the extent of 0.2% of the total retail portfolio of the bank or the absolute limit of Rs. 50 million. Retail banking products on the liability side includes all types of deposit accounts and mortgages and loans (personal, housing, educational etc) on the assets side of banks. It also includes other ancillary products and services like credit cards, demat accounts etc.

The retail portfolio of banks accounted for around 21.3% of the total loans and advances of SCBs as at end-March 2009. The major component of the retail portfolio of banks is housing loans, followed by auto loans. Retail banking segment is a well-diversified business segment. Most banks have a significant portion of their business contributed by retail banking activities. The largest players in retail banking in India are ICICI Bank, SBI, PNB, BOI, HDFC and Canara Bank.

Wholesale Banking

Wholesale banking includes high ticket exposures primarily to corporates. Internal processes of most banks classify wholesale banking into mid corporates and large corporates according to the size of exposure to the clients. A large portion of wholesale banking clients also account for off balance sheet businesses. Hedging solutions form a significant portion of exposures coming from corporates. Hence, wholesale banking clients are strategic for the banks with the view to gain other business from them. Various forms of financing, like project finance, leasing finance,

finance for working capital, term finance etc. form part of wholesale banking transactions. Syndication services and merchant banking services are also provided to wholesale clients in addition to the variety of products and services offered.

Other Banking Businesses

This is considered as a residual category which includes all those businesses of banks that do not fall under any of the aforesaid categories. This category includes para banking activities like hire purchase activities, leasing business, merchant banking, factoring activities etc.

The Emerging Challenges Before Indian Banks and the Focus Areas

Financial sector reforms and liberalisation of prudential regulations have thrown in a lot of opportunities for Indian bank to grow and diversify their areas of business operations. There is no doubt that deregulation has opened up new vistas for banks to augment revenues but it has entailed greater competition and consequently greater risks and a chain of challenges. These challenges emerged as a result of emergence of new banks, new financial institutions, new instruments and new opportunities in the environment. Moreover, globalization has ushered in restructuring of the banking and financial sector through a series of mergers and amalgamations and eventually brought in convergence of different activities and businesses in the banking sector (Deshpandey, 2001). With globalisation, newer technologies and techniques in areas like fund management and security creation has been introduced. Also innovative products which are tailor-made to meet the varied requirements of customers are introduced in the market to cater the needs of the customers in a better way. Thus, today, banks are subjected to cut-throat competition and in order to survive, Indian banks need to be proactive in meeting these emerging challenges. Moreover, competition has resulted in extending the frontiers of banking activities, which calls for understanding and upgradation of skills in various areas and more importantly in the area of risk management. Although the Indian banking industry is one of the best in Asia in terms of efficiency (Shen, Liao & Weyman-Jones, 2009), the industry has to go a long to compete with other non-Asian banks. Therefore, the following are the areas on which banks need to focus for their sustenance.

Challenges

1. Development of Knowledge and Skills of its Human Resources
2. Risk-based Business Segmentation and Use of Technology
3. Enhancing Corporate Governance
4. Customer Relationship Management
5. Increasing Profit and Customer Orientation
6. Application of Information Technology in Service Delivery Process
7. Need for Branch Rationalisation
8. Need for Greater Prudence
9. Asset Liability Management
10. Brand Building and Management
11. Transparency
12. Synergy out of Mergers and Acquisitions
13. Enhancing Shareholders' Value
14. Financial Inclusion

Conclusion

Thus, banking in the days to come will be a challenging one, which will be marked by high expectations of customers, who are well informed and possess the technical knowledge to conduct banking transaction from home or office or while on move. Although IT plays an important role in banking business, yet personalized service will continue to have relevance in Indian banking where a large proportion of the country's population is still illiterate. To sum up, it can be said that with increased competition, Indian banks face the challenge of sustenance and for these they need to develop proactive strategies with focus on product innovation, off-balance sheet activities to increase their income from non-core activity, efficiency in service delivery process, effective risk management etc. and more importantly on customer satisfaction through tailo made product packages. Moreover, competition should not necessarily be viewed with trepidation. In fact it should be seen by Indian banks as an opportunity to enter global financial intermediation and provision of financial services (Patel, 1997). As the economic importance of (financial) services increases in terms of (global) value added, international banking operations should be viewed as a (potentially) lucrative profit opportunity by Indian banks.

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