



Review Article

INDIAN BANKS- A HISTORY & THEIR GROWTH

*Meena, R.

Department of Management, Center for Management Studies, Jain University, Bangalore, Karnataka, India

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ABSTRACT

India is a developing country and moving at a greater pace to become the most developed country. One of the sectors that is growing tremendously is the banking sector. A bank is a financial institution where our deposits get accepted and from whom we take an advance. But nowadays a bank does many other activities like investment banking, insurance, foreign exchange trading, commodity trading, trading in equities, futures and options, etc. Banks offer a number of services to its customers like ATM, Mobile banking, Online banking, etc. Indian Banking Sector has adapted to many new innovations that have come across in this industry. In India the banks have grown in terms of offices, deposits, advances, investments, interest earned, interest expended, ATM, technology, etc. The data found was analysed to understand the increase in percentage of various items like deposits, advances, investments, etc. The increased cost effectiveness, easy banking access and smaller value of transactions made this possible. The banks were able to carry out its services efficiently. Transactions are done as soon as possible and through convenient delivery channel. The productivity thereby increased and had an effect on the growth of Indian banks.

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INTRODUCTION

In the upcoming years let us say from 2000 to 2015 the Indian banking sector has seen a tremendous change especially in its working. The banking sector has grown by leaps and bounds and the most beneficial person has been the customer. The banking sector has welcomed technology and it is found adept at doing its work fabulously. The customer's banking experience has become very effective, efficient and convenient. Due to the use of internet banking there is much reduction in the usage physical paper currency which led to minimisation of costs. Electronically the customer can wire transfers, fund transfers, debit card, credit card, etc which has made life easy and convenient. The customers are allowed to use automated teller machine and websites to conduct any kind of operation and perform advanced transaction. The customer need not be present physically to conduct these activities. The customer is allowed to give various applications for the different services and they can know their account balances. The customer requests the bank to pay his/her bill like insurance, telephone, water, etc for a nominal charge. It allows the banks to collect deposit amount in a traditional way and credit expansion activities.

Growth in Indian Banking Sector

Banks are very essential sector of Indian financial system. An efficient banking sector helps the nation's growth. Banking industry started in India a very, very long time back. Many banks have been set up in India during the British rule. The period 1906 – 1911 a number of banks were set up out of which a few survived and are present even today, like Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

Table 1. Table Showing the Number of Banks that Failed

Years	Number of Banks that Failed
1913	12
1914	42
1915	11
1916	13
1917	9
1918	7

Data Source: RBI Publication

Analysis

From the above Table 1 it is clear that 94 banks have failed during the period 1913 – 1918. This is due to the fact Indian economy wasn't stable at all. Our country was going through war with Britishers, therefore the banks suffered as people didn't have funds for deposit and if loan was granted it remain unpaid.

*Corresponding author: Meena, R.

Department of Management, Center for Management Studies, Jain University, Bangalore, Karnataka, India.

Table 2. Showing Number of Offices of the Scheduled Commercial Banks

Year	SBI & its Associates	Nationalised Banks	New Private Sector Banks	Old Private Sector Banks	Foreign Banks
2005	13,492	34,988	1,622	3,953	243
2006	14,310	35,681	2,017	4,819	259
2007	14,673	37,435	2,599	4,723	272
2008	15,863	39,298	3,638	4,721	277
2009	16,925	41,035	4,336	4,949	296
2010	18,346	43,681	5,243	5,270	308
2011	19,244	46,442	7,007	5,087	316
2012	20,128	50,697	8,296	5,659	323
2013	21,096	54,088	9,676	6,233	334

Data Source: RBI Publications

After this India got parted in 1947 which affected adversely Punjab and West Bengal. Their economies were paralysed and banking activity came to a stand - still. The major steps to regulate banking sector included was nationalisation of Reserve Bank of India and RBI set up the Banking Regulation Act. The banking regulation act helped the functioning of commercial banks. It controls financial system through various measures used in our country. In 1960s the Indian banking sector had become an essential tool to facilitate the growth of Indian economy. During this period 14 largest commercial bank were nationalised and these banks contained 85% of the customer's deposits in our country. In 1980 another 6 commercial bank were nationalised. In 1990s, the nationalised banks grew at a pace of 4% and this rate is close to average growth rate of Indian economy.

