

# FINANCIAL & BANKING SECTOR REFORMS IN INDIA

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## Abstract

*The banking section will navigate through all the aspects of the Banking System in India. It will discuss upon the matters with the birth of the banking concept in the country to new players adding their names in the industry in coming few years. The banker of all banks, Reserve Bank of India (RBI), the Indian Banks Association (IBA) has been well defined. The financial & Banking Sectors reforms in India have been improved in the last ten years. This article focused on the changes in Financial System of India.*

## Introduction

The banking system of India should not only be hassle free but it should be able to meet 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 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 nationalizations of 14 major private banks of India.

## Financial and Banking Sector Reforms

The last decade witnessed the maturity of India's financial markets. Since 1991, every governments of India took major steps in reforming the financial sector of the country. The important achievements in the following fields are discussed under as follows:

### Financial Markets

In the last decade, Private Sector Institutions played an important role. They grew rapidly in commercial banking and asset management business. With the openings in the insurance sector for these institutions, they started making debt in the market. Competition among financial intermediaries gradually helped the interest rates to decline. Deregulation added to it. The real interest rate was maintained. The borrowers did not pay high price while depositors had incentives to save. It was something between the nominal rate of interest and the expected rate of inflation.

### Regulators

The Finance Ministry continuously formulated major policies in the field of financial sector of the country. The Government accepted the important role of regulators. The Reserve Bank of India (RBI) has become more independent. Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) became important institutions. Opinions are also there that there should be a super-regulator for the financial services sector instead of multiplicity of regulators.

### The Banking System

Almost 80% of the businesses are still controlled by Public Sector Banks (PSBs). PSBs are still dominating the commercial banking system. Shares of the leading PSBs are already listed on the stock exchanges.

The RBI has given licenses to new private sector banks as part of the liberalization process. The RBI has also been granting licenses to industrial houses. Many banks are successfully running in the retail and consumer segments but are yet to deliver services to

industrial finance, retail trade, small business and agricultural finance. The PSBs will play an important role in the industry due to its number of branches and foreign banks facing the constraint of limited number of branches. Hence, in order to achieve an efficient banking system, the onus is on the Government to encourage the PSBs to be run on professional lines.

### **Development Finance Institutions**

FIs's access to SLR funds reduced. Now they have to approach the capital market for debt and equity funds. Convertibility clause no longer obligatory for assistance to corporate sanctioned by term-lending institutions. Capital adequacy norms extended to financial institutions. DFIs such as IDBI and ICICI have entered other segments of financial services such as commercial banking, asset management and insurance through separate ventures. The move to universal banking has started.

### **Non-Banking Finance Companies**

In the case of new NBFCs seeking registration with the RBI, the requirement of minimum net owned funds, has been raised to Rs .2 crores. Until recently, the money market in India was narrow and circumscribed by tight regulations over interest rates and participants. The secondary market was underdeveloped and lacked liquidity. Several measures have been initiated and include new money market instruments, strengthening of existing instruments and setting up of the Discount and Finance House of India (DFHI).

### **The Capital Market**

The number of shareholders in India is estimated at 25 million. However, only an estimated two lakh persons actively trade in stocks. There has been a dramatic improvement in the country's stock market trading infrastructure during the last few years. Expectations are that India will be an attractive emerging market with tremendous potential. Unfortunately, during recent times the stock markets have been constrained by some unsavory developments, which has led to retail investors deserting the stock markets.

### **Mutual Funds**

The mutual funds industry is now regulated under the SEBI (Mutual Funds) Regulations, 1996 and amendments thereto. With the issuance of SEBI guidelines, the industry had a framework for the establishment of many more players, both Indian and foreign players.

### **Reserve Bank of India (RBI)**

Reserve Bank of India (RBI) is the central bank of the country and is different from Central Bank of India. The central bank of the country is the Reserve Bank of India (RBI). It was established in April 1935 with a share capital of Rs. 5 crores on the basis of the recommendations of the Hilton Young Commission. The share capital was divided into shares of Rs. 100 each fully paid which was entirely owned by private shareholders in the beginning. The Government held shares of nominal value of Rs. 2, 20,000. Reserve Bank of India was nationalized in the year 1949. The general superintendence and direction of the Bank is entrusted to Central Board of Directors of 20 members, the Governor and four Deputy Governors, one Government official from the Ministry of Finance, ten nominated Directors by the Government to give representation to important elements in the economic life of the country, and four nominated Directors by the Central Government to represent the four local Boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Boards consist of five members each Central Government appointed for a term of four years to represent territorial and economic interests and the interests of co-operative and indigenous banks.

