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EVOLUTION OF BANKING IN INDIA: A THEORETICAL FRAMEWORK

KEY WORDS:

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INTRODUCTION

The year 1991 unleashed the potential of the Indian economy through major policy changes popularly known as, Liberalization, Privatization and Globalization (LPG model). A series of reforms were undertaken to make India globally competitive and efficient, targeting the industrial, trade and financial sectors, shaking off the isolation, inward looking restrictive governance and a hitherto conservative attitude that had been embraced since independence in 1947. The financial sector reforms set in motion in 1991 and 1998 (Narsimhan Committee I – 1991; Narsimhan Committee II - 1998) had far reaching results for the Indian banking sector, which moved gradually from a strictly regulated environment to a deregulated, dynamic market economy. While the market reforms brought in powerful, demanding and discerning customers on one hand, they also introduced a new mix of competing players comprising public sector banks, private banks and foreign banks. These changes were further fuelled by technological developments acting as catalytic forces for introducing new products, adopting innovative delivery mechanisms and in general re-writing the rules of working. The Indian banking system proved resilient and a quick learner, adapting to the new environment and coping with challenges ranging from WTO and Basel II to FTA and sub-prime crises. Of special import were the organisational challenges, requiring banks to re-orient their resources to capitalize on the opportunities being presented before them. Tapping these meant re-organising branch networks, reducing establishment cost, attracting and retaining talented staff pool as well as honing their skills to perfection. The Indian banking sector, thus, poised at an exciting point in it's evolution shall crown those players as winners who can gauge customer expectations, achieve high level of customer retention, leverage technology and manpower, thereby delivering value to all stakeholders.

Evolution of Banking in India

Banks and allied activities are not new in India. There is ample evidence in ancient Indian texts of banks, bankers and investment activities. Vedas, Manusmriti and Kautalya's Arthashastra are suggested as maximum and minimum interest rate. Manu, the ancient Indian law-giver, discusses ways of earning wealth (Prasad, 1977) while the Aitreya Brahman and Taitreya Samhita mention bank as an institution dealing with money which like a magnet draws surplus money from the people who are not using it at the time and that deposited money is lent to those who are in a position to use it for productive purposes (Prasad, 1977, pg.177). The circular flow of money was supposed to increase the capital of a banker, who was called Sethi (Prasad, 1977). The system survives even today in the villages in the form of Sahukaars lending money with very little documentation and charging exorbitant rates of interests compounded on even shorter Intervals. In modern India, the earliest banks were established in the last decades of the 18th century. Looking closely, the journey of Indian banking can be divided into four distinct phases from 1770 to till date. These are:

- Phase I: Early Historical and Formative Era (1770 to 1905)
- Phase II: Pre-independence Era (1906 to 1946)
- Phase III: Post-independence Regulated Era (1947 to 1991)
- Phase IV: Post-independence Deregulated Era (1991 onwards)

Phase I: Early Historical and Formative Era (1770 to 1905)

The two prominent banks from this phase are the General Bank of India in 1786 and the Bank of Hindustan in 1770. Established in the last decades of 18th century, both these banks are defunct now (Rajpal, 2011). However, the first phase saw a large number of banks fail mainly due to deficiency of capital, speculative tendencies, war and uncertainty in Europe and policy of laissez faire destroying public confidence in banking system for quite some time to come.

Phase II: Pre-independence Era (1906 to 1946)

Banking on modern lines started with the establishment of the three presidency banks are Bank of Calcutta, Bank of Bombay and Bank of Madras. Bank of Calcutta, which today survives as the State Bank of India, was set up in Calcutta on 2 June 1806. It was later re-christened as the Bank of Bengal in 1809 upon receiving its charter. Bank of Bengal was followed by the setting up of the Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843). The Presidency Bank's Act of 1876 first brought the three banks under a common statute and later on 27th January 1921 effected the merger of the Banks of Bombay and Madras with the Bank of Bengal to form the Imperial Bank of India. The new bank took on the triple role of a commercial bank, a banker's bank and a banker to the government. The quasi-central banking role of the Imperial Bank of India came to an end in 1935 with the establishment of the Reserve Bank of India as the Central Bank of the country. Instead, it now started functioning as the agent for transacting government business on behalf of the Reserve Bank at centres where the latter was not yet established. This period also saw the establishment of some of the leading public sector banks of today, viz., Allahabad Bank (1865), PunjabNational Bank (1894), Canara Bank (1906), Indian Bank (1907), Bank of Baroda (1908), Central Bank of India (1911) and Union Bank of India (1922).

Phase III: Post-independence Regulated Era (1947 to 1991)

Independence ushered major reforms in the banking sector, with the first significant step being nationalization of the Reserve Bank in 1949 and of the Imperial Bank in 1955. Post-independence, the launching of the First Five Year Plan in 1951 saw another change for the Imperial Bank of India. There was a lot of emphasis on developing rural areas and the existing commercial banks were found ill-equipped to deal with the rural regeneration exercise. Keeping this in mind the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state sponsored bank by taking over the Imperial Bank of India. Thus, the State Bank of India was constituted on 1st July 1955 by passing an act in the Parliament in May 1955. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959 which enabled the State Bank of India to take over eight former State-associated

banks as its subsidiaries. Today these constitute the State Bank Group viz. the State Bank of India and its five associate banks are State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore. State Bank of Sourashtra and the State Bank of Indore later merged with the State Bank of India (www.statebankofindia.com). In 1969 witnessed the nationalization of 14 major banks (Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Bank, Indian Overseas Bank, Bank of Baroda, Union Bank, Allahabad Bank, United Bank of India, UCO Bank and Bank of India) and the 1980 nationalization of 7 more banks brought 80% of the banking segment in India under Government ownership (www.banknetindia.com). Banking initiatives of the Government of India were aimed at providing banking coverage to all sections of the society and every sector of the economy. This phase was particularly important in restoring the faith and confidence of the people in the banking system.