Liberalisation

In the 1990s, the government had decided to follow a liberal policy that led to licensing private banks. The following banks are the first few to get license, Axis Bank, ICICI Bank and HDFC. This move caused the Indian banking sector to grow swiftly and this growth alongwith contribution led to formulate three sectors of banking industry, namely, Nationalised banks, Private Banks and Foreign Banks. This policy shook the Indian Banking Sector entirely. This demanded a new outlook and tech savvy methods of working for traditional banks. The public demanded more services and they received more from the banks.

Review of literature

The various studies by different researchers in this context of home loans have been conducted. The details of reviews are given below:

Dwivedi&Charyuku examined Efficiency of Indian Banking Industry in the Post-Reform Era in the Journal Indian Institute of Management, Ahmedabad. They have written "One of the major objectives of Indian banking sector reforms was to encourage operational self-sufficiency, flexibility and competition in the system and to increase the banking standards in India to the international best practices. The second phase of reforms began in 1997 with aim to reorganization measures, human capital development, technological up-gradation, structural development which helped them for achieving universal benchmarks in terms of prudential norms and pre-eminent practices." Manikyam conducted a study on Indian Banking Sector – Challenges and Opportunities in the Journal of Business and Management. He has written "Banks plays an

important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. The economic reforms have also generated new and powerful customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks). The emerging competition has generated new expectations from the existing and the new customers." Rajan, Reddy & Pandit studied the Efficiency and Productivity Growth in Indian Banking is a Working Paper No. 199. They have written "The role of banks in accelerating economic development of the country has been increasingly recognized since the nationalization of fourteen major commercial banks in 1969 and six more in 1980. This facilitated the rapid expansion of banking in terms of its geographical reach covering rural India, in turn leading to significant growth in deposits and advances." Dr. Virender Koundal studied the Performance of Indian Banks in Indian Financial System in the International Journal of Social Science and Interdisciplinary Research.

He has written "It means that efficiency and profitability are interrelated. It is true that productivity is not the sole factor but it is an important factor which influence to profitability. The key to increase profitability is increase productivity." Pan has analysed An Overview of Indian Banking Industry in the Journal of Management and Social Sciences Reserach. She has written "The industry in recent times has recognized the importance of private and foreign players in a competitive scenario and has moved towards greater liberalization. From traditional banking practices during the British Rule to reforms period, nationalization to privatization and to the present trend of increasing number of foreign banks, Indian banking sector has undergone significant transformation. It is essential for the Indian economy, striving for an accelerating sustainable and inclusive growth in the medium to longterm, to have a healthy and growing banking system."

Tamilarasu studied A study on the Operational Efficiency of the Scheduled Commercial Banks of India in the International Research Journal of Agriculture and Rural Development. He has written "the banking industry in india has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times." Sharma & Shekar studied Indian Banking Industry: Challenges and Opportunities in the Journal of Education, Social Science and Humanities. They have written "The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britisher's to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times."

Objectives of the Study

- To study the history of Indian Banking Sector.
- To study how many offices of the banks are there of foreign sector, public sector, old private sector, new private sector and SBI & its associates.

Table 3. Showing Amount of Deposits of the Scheduled Commercial Banks (Rs in million)

	2005	2013	Increase in %
SBI & its Associates	50,56,494	1,61,84,449	220.07
Nationalised Banks	93,08,912	4,12,72,523	343.36
New Private Sector Banks	19,76,937	1,02,19,391	416.93
Old Private Sector Banks	11,69,360	37,38,964	219.74
Foreign Banks	8,63,888	28,79,995	233.38