The Reserve Bank of India Act, 1934 was commenced on April 1, 1935. The Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank. The Bank was constituted for the need of following:

- To regulate the issue of banknotes
- To maintain reserves with a view to securing monetary stability and
- To operate the credit and currency system of the country to its advantage.

### **Functions of Reserve Bank of India**

- Bank of Issue
- Banker to Government
- Bankers' Bank and Lender of the Last Resort
- Controller of Credit
- Custodian of Foreign Reserves
- Supervisory functions
- Promotional functions

### Indian Banks Association (IBA)

The Indian Banks Association (IBA) was formed on the 26th September, 1946 with 22 members. Today IBA has more than 156 members comprising of Public Sector banks, Private Sector banks, Foreign banks having offices in India, Urban Co-operative banks, Developmental financial institutions, Federations, merchant banks, mutual funds, housing finance corporations, etc.

#### The Functioning of IBA

- To promote sound and progressive banking principles and practices.
- To render assistance and to provide common services to members.
- To organize co-ordination and co-operation on procedural, legal, technical, administrative and professional matter.
- To collect, classify and circulate statistical and other information
- To pool together expertise towards common purposes such as reduction in costs, increase in efficiency, productivity and improve systems, procedures and banking practices.
- To project good public image of banking through publicity and public relations.
- To encourage sports and cultural activities among bank employees.

### Banking Services in India

With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. A competition has been established within the banks operating in India. With stiff competition and advancement of technology, the services provided by banks have become more easy and convenient. The past days are witness to an hour wait before withdrawing cash from accounts or a cheque from north of the country being cleared in one month in the south.

### Proxy Banking in India

Indian villages were miles away from mutual funds, insurance and even equity trading. Thanks to Internet Kiosk and the ATM duo which has made it possible for rural India. This kiosk has been set up by ICICI Bank in partnership with network n-Logue Communications in remote villages of Southern part of the country. This is known as Proxy Banking. With the help of fiber optic cables, this kiosk works on wireless in local loop technology. The Proxy Banking is an innovative approach to rural lending and will add to the government's expanding base of kisan credit cards and the good old guidelines for agricultural lending.

### Banks in India

In India the banks are being segregated in different groups. Each group has their own benefits and limitations in operating in India. Each has their own dedicated target market. Few of them only work in rural sector while others in both rural as well as urban. Many even are only catering in cities. Some are of Indian origin and some are foreign players.

