International Journal of Multidisciplinary Research in Science, Engineering, Technology & Management (IJMRSETM)

| ISSN: 2395-7639 | www.ijmrsetm.com | Impact Factor: 7.580| A Monthly Double-Blind Peer Reviewed Journal |

| Volume 4, Issue 4, April 2017 |

Present Model of Development in India

DR.SUNIL KUMAR

Associate Professor in ABST, Baba Bhagwan Das Govt. College, Chimanpura, Shahpura, Jaipur, Rajasthan, India

ABSTRACT: The global economy is fragile due to various factors, including supply chain disruptions, inflation, tightening monetary policies, China vs USA wrestle over Taiwan and Russian invasion of Ukraine. Geopolitical risks, deglobalization, and changes in payment systems are leading to a new economic order. both US and European banks withstood rigorous stress-tests at the highest level. For example, US banking system "have sufficient capital to absorb more than $600 billion in losses," which exceeds loan losses attributed to 2008-2009 financial crisis.

In short — the economy is in the recession, the future is unstable, but US and European banking systems have accumulated enough "fat" to last through a lean season.

Resilience. Margin of safety. That's why digital banking service market is so competitive now. And if you plan to enter it, let alone, disrupt it, you need to do it right — hit the trend, offer what's necessary and build an efficient software development process to roll out the product faster than the competition.

For easier navigation through this article on banking applications and software, use this outline:

1. Banking industry trends
2. The timeline of fintech explosion
3. Types of modern banking software
4. Key technologies in banking software development
5. Banking software features
6. The importance of UI/UX in banking app and web development
7. Finance software development lifecycle
8. Final thoughts

KEYWORDS- development, banking, software, global, economy, India

I.INTRODUCTION

The banking system is considered almost as old as civilization and has existed in varied forms, and the banking system in India is no exception to that. Before we deep dive into the evolution of banking in India, let's take a look at the banking scene in the world. Here's a short video that captures the evolutionary process of banking, with a few pre-historic and mythological elements thrown in as a homage to our curious and imaginative ancestors. The banking system of a country upholds its economic development. Considering the economic condition of people, the need for financial services and the advancements in technology that followed, the banking sector in India has gone through major transformations over the past five centuries. There you must understand the different types of banking systems in India.

Let's take a look at the banking evolution in India from the time the first bank was established in India to the current mobile banking era–what happened in between. The history of banking in India can be broadly classified as:

1. Pre-independence Phase (1770-1947)
2. Post-independence Phase (1947-till date): To understand this phase better, we'll break it down further into:
    a. Pre-nationalisation Phase (1947-1969)
    b. Post-nationalisation Phase (1969-1991)
    c. Liberalisation Phase (1991-till date)

Let's deep dive into each one of these eras.[1,2,3]

The Pre-Independence Phase (1770-1947)

The organized banking sector in India dates back to more than a century before independence when the Bank of Hindustan–the first bank of India was established in 1770 in the then-Indian capital, Calcutta. It failed in due course and was liquidated in 1832. Subsequently, several banks like the General Bank of India (1786-1791) and the Oudh Commercial Bank (1881-1958) established during the pre-independence era didn't last very long either.

The Bank of Bengal, Bank of Bombay, and Bank of Madras, established by the East India Company during the early to mid-1800s–together known as the Presidential Banks were later merged in 1921 to form the Imperial Bank of India. It was later nationalised in 1955 and named the State Bank of India (SBI). In 1959, the SBI was given charge of 7 subsidiary banks, making it India's largest Public Sector Bank (PSB).

The Post-Independence Phase (1947-1991)

It is one of the most important phases of the history of banking in India. Post-independence, the evolution of the Indian banking system continued when the Government of India (GOI) adopted the approach of a mixed economy in 1948 with extensive intervention in markets to strengthen the economy. The Reserve Bank of India (est. 1935) was nationalised in 1949, and it was empowered to regulate, control, and inspect all banks in India.

Nationalisation In 1969

In the 1960s, the RBI had become a large employer, and the Indian banking industry had begun playing an important role in supporting economic development. Yet, except for SBI, most banks continued to be run by private entities.

The Government of India issued the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance in 1969 and nationalized the 14 largest commercial banks in India at that time.