Data Source: RBI Publications

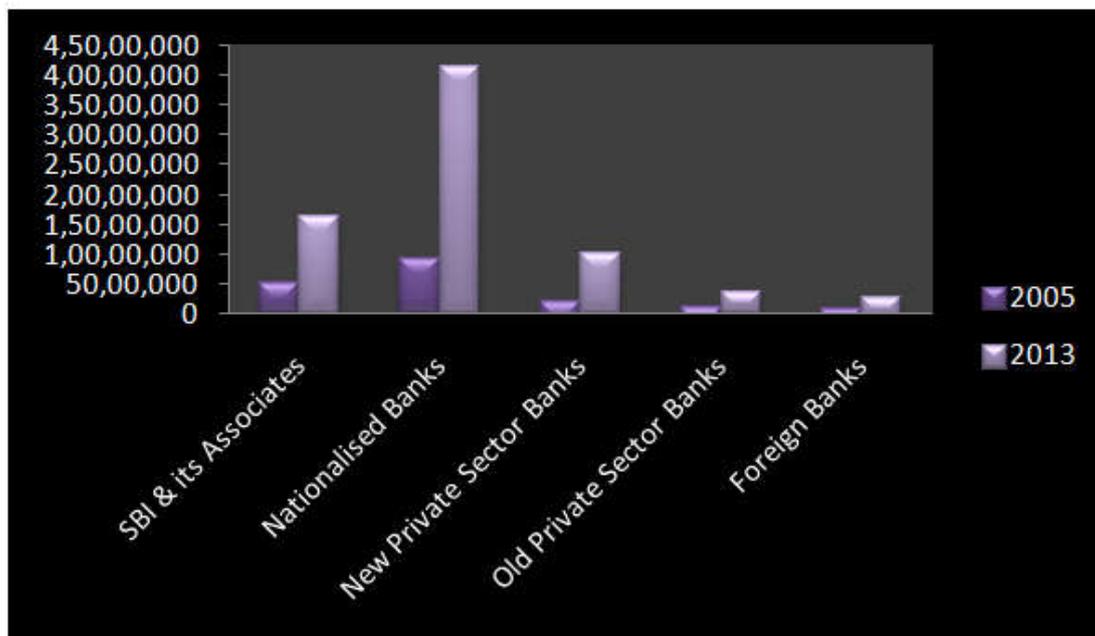


Chart 1. Showing Amount of Deposits of the Scheduled Commercial Banks

Table 4. Showing Amount of Interest Expended of the Scheduled Commercial Banks (Rs in million)

	2005	2013	Increase in %
SBI & its Associates	2,48,421	10,65,334	328.84
Nationalised Banks	4,39,222	28,13,956	540.67
New Private Sector Banks	1,06,004	7,92,734	647.83
Old Private Sector Banks	56,728	2,78,599	391.11
Foreign Banks	40,413	1,87,405	363.72