<ul style="list-style-type: none"> <li>• <a href="#"><u>ABN-AMRO Bank</u></a></li> <li>• <a href="#"><u>Abu Dhabi Commercial Bank</u></a></li> <li>• <a href="#"><u>American Express Bank</u></a></li> <li>• <a href="#"><u>Andhra Bank</u></a></li> <li>• <a href="#"><u>Allahabad Bank</u></a></li> <li>• <a href="#"><u>Axis Bank (Earlier UTI Bank)</u></a></li> <li>• <a href="#"><u>Bank of Baroda</u></a></li> <li>• <a href="#"><u>Bank of India</u></a></li> <li>• <a href="#"><u>Bank of Maharashtra</u></a></li> <li>• <a href="#"><u>Bank of Punjab</u></a></li> <li>• <a href="#"><u>Bank of Rajasthan</u></a></li> <li>• <a href="#"><u>Bank of Ceylon</u></a></li> <li>• <a href="#"><u>BNP Paribas Bank</u></a></li> <li>• <a href="#"><u>Canara Bank</u></a></li> <li>• <a href="#"><u>Catholic Syrian Bank</u></a></li> <li>• <a href="#"><u>Central Bank of India</u></a></li> <li>• <a href="#"><u>Centurion Bank</u></a></li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#"><u>Indian Bank</u></a></li> <li>• <a href="#"><u>Indian Overseas Bank</u></a></li> <li>• <a href="#"><u>IndusInd Bank</u></a></li> <li>• <a href="#"><u>ING Vysya Bank</u></a></li> <li>• <a href="#"><u>Jammu &amp; Kashmir Bank</u></a></li> <li>• <a href="#"><u>JPMorgan Chase Bank</u></a></li> <li>• <a href="#"><u>Karnataka Bank</u></a></li> <li>• <a href="#"><u>Karur Vysya Bank</u></a></li> <li>• <a href="#"><u>Laxmi Vilas Bank</u></a></li> <li>• <a href="#"><u>Oriental Bank of Commerce</u></a></li> <li>• <a href="#"><u>Punjab National Bank</u></a></li> <li>• <a href="#"><u>Punjab &amp; Sind Bank</u></a></li> <li>• <a href="#"><u>Scotia Bank</u></a></li> <li>• <a href="#"><u>South Indian Bank</u></a></li> <li>• <a href="#"><u>Standard Chartered Bank</u></a></li> <li>• <a href="#"><u>State Bank of India (SBI)</u></a></li> </ul>
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<ul style="list-style-type: none"> <li>• <a href="#">China Trust Commercial Bank</a></li> <li>• <a href="#">Citi Bank</a></li> <li>• <a href="#">City Union Bank</a></li> <li>• <a href="#">Corporation Bank</a></li> <li>• <a href="#">Dena Bank</a></li> <li>• <a href="#">Deutsche Bank</a></li> <li>• <a href="#">Development Credit Bank</a></li> <li>• <a href="#">Dhanalakshmi Bank</a></li> <li>• <a href="#">Federal Bank</a></li> <li>• <a href="#">HDFC Bank</a></li> <li>• <a href="#">HSBC</a></li> <li>• <a href="#">ICICI Bank</a></li> <li>• <a href="#">IDBI Bank</a></li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">State Bank of Bikaner &amp; Jaipur</a></li> <li>• <a href="#">State Bank of Hyderabad</a></li> <li>• <a href="#">State Bank of Indore</a></li> <li>• <a href="#">State Bank of Mysore</a></li> <li>• <a href="#">State Bank of Saurashtra</a></li> <li>• <a href="#">State Bank of Travancore</a></li> <li>• <a href="#">Syndicate Bank</a></li> <li>• <a href="#">Taib Bank</a></li> <li>• <a href="#">UCO Bank</a></li> <li>• <a href="#">Union Bank of India</a></li> <li>• <a href="#">United Bank of India</a></li> <li>• <a href="#">United Western Bank</a></li> <li>• <a href="#">Vijaya Bank</a></li> </ul>
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### ate Sector Banks

Private banking in India was practiced since the beginning of banking system in India. The first private bank in India to be set up in Private Sector Banks in India was IndusInd Bank. It is one of the fastest growing Bank Private Sector Banks in India. IDBI ranks the tenth largest development bank in the world as Private Banks in India and has promoted world class institutions in India. The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector banks in India as part of the RBI's liberalization of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as Scheduled Commercial Bank in January 1995. ING Vysya, yet another Private Bank of India was incorporated in the year 1930. Bangalore has a pride of place for having the first branch inception in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya Bank has many credits to its account.

<ul style="list-style-type: none"> <li>• <a href="#">Bank of Punjab</a></li> <li>• <a href="#">Bank of Rajasthan</a></li> <li>• <a href="#">Catholic Syrian Bank</a></li> <li>• <a href="#">Centurion Bank</a></li> <li>• <a href="#">City Union Bank</a></li> <li>• <a href="#">Dhanalakshmi Bank</a></li> <li>• <a href="#">Development Credit Bank</a></li> <li>• <a href="#">Federal Bank</a></li> <li>• <a href="#">HDFC Bank</a></li> <li>• <a href="#">ICICI Bank</a></li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">IDBI Bank</a></li> <li>• <a href="#">IndusInd Bank</a></li> <li>• <a href="#">ING Vysya Bank</a></li> <li>• <a href="#">Jammu &amp; Kashmir Bank</a></li> <li>• <a href="#">Karnataka Bank</a></li> <li>• <a href="#">Karur Vysya Bank</a></li> <li>• <a href="#">Laxmi Vilas Bank</a></li> <li>• <a href="#">South Indian Bank</a></li> <li>• <a href="#">United Western Bank</a></li> <li>• <a href="#">UTI Bank</a></li> </ul>
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### Public Sector Banks In India

Among the Public Sector Banks in India, United Bank of India is one of the 14 major banks which were nationalized on July 19, 1969. Its predecessor, in the Public Sector Banks, the United Bank of India Ltd., was formed in 1950 with the amalgamation of four banks viz. Comilla Banking Corporation Ltd. (1914), Bengal Central Bank Ltd. (1918), Comilla Union Bank Ltd. (1922) and Hooghly Bank Ltd. (1932). Oriental Bank of Commerce (OBC), a Government of India Undertaking offers Domestic, NRI and Commercial banking services. OBC is implementing a GRAMEEN PROJECT in Dehradun District (UP) and Hanumangarh District (Rajasthan) disbursing small loans. This Public Sector Bank India has implemented 14 point action plan for strengthening of credit delivery to women and has designated 5 branches as specialized branches for women entrepreneurs. The following are the list of Public Sector Banks in India

