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Original Article

# Transformation of Banking Sector in India and the Risks Faced by Banks

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## Abstract

Finance and banking are the backbone of trade, industry, and business. Today, the financial business fills in as the groundwork of contemporary business. Any country's capacity to foster lies vigorously in its financial area. A financial institution that offers loans, deposits, and other services is known as a bank. It lends money to people who need it and takes deposits from people who want to save money. Banking is one of the most fundamental aspects of life. In today's fast-paced lifestyle, people may not be able to make the necessary changes if the appropriate bank network is not established. Nationalized banks rule India's financial framework. The exhibition of the financial area is more firmly connected to the economy than maybe that of some other area. The development of the Indian economy is assessed to fundamentally have dialled back. India's banking sector performed poorly in FY12 due to the economic slowdown and global developments, resulting in moderate business growth. Banks have been forced to consolidate their operations, refocus, and work to improve their balance sheets as a result. The researcher's goal in this case, in this case, gate the banking sector and bank performance in India. Also, the risks faced by the banks and the way they can be mitigated are given below.

***Keywords: Evolution Of the Banking System, Finance and banking, Risks Faced by Banks, progression of credit and cash Support quick and viable reserve funds development, Expansion of Branches, Mobilization of Savings.***



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## Introduction:

### History of Banking in India:

During the Maurya dynasty, which lasted from 321 to 185 BC, ancient India used an instrument known as an adesha, which is equivalent to the modern meaning of a bill of exchange. It was a directive to a banker asking him to transfer the note's funds to a third party. During the Buddhist era, these tools were used a lot. Letters of credit were shared by businesspeople in big cities. Trade guilds were like banks in that they took deposits and gave loans out. The bigger

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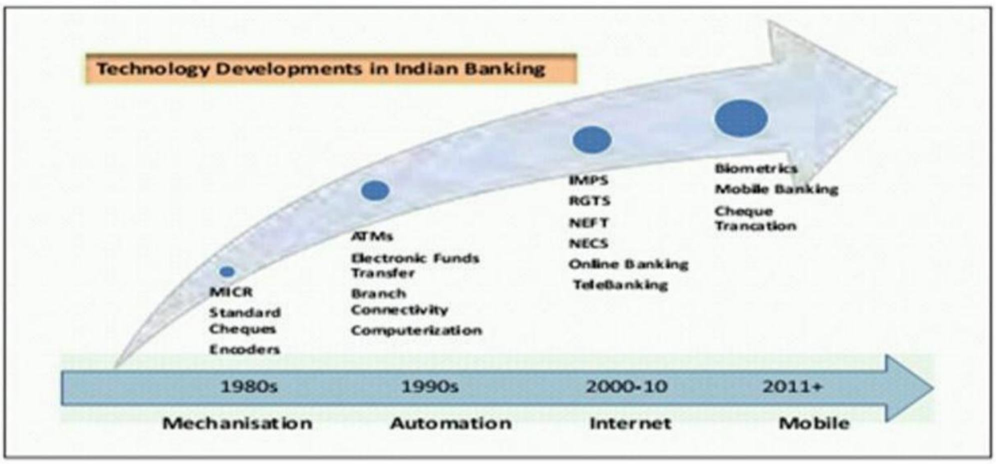
sanctuaries worked as banks, while in the south, town networks gave advances to labourers to financial turn of events. Like the Sethi, whose name in a real sense means "boss," there were various prepared brokers and moneylenders. The Advancement of Banking in India 70 contains data on the world's historical underpinnings. The Sanskrit word "rpya," which also means "formed," comes from the word "Rupa," which means silver. stamped; imprinted; currency." In 1542, Sher Shah played an important role in the standardization of the rupee. The English traders who arrived in India in the 17th century were unable to effectively utilize the native bankers because of their lack of language skills and lack of experience with European trade. As a direct consequence of this, the English Agency Houses in Bombay and Calcutta began to manage banking transactions in addition to their commercial operations. India saw the beginning of banking in the latter half of the 18th century. The General Bank of India, established in 1786, and the Bank of Hindustan, established in 1790, were the initial two banks; Both have ceased operations. The oldest bank still in operation in India is the State Bank of India, which began as the Bank of Calcutta in June 1806 and almost immediately changed its name to the Bank of Bengal. The other two presidential banks, the Bank of Bombay and the Bank of Madras were established by characters from the British East India Company. One of the three presidential banks was located here. 9 The first Indian-owned bank was Allahabad Bank, which opened its doors in 1865. Evolution Of the Banking System in INDIA Banks have benefited in numerous ways by implementing more recent technologies. Ebanking has fundamentally decreased costs and helped with producing pay in various ways. As indicated by the latest information, the expense of a bank exchange while utilizing branch banking is supposed to be between Rs. 70 and Rs. 75, in contrast to Rs. 15 and Rs. 16, Rs., when using an ATM 2 or less while utilizing internet banking, and Rs. less than one when utilizing mobile banking. Additionally, the number of customers has increased due to the ease of "Anywhere Banking." Human errors have diminished because of digitization.