Data Source: RBI Publications

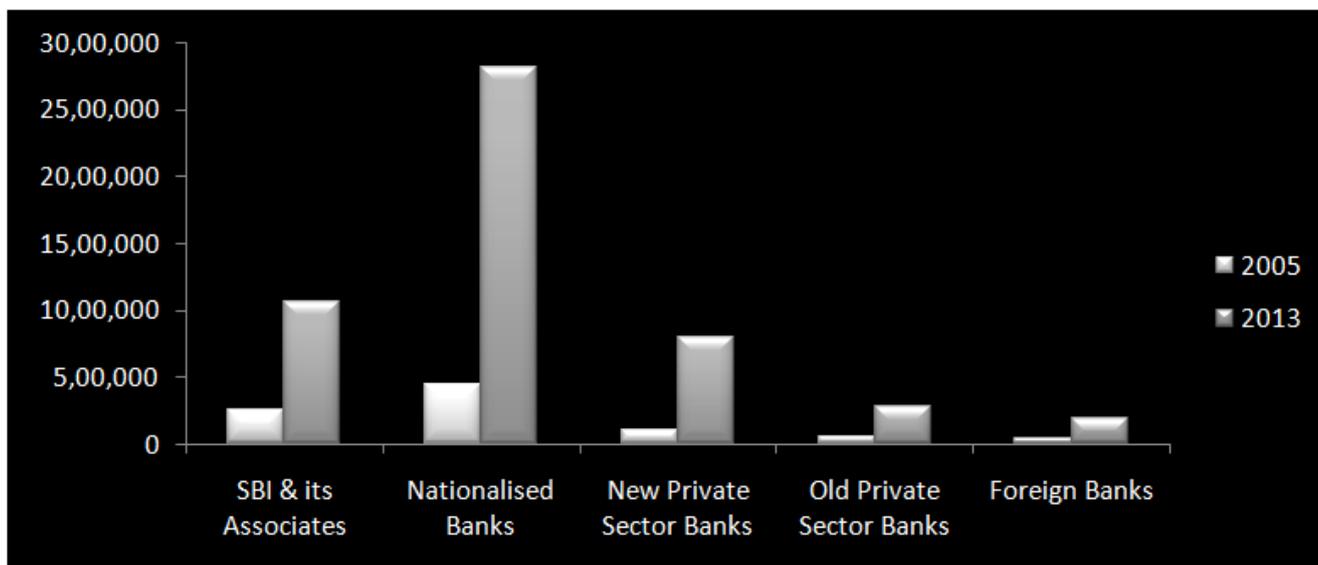


Chart 2. Showing Amount of Interest Expended of the Scheduled Commercial Banks

Table 5. Showing Amount of Investment of the Scheduled Commercial Banks (Rs in million)

	2005	2013	Increase in %
SBI & its Associates	26,07,042	47,29,980	81.43
Nationalised Banks	42,55,086	1,28,61,079	202.52
New Private Sector Banks	9,58,924	49,16,070	412.67
Old Private Sector Banks	4,47,743	13,44,994	200.40
Foreign Banks	4,28,578	22,80,630	432.14

Data Source: RBI Publications

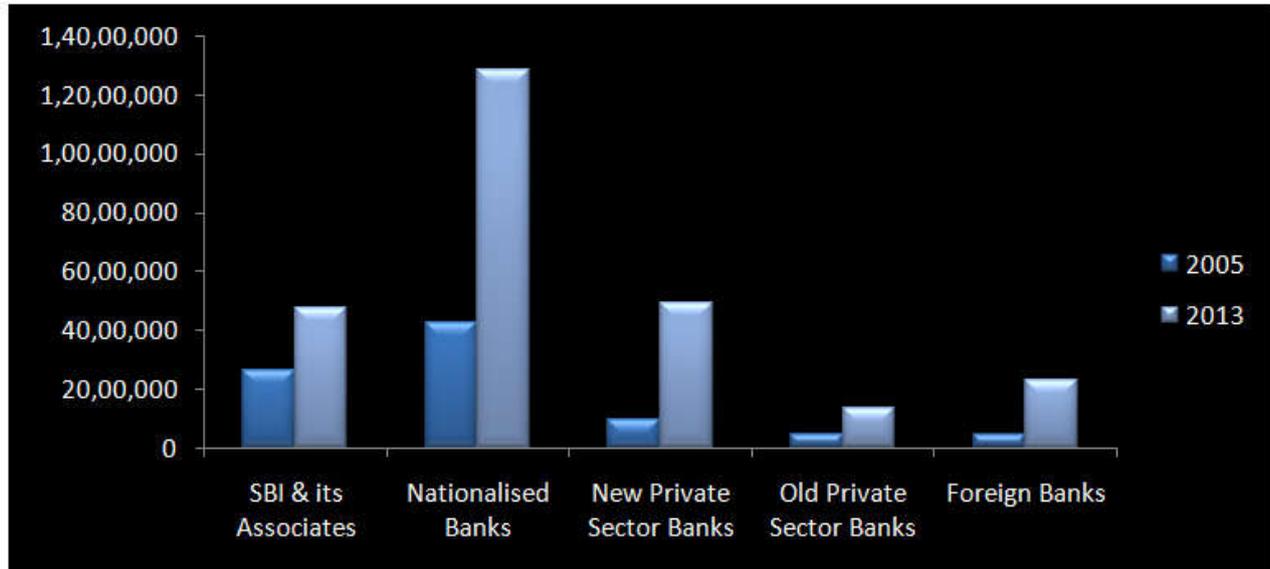


Chart 3. Showing Amount of Investments of the Scheduled Commercial Banks

Table 6. Showing Amount of Advances of the Scheduled Commercial Banks (Rs in million)

	2005	2013	Increase in %
SBI & its Associates	28,47,541	1,37,92,241	384.36
Nationalised Banks	56,94,608	3,09,35,500	443.24
New Private Sector Banks	15,31,194	87,33,113	470.35
Old Private Sector Banks	6,81,839	26,99,373	295.90
Foreign Banks	7,53,183	24,55,539	226.02

