CHAPTER 1
INTRODUCTION

1.1 GENERAL BANKING OVERVIEW

Indian Banking Scenario
Country’s banking system in the past over thirty years has several outstanding contributions and achievements in its glory, mainly is its extensive reach, which is primary reason for India's economic growth. A sound and effective banking system is essential for any healthy economy. Since 1969 the Government's regular policy for Indian banks has resulted in the nationalisation of then 14 major private banks of India.

1.2 ORIGIN OF BANKING

The last decades of the 18th century saw the establishment of Banking in India. The Reserve Bank of India set up in 1935, is the regulator of the Indian Banking system which took over from Imperial Bank of India.

Growth & Development of Banking

The three phases of Indian Banking System can be classified as below:

Phase I
In 1786, The General Bank of India was constituted followed by the establishment of Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units then known as Presidency Banks, which was subsequently merged in 1920 and Imperial Bank of India was formed. Thereafter, Allahabad Bank Ltd. was set up in 1865 by Indians followed by Punjab National Bank Ltd. in 1894. Banks also experienced periodic failures between During the period 1913 to 1948, Indian banking has witnessed several bank failures in regular intervals.

Phase II
In 1955, the Government of India had took over then Imperial Bank of India Ltd. and formed State Bank of India (SBI). Subsequently in 1960, seven subsidiary banks of State Bank of India were nationalized. Further, then Prime Minister Mrs. Indira
Gandhi nationalised 14 major commercial banks in the country on 19th July, 1969. Again in 1980, six more were nationalized, which made around 80 percent of the Indian banking business in India under Government control.

**Phase III**

A high powered Committee was constituted by the GOI headed by M Narasimham in 1991 to suggest banking sector reforms. The recommendations were submitted by the Committee and were also accepted by the Government for implementation. The banking system saw sea change in its shape during post reform period.
1.3 ORGANIZATIONAL STRUCTURE OF BANKS IN INDIA

In India banks are classified into various categories according to different criteria:

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

The RBI is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the reserves of all scheduled banks and hence is known as the “Reserve Bank of India”.

2) **Public Sector Banks**

   - State Bank of India and its Associates
   - Nationalized Banks
   - Regional Rural Banks Sponsored by Public Sector Banks
1. 4 BANKS’ ROLE IN ECONOMIC DEVELOPMENT OF THE COUNTRY

Chart 1.2 - Indian banking system and economic development

Role of banks are crucial for development of Indian economy. Banks control major part of the money circulation and influence the nature and character of production in the country. The banking sectors’ contribution towards the economic development of the country can be evidenced from the following -

a. Capital formation

Banks’ generally mobilize the idle capital of the community and deploy the same for productive purposes. For mobilization of savings, the bank have designed several deposit schemes to attract investment and encourage the habit of savings among the citizen of the country.
b. Credit Creation
Banks are engaged in credit creation which in turn helps in economic development of the country.

c. Link between organised and unorganized sectors
Money market comprises of organised and unorganized sectors in India, both of which are to be linked for economic development of the country.

d. Effective implementation of monetary policy
Monetary policy is being formulated by the Central Bank (RBI). The effective implementation of such policy can be done only through properly organised banking system of the country.

e. Development of Agriculture and industry
The development of any country depends not only on its industrial development but also on the agricultural production. Banks cater to the financial needs of both these sectors resulting in the economic development of the country.

f. Catalyst in social change
Banks are regarded as catalyst in bringing the desired social change in India. Banks are able to achieve the same through its sectoral priorities and several social development programmes.

 g. Development of Entrepreneurship
Banks’ generally promote entrepreneurship through several schemes, which includes guidance and counseling, financing and nurturing etc.

h. Regulating flow of national savings
Banks in India regulate the flow of national savings while ensuring deployment of these resources for economic and productive purposes.

i. Mitigating the affects of trade cycles
The effective banking system helps the government in controlling the expansion and circulation of money which in turn helps in mitigating the affects of trade cycles.
j. **Maintaining the positive balance of trade**

Banks are helping in promoting international business, may it be import transactions or exports. This helps in maintaining the balance of trade.

It can be evidenced from the above that Indian Banking system occupies a vital position in our economy. Bankers are regarded as ‘Public Conservators of Commercial Virtues’. India has strong banking system which remains the backbone for faster economic growth of this country.

### 1.5 SOCIO - ECONOMIC IMPORTANCE OF BANKING

Indian banks are playing a pivotal role in the Indian economy. Every need of economy is being met by the banking system in India even though a strict regulatory system is in place. The banking system is playing the required attention to the cross section of the society, be it rural, semi urban, urban or metro population. The needs of masses or the high class section of the society are equally met by the banking system. Thus the bankers are playing a role of change managers in the economy.

### 1.6 CONCLUSION

Considering the stiff competition in Indian Banking Industry, Good customer service has become more relevant than ever before.

Any laxity in customer survive may result in migration of the dissatisfied customer to another bank offering better services, thus loss of business and could pose challenge for survival.

To meet growing customer demand and expectations, Banks may have to adopt scalable technology to further improve delivery channels for achieving higher customer satisfaction.

Even though the banks have leveraged technology to improve their delivery channels and operational efficiency, the bank customers still have several doubts on internet banking facilities for its safety and security.
There seems to be inadequate customer literacy for the said banking facilities, due to which not many customers have yet taken on internet banking. However, several studies have been conducted to assess the inadequacies and remedial measures are being suggested form time to time.

The Bank Management may have to ensure positive attitude of its staff supported with a system to appraise customer expectations on an ongoing basis.