Snapshot of Technology Developments in the Indian Banking Sector:



**Material and Methods:**

As per Bhatt, V. (April 2020). A Study of The Evolution of the Indian Banking Industry and Its Challenges, the performance of the banking industry is closely linked to the economy's health, perhaps more so than any other industry. The Indian economy's growth is expected to significantly slow down, according to estimates. The banking sector's performance in India in FY12 was impacted by the global financial crisis and other changes, which led to a slight increase in business. Banks have been forced to reorganize, set new goals, and try to improve their balance sheets as a result. In this case, the researcher wants to investigate the expansion of Indian

**Study Area and Experimental Design:**

banks and the country's banking sector. By law, banks are required to pay back deposits and borrowings as soon as they are due. Since these sums have already been turned into assets, banks must always make sure that all of the assets are releasable—that is, that they are liquid and that they can be fully recovered to cover liabilities when they are needed. Profit is the primary goal of lending money or investing money. A non-performing asset is one in which the expected or accrued income from an asset ceases, with the possibility of not recovering even the principal amount invested in the asset. Non-performing assets are those in which no income is earned on advances.


Fig. 2

**Data Collection and Calculation:**

As per G.S. POPLI, C. V. (JULY 2012). New Face of Indian Banking Industry - Emerging Challenges & Potential, Necessity or Importance of the Study People and moneylenders handled all financial transactions before the establishment of banks. Loan fees were generally high around then. Again, there was no guarantee for public savings, and loans were not uniform. The newly established organized banking sector, which was established to address these issues, was completely regulated by the government. The organized banking industry is a sector of the financial system that lends loans, receives deposits, and provides other services to its customers. The bank's need and importance are shown by the accompanying tasks:

- To provide security to consumers' savings.
- To deal with the progression of credit and cash Support quick and viable reserve funds development to help

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public confidence in the activity of the monetary framework.

- To stop a small number of individuals and organizations from holding all the financial power.
- To establish consistent standards and guidelines (such as repayment terms and interest rates) for a wide range of customers.

The method used to conduct the study must be carefully considered because it has a direct impact on the sufficiency, correctness, and dependability of the results. It stands to reason that the researcher's research methodology should be specific when conducting the study. It tends to be seen as a science that concentrates on how logical examination is led. As a result, the research methodology discusses the various research methods and the reasons behind each one within the context of the study. An exploration strategy is a cycle for purposefully inspecting and settling research issues. If a researcher wants to label a study as good, he or she must explicitly state the research's methodology. Before claiming that his study is good, a researcher must explicitly disclose the methodology used for the research in order more fore to determine whether the methodology was sound.