Phase IV: Post-independence Deregulated Era (1991 onwards)

The current phase in the banking history began with the opening up of the Indian economy in 1991. This phase of technology savvy, new generation banks was marked by two important events - Narasimhan Committee and Economic Liberalisation. The Committee on Banking Sector Reforms headed by Mr. M. Narasimhan worked out financial sector reforms required to strengthen the Indian financial system and to make it internationally competitive. The economic reforms of 1991 were a direct consequence of the Balance of Payments crises of 1991 that had pushed the country to the brink of bankruptcy. Controls were gradually dismantled, tariffs and duties lowered, private sector encouraged, state monopolies broken and globalisation was slowly embraced. The unshackling of the Indian banking sector witnessed new generation private banks viz., Oriental Bank of Commerce, ICICI Bank, HDFC Bank and Axis Bank (earlier UTI Bank) setting base. In the next stage Foreign Direct Investment to the tune of 10% was introduced, which at present has reached up to 74% in certain cases with some restrictions. The reforms affected in this phase resulted in revitalizing the sector and brought about rapid growth and strong contribution from all the three segments namely government banks, private banks and foreign banks.

Definition of Bank

The Oxford dictionary defines bank as, "An establishment for the custody of money, which it pays out, on a customer's order."

According to Whitehead, "A bank as an institution which collects surplus funds from the public, safeguards them and makes them available to the true owner when required and also lends sums of their true owners to those who are in need of funds and can provide security." (Singla, 2006)

Banking Companies Act 1949, defines 'banking' as "accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise" and a 'banking company' as "One which transacts the business which means accepting, for the purpose of lending or investment of the deposits of money from the public, repayable on demand, or otherwise and withdraw able be cheque, draft, order or otherwise."

Banking Structure in India

Commercial Banks in India can be classified into Scheduled and Un-scheduled banks. Scheduled Banks are those which is included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934 and satisfy the criteria laid down vide section 42(6) (a) of the Act. The Scheduled Commercial Banks are further classified as State Bank of India and its associates, Nationalized Banks, Private Sector Banks, Foreign Banks, Co-operative Banks and Regional Rural Banks. "Scheduled banks in India" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank".

"Non-scheduled bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank".

The Reserve Bank of India classifies the banks as Public Sector Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks for all purposes of performance assessment (www.rbi.org.in) (Figure 2.1).

Furthermore, based on the banks' balance sheet size (total assets), Dun and Bradstreet has classified that banks as large sized banks, medium sized banks and small sized banks using the 80:15:5 principle. Adopting the same logic, Business World stratified banks for the business world survey as Large-size banks (with balance sheet size more than Rs 1,00,000 crore), Medium-size banks (with balance sheet size between Rs 30,000 and Rs 1,00,000 crore) and Small-size banks (with balance sheet size less than ` 30,000crore).

The Large Size Banks included State Bank of India, HDFC Bank, Axis Bank, Bank of India, Punjab National Bank, Bank of Baroda, ICICI Bank, Union Bank of India, Citibank, Canara Bank, IDBI Bank, Indian Overseas Bank, Syndicate Bank, Oriental Bank of Commerce, Central Bank of India and UCO Bank.

The Medium Size Banks include Corporation Bank, Indian Bank, Hongkong and Shanghai Banking Corpn., Federal Bank, Allahabad Bank, Andhra Bank, State Bank of Travancore, Standard Chartered Bank, Punjab and Sind Bank, Jammu and Kashmir Bank, State Bank of Hyderabad, State Bank of Bikaner and Jaipur, State Bank of Indore, State Bank of Mysore, State Bank of Patiala, Bank of Maharashtra, Vijaya Bank, United Bank of India, Dena Bank, ING Vysya Bank and ABN Amro Bank.

While Small Size Banks with a balance Sheet size of less than Rs 30,000 crore included Deutsche Bank, Kotak Mahindra Bank, Yes Bank, Karur Vysya Bank, Barclays Bank, Bank of America, South Indian Bank, Development Bank of Singapore, Bank of Nova Scotia, City Union Bank, BNP Paribas, Karnataka Bank, Calyon Bank, Dhanalakshmi Bank, IndusInd Bank, Bank of Rajasthan, Development Credit Bank, Lakshmi Vilas Bank and Catholic Syrian Bank (Business World, 2009).

Summary

In this research paper, the researcher has presented the Evolution of Banking in India: A Theoretical Framework of the study. It highlights the Evolution of Banking in India, Definition of Bank, and Banking Structure in India. Hence, there is a pressing need to examine the Work Life Balance among married women employees of private and public sector banks in Mumbai city and verify whether there is a difference in their perception of their Work Life Balance and quality of Work Life experienced by them.