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INTRODUCTION

What is a Bank?

A banker or bank is a financial institution whose primary activity is to act as a payment agent for customers and to borrow and lend money. In other words, an institution where one can place and borrow money and take care of financial affairs.

Function of Banks

- Lending money to public(loans)
- Transferring money from one place to another (Remittances)
- Acting as trustees
- Keeping valuables in safe custody
- Government business

Types of Banks

- Public sector Banks
- Private sector Banks
- Co-operative Bank
- Development Bank/Financial institutions

There are many foreign banks which are operating in India or are planning to operate in India, some of them are:-

- HSBC Bank
- CITI Bank
- ABN-AMRO Bank

- Standard Charted Bank
- RBS(Royal Bank of Scotland Group)
- Industrial and Commercial Bank of China

HISTORY OF INDIAN BANKING SYSTEM

For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process.

The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. Those are:-

- Early phase from 1786 to 1969 of Indian Banks

- Nationalizations of Indian Banks and up to 1991 prior to Indian banking sector Reforms

- New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991

The steps taken by the Government of India to Regulate Banking Institutions in the Country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalization of State Bank of India.
- 1959: Nationalization of SBI subsidiaries.
- 1961: Insurance cover extended to deposits.
- 1969: Nationalization of 14 major banks.
- 1971: Creation of credit guarantee corporation.
- 1975: Creation of regional rural banks.
- 1980: Nationalization of seven banks with deposits over 200crore.

Reserve Bank of India

RBI is the banker to banks—whether commercial, cooperative, or rural. The relationship is established once the name of a bank is included in the Second Schedule to the Reserve Bank of India Act, 1934. Such bank, called a scheduled bank, is entitled to facilities of refinance from RBI, subject to fulfillment of the following conditions laid down in Section 42 (6) of the Act, as follows:

- It must have paid-up capital and reserves of an aggregate value of not less than an amount specified from time to time;and

- It must satisfy RBI that its affairs are not being conducted in a manner detrimental to the interests of its depositors.

MAJOR REFORMS INITIATIVES

Some of the major reform initiatives in the last decade that have changed the face of the Indian banking are:-

- Interest Rate Deregulation-Interest rates on deposits and lending have been deregulated with banks enjoying greater freedom to determine their rates.

- Government equity in banks has been reduced and strong banks have been allowed to access the capital market for raising additional capital.

- New private sector banks have been set up and foreign banks permitted to expand their operations in India including through subsidiaries.

- New areas have been opened up for bank financing like- insurance, credit cards, infrastructure financing, leasing, gold banking, besides of course investment banking, asset management, factoring, etc.

- Banks have specialized committees to measure and monitor various risks and have been upgrading their risk management skills and systems.

- Adoption of prudential norms in terms of capital adequacy, asset classification, income recognition, provisioning, exposure limits, investment fluctuation reserve, etc.

IT USAGE BY BANKS

IT usage by banks in India has come of age. The financial sector of the country has become more IT savvy and the Banking sector in particular is one of the largest users of IT and IT enabled services. The Reserve Bank too has enhanced the usage of IT as a tool for better performance and overall systemic efficiency.

Information Technology (IT) continues to be the single largest facilitating force behind the successful transformation of transactions and analytical processing of banking business in the country. Developments which have taken place during the last few years all have IT as the pivotal centre-point. Since the publication of the Financial Sector Technology (FST) Vision in July, 2005, there have been significant changes in the banking sector of the country, as far as IT implementation is concerned. Some of the major developments which have taken place since then are as follows:-

- Core Banking Systems (CBS)
- Internet Banking
- Mobile Banking
- Mobile Automated Teller Machines (ATMs)
- Multifunctional ATMs shared ATM services
- Large scale usage of Real Time Gross Settlement (RTGS)

SERVICES PROVIDED BY BANK

- Demat Account
- Lockers
- Cash Management
- Insurance Product
- Mutual Fund Product
- Loans
- ECS(Electronic clearance system)
- Taxes

MAIN COMPETITORS FOR BANKING SECTOR

- Post offices
- Mutual fund
- Share market
- Insurance
- Money lenders
- Family and Friends

CHALLENGES AHEAD

- Improving profitability
- Reinforcing technology
- Risk management
- Sharpening skills
- Greater customer orientation
- Corporate governance
- International standards

CONCLUSION

The face of banking is changing rapidly. Competition is going to be tough and with financial liberalization under the WTO, banks in India will have to benchmark themselves against the best in the world. For a strong and resilient banking and financial system, therefore, banks need to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiency and technology, while achieving economies of scale through consolidation and exploring available cost-effective solutions. These are some of the issues that need to be addressed if banks are to succeed, not just survive, in the changing milieu.

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the "exported growth" of other Asian economies, with emphasis on self-reliance through import substitution.