**Data Statistical Analysis:**

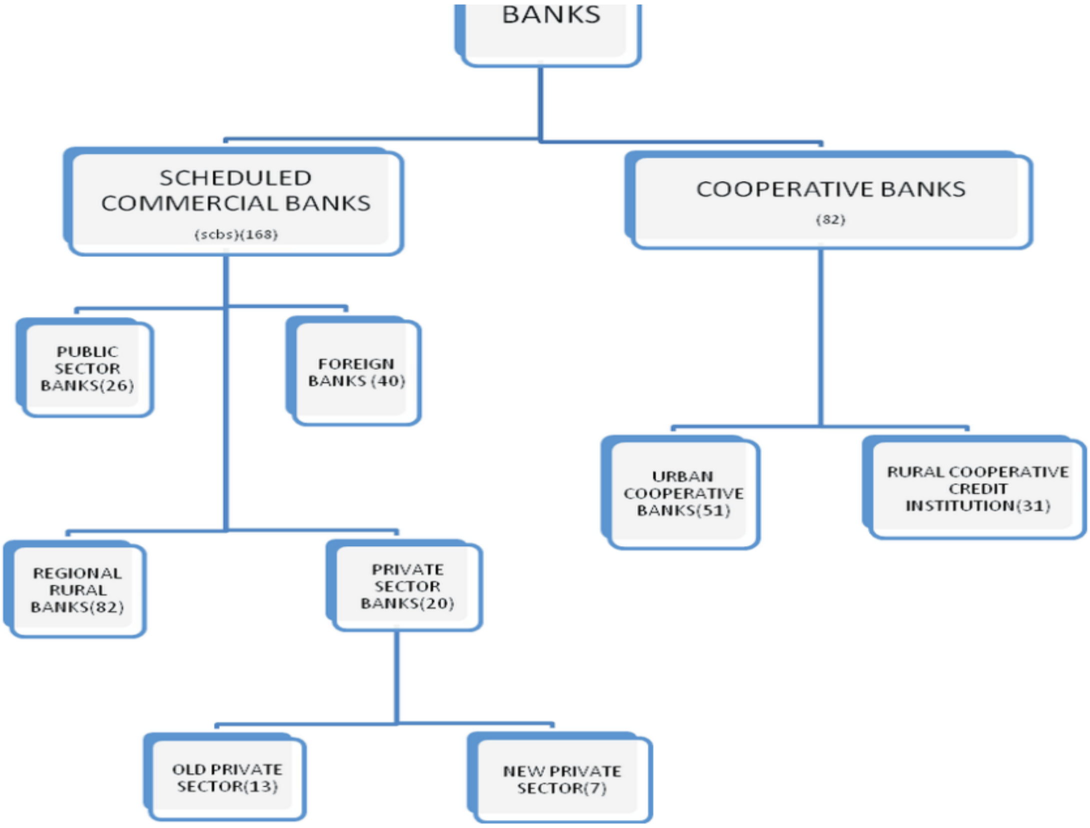
As per Adoption of Banking Technology in Banks of India. The paper examines the current state of the economy's scheduled commercial banks Research Design Used in the Study This study employs a descriptive research strategy to minimize bias and maximize data reliability. A spellbinding report depends on earlier information about the subject, yet an examination study has an extremely clear objective. The researcher had to use facts and information that was already available through financial statements from previous years and examine them to critically evaluate the available material. Descriptive research is therefore the method of choice for conducting research. The study was used to decide what kind of data should be gathered and how to do it. Secondary Data is mainly used to avail data.

**Objective of the Study:**

1. To study the Indian banking sector and the Evolution of the Indian banking industry
2. To study the evolution of Digitalization in the Indian Banking sector.
3. To know about the progress and scope of Digital Banking in India
4. To understand the evolution of the Indian banking industry through different phases in its simplest form, a bank accepts deposits from people and businesses with the assurance that the money can be withdrawn whenever the depositor desires (though sometimes with a penalty for early withdrawal). The bank may also pay interest on the depositor's money depending on the type of account.
5. The bank then extends loans to other people and companies using the money it has on deposit in exchange for interest payments from the borrowers. The distinction between the lower interest rate that banks pay depositors for the use of their funds

and the higher interest rate that they charge borrowers is where banks generate their profit.

6. To understand the risks faced by banks and how they mitigate those risks.




**Conclusion:**

India cannot have a robust economy. India's banking system ought to be ready to handle any new issues brought on by technology and other internal and external factors, in addition to being trouble-free. The phases of the Indian banking system are summarized here: India can't have serious areas of strength on the off chance that its monetary framework isn't solid and proficient. India's banking system ought to be ready to handle any new issues brought on by technology and other internal and external factors, in addition to being trouble-free. The Indian financial area has a long history and an extensive rundown of striking achievements. The most prominent element is its wide allure; It is no longer restricted to the cosmopolitan and metropolitan areas of India. The Indian financial framework has spread over the whole country. This is one of the main reasons why India is growing. The government's consistent approach to Indian banks since 1969 has paid off in spades, with the nationalization of 14 significant private Indian banks. An account holder used to have to wait for hours at the bank counters for a draught or a withdrawal of their own money. They are as referenced underneath: i. Indian banks' early years, from 1786 to 1969. ii. Indian bank nationalization before the

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banking sector reforms in India in 1991. iii. With the introduction of Indian financial and banking sector reforms in 1991, the Indian banking system entered a new phase.