Data Source: RBI Publications

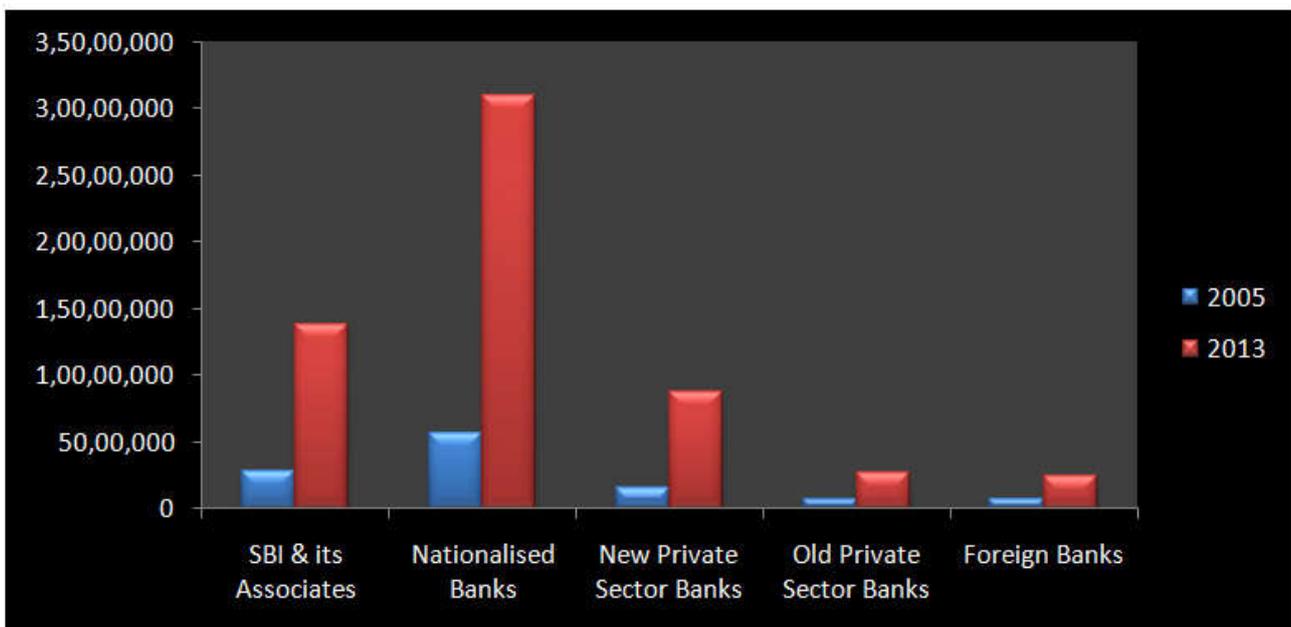
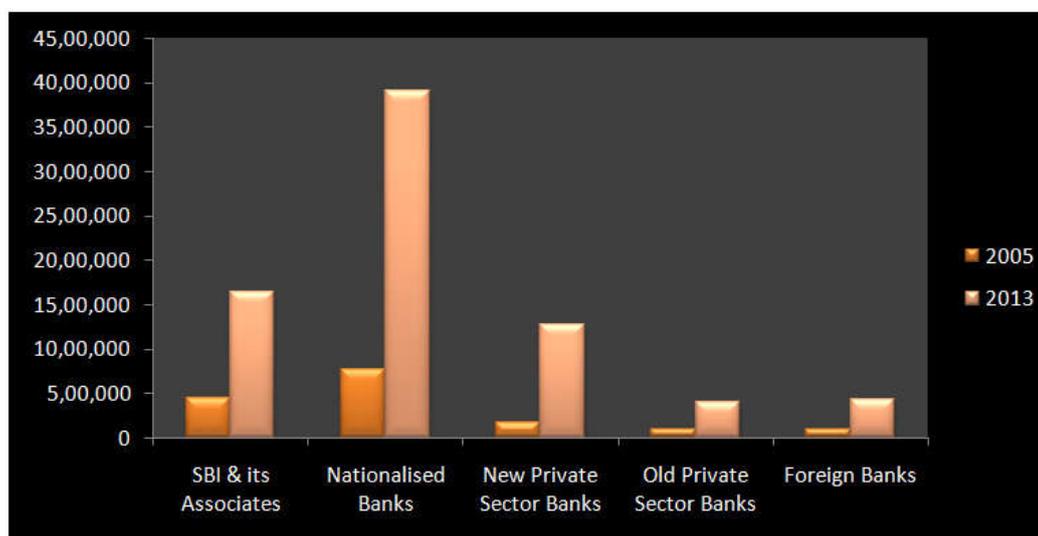


