PREFACE

The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institutions. The Reserve Bank of India acts a centralized body monitoring any discrepancies and shortcoming in the system. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and has since then seen tremendous progress. The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach. The unleashing of products and services through the net has galvanized players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. Conservative banking practices allowed Indian banks to be insulated partially from the Asian currency crisis. Indian banks are now quoting at higher valuation when compared to banks in other Asian countries (viz. Hong Kong, Singapore, Philippines etc.) that have major problems linked to huge Non Performing Assets (NPAs) and payment defaults. Co-operative banks are nimble footed in approach and armed with efficient branch networks focus primarily on the ‘high revenue’ niche retail segments. The Indian banking has finally worked up to the competitive dynamics of the ‘new’ Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization. Banks that employ IT solutions are perceived to be ‘futuristic’ and proactive players capable of meeting the multifarious requirements of the large customer’s base.
Private banks have been fast on the uptake and are reorienting their strategies using the internet as a medium. The Internet has emerged as the new and challenging frontier of marketing with the conventional physical world tenets being just as applicable like in any other marketing medium. The Indian banking has come a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely brought about by the large dose of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams (i.e. borrowing and lending). The banking in India is highly fragmented with 30 banking units contributing to almost 50% of deposits and 60% of advances.

Indian nationalized banks (banks owned by the government) continue to be the major lenders in the economy due to their sheer size and penetrative networks which assures them high deposit mobilization. The Indian banking can be broadly categorized into nationalized, private banks and specialized banking institutions. The Reserve Bank of India acts as a centralized body monitoring any discrepancies and shortcoming in the system. It is the foremost monitoring body in the Indian financial sector. The nationalized banks (i.e. government-owned banks) continue to dominate the Indian banking arena. Industry estimates indicate that out of 274 commercial banks operating in India, 223 banks are in the public sector and 51 are in the private sector. The private sector bank grid also includes 24 foreign banks that have started their operations here. Under the ambit of the nationalized banks come the specialized banking institutions. These co-operatives, rural banks focus on areas of agriculture, rural development...
etc., unlike commercial banks these co-operative banks do not lend on the basis of a prime lending rate. They also have various tax sops because of their holding pattern and lending structure and hence have lower overheads. This enables them to give a marginally higher percentage on savings deposits. Many of these cooperative banks diversified into specialized areas (catering to the vast retail audience) like car finance, housing loans, truck finance etc. in order to keep pace with their public sector and private counterparts, the co-operative banks too have invested heavily in information technology to offer high-end computerized banking services to its clients.

The Reserve bank of India (RBI) is the central bank of the country. It has been established as a body corporate under the Reserve Bank of India, which came into effect from 1st April, 1935. The Reserve Bank was started as a shareholders bank with a paid up capital of Rs. 5 crores. On establishment it took over the function of management of currency from the government of India and power of credit control from then the Imperial Bank of India.

Modern banking in India is said to be developed during the British era. In the first half of the 19th century, the British East India Company established three banks – the Bank of Bengal in 1809, the Bank of Bombay in 1840 and the Bank of Madras in 1843. But in the course of time these three banks were amalgamated to a new bank called Imperial Bank and later it was taken over by the State Bank of India in 1955. Allahabad Bank was the first fully Indian owned bank. The Reserve Bank
of India was established in 1935 followed by other banks like Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

In 1969, 14 major banks were nationalized and in 1980, 6 major private sector banks were taken over by the government. Today, commercial banking system in India is divided into following categories.

Prior to the 1991 reforms, India’s banking sector had long been characterized as highly regulated and financially repressed. The prevalence of reserve requirement (i.e., a cash reserve ratio [CRR] that requires banks to hold a certain amount of deposits in the form of deposits with the RBI), liquidity requirement (i.e., statutory liquidity ratio [SLR] that requires banks to hold a certain amount of deposit in the form of government and eligible securities), 2 interest rate controls, and allocation of financial resources to the so-called “priority sectors” (i.e., agriculture, small scale industries [SSI], small transport operators, small business, and professional and self employed persons) increased the degree of financial repression and adversely affected the country’s financial resource mobilization and allocation.

After Independence in 1947, the government took the view that loans extended by colonial banks were biased toward working capital for trade and large firms (Joshi and Little [1996]). Moreover, it was perceived that banks should be utilized to assist India’s planned development strategy by mobilizing financial resources to strategically important sectors.
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