CHAPTER II

THE FEATURES OF BANKING
A sound policy is a pre-requisite on which the effectiveness of banking depends. An effective organisation widens and deepens banking services on an integrated approach. So, banking plays a vital role to activate the accelerating factors so as to improve the production and the renewal of wealth of a nation. Further, its services are very essential to the customers. Having thought the significance of banking, the Government of India imbued its Plans of development through banking. In this chapter, the salient features of banking in India are discussed to have the knowledge of its working in the changing scenario.

The three Presidency Banks, namely (a) The Bank of Bengal (1809), (b) The Bank of Bombay (1840), and (c) The Bank of Madras (1843) were amalgamated in 1921 and a new Bank was formed viz., the Imperial Bank of India. In 1935, the Reserve Bank of India came into being as the 'Central Bank' of the country. In the matters of financial-sector development, it has been playing a keen role. The Banking Regulations Act, 1949 came into force on March 16, 1949 to promote and develop banking sector on right and sound lines. The
Imperial Bank of India was nationalised on July 1, 1955, as State Bank of India. The All India Rural Credit Survey Committee expressed its view on nationalisation as: "To accord with national objectives, creation of one strong, integrated State-sponsored and State-partnered commercial banking institution with an efficient machinery of branches is very much needed". This motivated for enlargement as well as spreading of the banking sector into various areas/sectors such as rural and urban, preferential treatment in providing credit to economic significant sectors. On September 10, 1959, the State-partnered commercial banks* were considered as subsidiaries of State Bank of India. They were also called Associated Banks of State Bank of India. On July 19, 1969, 14 major commercial banks, and on April 15, 1980, 6 more commercial banks were nationalised to gain control over monopoly of economy. The Government of India, thus, has taken many measures in Post-Reserve Bank of India Act in banking sector to provide the banking services at the door-steps of commonman.


OBJECTIVES OF COMMERCIAL BANKS:

The main objectives of commercial banks is to improve the socio-economic conditions of people. This aim being achieved through:

1. the effective use of means and mechanism for resources development,
2. fulfilling the social aims,
3. mobilising savings and deploying them to the economic significant sectors,
4. giving credit widely on diversification, and
5. associating with production programmes.

FUNCTIONS OF COMMERCIAL BANKS:

To achieve the above said objectives, the commercial banks have to undertake the functions such as:

1. lending funds,
2. receiving deposits and honouring the depositors' demand.

In banking sector, tapping deposits is a major phenomena. In other words, 80 per cent of funds has to come from deposits. It means that it gives support as well as strength; on which how effective the
commercial banks in their operational performance is measured. On expansion and diversification of economic activities, the demand for credit is expanded more and more. Here again, the size of deposits is requisite factor to meet intensive demand for credit. Further, the scheme of deposits mobilisation develops a habit of 'saving' among the small surplus savers. On the other, it stops spurious expenditure. The commercial banks in the progress of this phenomena have been doing services to serve the people and to develop the nation.

ORGANISATION:

A sound organisation is an answer to every business problem. A poor organisation could run a good problem, and a good organisation with a poor product could run a good market. A sound organisation increases its efficiency and enables optimum utilisation of resources for gearing optimum benefits. Vasant Desai stated that: "a well developed banking structure is an essential pre-requisite, and the absence of such structure had often impeded the growth of economy".  

BANKING POLICY:

Fostering economic growth and development is the main objective of banking. So, to achieve this aim, it is needed a good policy prescription. Without definite policy, an organisation is like 'a ship without rudder'. Till 1956, a lukewarm policy was adopted and thereafter a liberal policy of branch expansion was introduced. In 1977, the branch expansion policy gave more emphasis to open branches, specially in rural and un-developed areas, to mobilise the stagnated deposits. "A bank will have to open four branches in unbanked rural areas to get permission to open one branch each in metropolitan and banked centres. This policy was to be known as 4:1:1".  

It aimed at rural development. The commercial banks have launched this programme made for snapping the dictum that real India lies in rural India. The implemented programmes are:

1. Rural Development programme,
2. Production development programme,
3. The employment services programme, and
4. The Industrial development programme.

RURAL-ORIENTATION:

The economic development is a huge programme which needs cooperation and coordination from various sectors like industry, agriculture, etc., which are obviously inter-dependent as well as inter-linked. The commercial bank's financing of agriculture, rural artisans, small industries, etc., is immense as those activities are production and economic oriented.

Goals and their achievements are the measurement of institution's performance. Rendering services as cheap as possible for developing the welfare is the motto of any financial institution. Commercial banks are no exception to this. The priority sector, direct finance to agriculture, weaker sections credit and credit under differential rate of interest are 40 per cent, 16 per cent, 10 per cent and 1 per cent of the bank credit respectively. The above prescriptions serve obviously a new thought and close to social banking.

CHANGE CONCEPT:

Now, Indian banking has changed entirely from what it was, a two decades ago, in services of quality and range offered by commercial banks. In Indian
economy, the development planning has brought its new transformation which is more responsive to the targets set. In brief, Indian commercial banking has changed in very concept, precept and its outlook to gear itself to face the challenges of the 21st century.