Chart 4. Amount of Advances of the Scheduled Commercial Banks

Table 7. Showing Amount of Interest Expended of the Scheduled Commercial Banks (Rs in million)

	2005	2013	Increase in %
SBI & its Associates	4,40,514	16,37,677	271.77
Nationalised Banks	7,63,137	39,11,088	412.50
New Private Sector Banks	1,69,902	12,65,589	644.89
Old Private Sector Banks	92,753	3,99,276	330.47
Foreign Banks	91,706	4,22,488	360.70

Data Source: RBI Publications

**Chart 5. Amount of Interest Expended of the Scheduled Commercial Banks**

- To analyse the growth in amount of deposits and advances of foreign sector, public sector, old private sector, new private sector and SBI & its associates.
- To analyse how much interest earned and interest expended the banks have made in the year 2005 to 2013.

Scope of the study

The paper is restricted to analyse Indian Banks whether it is foreign sector, public sector, old private sector, new private sector and SBI & its associates but they are located in India.

Methodology of the study

This paper is divided into two parts. The first part includes the general scenario of Indian Banking Sector starting from 19th Century. This tell us about Indian banking history with its ups and downs. The second part includes analysing the figures of the data. The data was essential because it enables us to know what change has taken place from the year 2005 to the year 2013. The analysis is conducted using percentages. The data is represented in pictorial form using bar diagram.

Tools of data collection

This paper has been conducted by taking only secondary data on all the Indian Banks mainly from RBI publications and RBI websites.

Reference period

This paper has been conducted taking the data for 2005 & 2013.

Limitations of the study

- The secondary data was available only. Any error that happened cannot be controlled.
- The study has been taken for only two years which is 2005 & 2013.

Data analysis and interpretation

The banking industry is made up of 28 public sector banks in which the government has majority ownership, 23 private banks and 27 foreign banks. Initially, private sector banks and foreign banks were not allowed to do much trading in the banking field. After liberalisation only private sector banks and foreign banks were to participate in banking activity. Public sector banks are those banks in which the ownership belongs to the government. The nationalized banks and SBI & its Associates are public sector banks. Private sector banks are those banks in which the government has no right in the ownership and the equity is held by private shareholders. These are divided into Old Private Sector Banks and New Private Sector Banks. The Old Private Sector Banks are those which were not nationalised due to their small size and their regional focus. The New Private Sector Banks are those banks which came into operation after 1991, for which economic reforms and financial sector reforms were introduced. The Foreign banks is that which is obligated to follow the regulations of both the home & host countries.

Analysis

From the above table 2 it can be observed that SBI & its Associates had 13,492 offices in the year 2005 which increased to 21,096 in the year 2013, Nationalised Banks had 34,988

offices in the year 2005 which jumped up to 54,088 offices in the year 2013, New Private Sector Banks had 1,622 offices in the year which rose upto 9,676 offices in the year 2012, Old Private Sector Banks had 3,953 offices in the year 2005 which increased to 6,233 in the year 2013 and foreign banks had 243 offices which has arisen to 334 in the year 2013.

Analysis

From the above table 3 it can clearly be seen that SBI & Associates show a growth in deposits has been 220.07% in 2013 as compared to 2005, Nationalised Banks show a growth in deposits has been 343.36% in 2013 as compared to 2005, New Private Sector Banks show a growth in deposits has been 416.93% in 2013 in comparison to 2005, Old Private Sector Banks show a growth in deposits has been 219.74% in 2013 in comparison to 2005 and Foreign Banks show a growth in deposits has been 233.38% in 2013 as compared to 2005.

Interpretation

From the above chart 1 it is observed that amount of deposits is the highest in the years 2005 and 2013 for Nationalised Banks.