<ul style="list-style-type: none"> <li>• Allahabad Bank</li> <li>• Andhra Bank</li> <li>• Bank of Baroda</li> <li>• Bank of India</li> <li>• Bank of Maharashtra</li> <li>• Canara Bank</li> <li>• Central Bank of India</li> <li>• Corporation Bank</li> <li>• Dena Bank</li> <li>• Indian Bank</li> </ul>	<ul style="list-style-type: none"> <li>• Oriental Bank of Commerce</li> <li>• Punjab &amp; Sind Bank</li> <li>• Punjab National Bank</li> <li>• Syndicate Bank</li> <li>• UCO Bank</li> <li>• Union Bank of India</li> <li>• United Bank of India</li> <li>• Vijaya Bank</li> <li>• Indian Overseas Bank</li> <li>• SBI and its Subsidiaries</li> </ul>
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**Regional Rural Banks in India**

Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country. SBI has 30 Regional Rural Banks in India known as RRBs. The rural banks of SBI are spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. The total number of SBIs Regional Rural Banks in India branches is 2349 (16%). Till date in rural banking in India, there are 14,475 rural banks in the country of which 2126 (91%) are located in remote rural areas. Apart from SBI, there are other few banks which functions for the development of the rural areas in India. Few of them are as follows.

- Haryana State Cooperative Apex Bank Limited
- NABARD
- Sindhanur Urban Souharda Co-operative Bank
- United Bank of India

**Cooperative Banks in India**

The Co operative banks in India started functioning almost 100 years ago. The Cooperative bank is an important constituent of the Indian Financial System, judging by the role assigned to co operative, the expectations the co operative is supposed to fulfill, their number, and the number of offices the cooperative bank operate. Co operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

**Foreign Banks in India**

Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. New rules announced by the Reserve Bank of India for the foreign banks in India in this budget have put up great hopes among foreign banks which allow them to grow unfettered. Now foreign banks in India are permitted to set up local subsidiaries. The policy conveys that foreign banks in India may not acquire Indian ones (except for weak banks identified by the RBI, on its terms) and their Indian subsidiaries will not be able to open branches freely. Please see the list of Foreign banks in India till date.

**List of Foreign Banks in India**

<ul style="list-style-type: none"> <li>• ABN-AMRO Bank</li> <li>• Abu Dhabi Commercial Bank</li> <li>• Bank of Ceylon</li> <li>• BNP Paribas Bank</li> <li>• City Bank</li> <li>• China Trust Commercial Bank</li> </ul>	<ul style="list-style-type: none"> <li>• Deutsche Bank</li> <li>• HSBC</li> <li>• JPMorgan Chase Bank</li> <li>• Standard Chartered Bank</li> <li>• Scotia Bank</li> <li>• Taib Bank</li> </ul>
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By the year 2009, the list of foreign banks in India is going to become more quantitative as number of foreign banks is still waiting with baggage to start business in India.

### Upcoming Foreign Banks in India

By 2009 few more names is going to be added in the list of foreign banks in India. This is as an aftermath of the sudden interest shown by Reserve Bank of India paving roadmap for foreign banks in India greater freedom in India. Among them is the world's best private bank by Euro Money magazine, Switzerland's UBS.

### The following are the list of foreign banks going to set up business in India

- Royal Bank of Scotland
- Switzerland's UBS
- US-based GE Capital
- Credit Suisse Group
- Industrial and Commercial Bank of China

### Conclusion

The Financial & Banking System of India is growing rapidly. India adopted new technologies and new approaches to improve the financial system of India. If we compared the pre and post financial period, then we find out the major improvement in working of various Financial Institutions. The government and the regulatory authorities have followed a step-by-step approach, not a big bang one. The entry of foreign players has assisted in the introduction of international practices and systems. Technology developments have improved customer service. On the whole, the cumulative effect of the developments since 1991 has been quite encouraging. An indication of the strength of the reformed Indian financial system can be seen from the way India was not affected by the Southeast Asian crisis.

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[www.iba.org](http://www.iba.org)