To provide a better illustration, the scenario is preceded by Phases I, II, and III. Phase I: The General Bank of India was established in 1786. Bengal Endlessly Bank of Hindustan was accompanying. The East India Company established Presidency Banks in 1806 under the names Bank of Bengal, Bank of Bombay, and Bank of Madras. In 1921, these three banks were combined, resulting in the establishment of the Imperial Bank of India. At first, these banks were possessed by confidential investors, principally Europeans. The main bank established simply by Indians was Allahabad Bank, which was established in 1865. Established in 1894, Punjab National Bank Ltd. has its main office in Lahore. Between 1885 and 1913, the Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were all established. The Reserve Bank of India: An Overview Stage I development was very drowsy, and from 1913 and 1948, banks at times fizzled. There were about 1100 banks, the majority of which were little. To standardize the operations and activities of commercial banks, the Government of India enacted the Banking Companies Act, of 1949, which was later renamed the Banking Regulation Act, of 1949 because of an amended Act of 1965 (Act No. 23 of 1965). The Reserve Bank of India has broad authority to regulate Indian banking as the Central Banking Authority. The public's confidence in banks is lower on specific days. After that, the mobilization of deposits was uneven. The savings bank facility run by the postal service was much safer before it. Additionally, cash was intensely given to merchants. II. Phase: The Indian banking industry undergoes significant reforms following independence. Royal Bank of India was nationalized in 1955 with critical financial administrations, particularly in rustic and semi-metropolitan regions. To go through with financial exchanges for the Association and State Legislatures across the whole country, it laid out that the State Bank of India acts as the RBI's main specialist. Seven State Bank of India subsidiaries were nationalized on July 19, 1959. In 1969, a significant process of nationalization was carried out. Mrs. Indira Gandhi, who was India's prime minister at the time, worked hard to get 14 important commercial banks nationalized. The steps the Indian government has taken to regulate banking institutions are listed below. 13 i. 1949: The Banking Regulation Act was enacted. ii. 1955: Nationalization of State Bank of India. iii. 1959: SBI subsidiaries being nationalized. iv. 1961: Deposits were covered under insurance. v. 1969: 14 major banks will be nationalized. vi. 1971: Establishment of a credit guarantee company. India saw a sharp rise in deposits and advances of 11,000 percent and an increase in public sector bank branches of approximately 800 percent following the nationalization. Individuals had implied confidence and huge trust in the reasonability of these associations since banking was led under the unmistakable control of the public authority. Phase III: As a feature of its change gauges, this stage extended the number of items and administrations presented by the financial business. Under his presidency, a committee known as M Narasimha was established in 1991 to work on the liberalization of banking procedures. The nation is overrun with ATMs operated by foreign banks. An effort is being made to provide customers with a satisfying experience. the introduction of online and telephone banking. The entire procedure was made easier to use and faster. Time is esteemed more exceptionally than cash. The financial system in India has demonstrated remarkable resilience. It is safeguarded from any emergencies welcomed by an outer macroeconomic shock, dissimilar to other East Asian countries that encountered this. There is still a variable exchange rate regime, the capital account is not entirely convertible, and banks and their customers only have limited exposure to foreign currencies. 14 3.3 Causes for India's Nationalization of Banks Let's examine the factors that led to the government's decision to nationalize banks to better understand how it would affect the banking sector and the populace:

- **Revive Priority Sectors:** Between 1947 and 1955, 361 banks failed, which equates to around 40 banks failing every year. Banks were failing rapidly. Clients' deposits were gone, and there was no way of getting them back. Banks favoured big corporations and industries while ignoring the rural sector, which included the agricultural sector. The promise to support the agriculture sector came along with nationalization.
- **Expansion of Branches:** The nationalization process made it easier for new branches to open, ensuring that banks are fully represented across the entire nation.
- **Mobilization of Savings:** By granting more people access to banks and encouraging them to save, nationalizing the banks would increase the amount of money flowing into a cash-strapped economy.
- **Political and Economic Aspects:** The two conflicts in 1962 and 1965 had a significant negative impact on the economy. Increased deposits from nationalizing Indian banks would stimulate the economy. 15 3.4 Types of Banks in INDIA As we wind down our discussion on the evolution of the Indian banking system, we should touch upon the types of banks that exist in India today.

Here are the major categories of banks that you are likely to come across:

- **Banking in the Public Sector:** A public sector bank's main ownership is held by the government. The State Bank of India is a good example, with the Government of India owning 58.6% of its shares. We might also consider Punjab National Bank, in which the government owns a 58.87% interest. State banks and the organizations they are affiliated with are further separated into public sector banks and nationalized banks. With nationalized banks, the government has total authority and controls all aspects of the institution.

Yet, selling stock in these institutions is another option available to the government. The stakes for the government are lowered when this occurs. Occasionally, the government gains control of one or more of these banks, at which point the bank is listed on the Indian stock

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