Analysis

From the above table 4 it can be seen that 328.84% of interest expended of SBI & its Associates in the year 2013 as compared to 2005, while it is 540.67% of Nationalised Banks in the year 2013 as compared to 2005, whereas it is 647.83% of New Private Sector Banks in the year 2013 as compared to 2005, while it is 391.11% of Old Private Sector Banks in the year 2013 as compared to 2005 and it is 363.72% of Foreign Banks in the year 2013 as compared to 2005.

Interpretation

From the chart 2 it can be observed that the amount of interest expended on deposits in the years 2005 & 2013 has been highest for Nationalised Banks. This maybe due to the fact that people have deposited their funds in these banks. Moreover, people have confidence in these banks because they are owned by the government.

Analysis

From the table 5 it is observed that SBI & its Associates show a growth in investments of 81.43% in the year 2013 compared to the year 2005, while Nationalised Banks show a growth in investments of 202.52% in the year 2013 compared to the year 2005, whereas New Private Sector Banks show a growth in investments of 412.67% in the year 2013 compared to the year 2005, while Old Private Sector Banks show a growth in investments of 200.40% in the year 2013 compared to the year 2005 and Foreign Banks show a growth in investments of 432.14% in the year 2013 compared to the year 2005.

Interpretation

From the chart 3 it can be observed that the amount of investments is the highest in case of Nationalised Banks for the years 2005 & 2013. These banks would definitely invest the banks' funds & earn an income.

Analysis

From the table 4 it can be seen that 384.36% growth in advances has taken place for SBI & its Associates in the year 2013 compared to 2005, 443.24% growth in advances has taken place for Nationalised Banks in the year 2013 compared to 2005, 470.35% growth in advances has taken place for New Private Sector Banks in the year 2013 compared to 2005, 295.90% growth in advances has taken place for Old Private Sector Banks in the year 2013 compared to 2005 and 226.02% growth in advances has taken place for Foreign Banks in the year 2013 compared to 2005.

Interpretation

From the above chart 4 it is clearly seen that the amount of advances granted is the highest in Nationalised Banks for the years 2005 & 2013. Many customers have opted to take loan from Nationalised Banks.

Analysis

From the above table 7 it can be observed that the interest earned is 271.77% of SBI & Associates in the year 2013 as compared to 2005, while it is 412.50% of Nationalised Banks in the year 2013 as compared to 2005, whereas it is 644.89% of New Private Sector Banks in the year 2013 as compared to 2005, while it is 330.47% of Old Private Sector Banks in the year 2013 as compared to 2005 and it is 360.70% of Foreign Banks in the year 2013 as compared to 2005.

Interpretation

From the chart 5 it is seen that the interest earned in the years 2005 & 2013 is the highest for Nationalised Banks. This is because the highest amounts of advances were granted by these banks in the years.

Summary of findings

- It is clear that 94 banks have failed during the period 1913 – 1918.
- It can be observed that the Nationalised Banks had 34,988 offices in the year 2005 which jumped up to 54,088 offices in the year 2013.
- It can clearly be seen that the Nationalised Banks show a growth in deposits has been 343.36% in 2013 as compared to 2005.
- It can be seen that the interest expended is 540.67% of Nationalised Banks in the year 2013 as compared to 2005.
- It can be observed that the Nationalised Banks show a growth in investments of 202.52% in the year 2013 compared to the year 2005.
- It can be seen that 443.24% growth in advances has taken place for Nationalised Banks in the year 2013 compared to 2005.
- It can be observed that interest earned is 412.50% of Nationalised Banks in the year 2013 as compared to 2005.

Conclusion

Indian Banks have to operate in a global environment keeping in mind the technological factors, legal factors and socio –

economic factors. The banks should be able to analyse the customers who would be taking the loan, so that there is no problem in its repayment. The mobilisation of funds is very essential to provide advances, therefore, the banks will have to play major role. The amount of deposits, advances and investments has grown from the year 2005 to 2013. This growth has been huge due to the fact that the banks are entering new field. Technologically the banks have moved at a fast pace from the 19th century. The banks are doing great provided technology is available with the banks. Indian banks have grown very nicely over the years from 2005 to 2013 in terms of its offices, deposits, advances and investments. All these operations are part of banking business for which a lot of incomes earned and expenditure is incurred. For this to happen a lot of credit goes to the banks, the Government and technology in India.

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