II.DISCUSSION

Reasons For Nationalisation Of Banks In India

The nationalisation of Indian banks was a major development in the course of the evolving Indian banking industry. It also impacted the functioning of various types of banks. To understand the impact it caused and played a major role in shaping the industry, let's deep-dive into the scenarios that led to it. There was a dire need to:

- Promote the economic development of the country
- Develop confidence in the banking system of India
- Prevent the concentration of economic power in the hands of a select few
- Improve the efficiency of the banking industry
- Create a socio-economic balance
- Mobilize the national savings and channel them into productive purposes
- Sectors such as exports, agriculture, and small-scale industries were lagging behind
- Serve the large masses of the rural population.

Positive Impacts Of Nationalisation

The nationalisation of the Indian banks was a major milestone in the evolution of banking in India that played a major role in guiding its future course. The nationalisation of banks in India became a milestone step in the direction of financial prosperity, especially in rural India, when there were no major banks. The nationalised banks in India helped to improve the efficiency of the banking system.

It also boosted the confidence of people in banks. The lagging sectors like small industries and agriculture got a substantial boost. The nationalised banks also raised the funds thus helping the Indian economy grow by leaps and bounds. After the nationalisation, different types of banks in India were established.

Currently, there are 12 nationalised banks in India. Here're a few benefits that made a difference:

Better outreach:

The penetration of banks increased when branches were opened in the remotest corners of the country.

Increased savings:

With the opening of new branches, since more people had access to banks, the average domestic savings increased twofold

Surged public deposits:

The increased reach of banks helped small industries, agriculture, and the export sector grow, leading to a proportionate increase in public deposits.

Increased efficiency:

The added accountability led to improved efficiency and increased public confidence

Empowered small scale industries (SSIs):

The SSIs received a boost resulting in considerable growth in the economy.

Provided employment opportunities: [4,5,6]

RBI, post its nationalisation, had already set a precedence of becoming one of the largest employers. This continued further, with more banks following the lead.

Improved agricultural sector:

Marginal farmers could receive credit from banks at economic rates, which gave a massive boost to India's agricultural sector

Liberalisation In 1991

In 1991, the GOI adopted economic liberalisation that brought about a massive change in its economic policies to enhance the participation of private and international investments.

Positive Impacts Of Liberalisation

Here's how liberalisation revolutionised the Indian banking picture:

- Revitalized the banking sector and led to the rapid and strong growth of government banks, foreign banks, and private banks in India
- A modern and tech-based approach started setting into traditional banks
- Paved path for Payments banks
- Small finance banks came into existence
- The digitalisation of bank transactions and operations became a norm

- Foreign banks such as Bank of America, Citibank, HSBC, etc., set up branches in India. Currently, there are 46 international banks in the country.
- Nationalisation of banks took a pause. Instead, the Indian banking sector witnessed several mergers in the public sector banks

III.RESULTS

Commercial Banks

Commercial banks in India function solely to generate profits by accepting deposits and giving out loans. Commercial banks are regulated by the Banking Regulation Act of 1949. Their primary function involves collecting deposits and offering loans to various entities like people, corporations, and governments. Commercial banks can be owned by the government or by private entities and are grouped into 4 categories:

- Public sector banks:

  These are the banks in which the GOI owns the majority of the stock. Public sector banks in India function under the government to establish trust in the bank customers that their money is safe. The government issues financial guidelines for public sector banks in India. The public sector banks charge less for their services than private banks in India. These banks also introduce various financial schemes for public benefit.

  In terms of financial volume, SBI is one of the largest public banks in India. Its merger with 5 associate banks secured its place in the top 50 banks in the world. The nationalisation of state banks by the government further fueled the growth of public banks in India.

- Private sector banks:

  In these banks, a private entity, an individual, or a group of people own the majority of the stock. The RBI lays the guiding rules for the private sector banks, which are the same for all banks in India.

  These include banks in which private shareholders hold major stakes or equity. All the banking rules and regulations laid down by the RBI will be applicable to private sector banks as well. Given below is the list of private-sector banks in India.

- Regional rural banks:

  These are unique commercial banks that lend at a reduced rate for agricultural purposes in rural areas to boost the rural economy.

- Foreign banks:

  These are banks that are headquartered overseas with branches in India.

Co-Operative Banks[7,8,9]

Co-operative banks were set up to enhance social welfare by providing short-term low-interest loans to agriculture and related industries. Co-operative banks are financial entities established on a cooperative basis and belong to their members. This means that the customers of a cooperative bank are also its owners. These can be further categorised as:

- Rural co-operative banks:
  These mainly finance agriculture-based activities, including farming, dairy, and fish culture, along with small-scale industries and self-employment activities.

- Urban co-operative banks:
  These banks finance people for self-employment, industries, small-scale units, and home finance.

Specialized Banks

Between 1982-1990, the government established several specialised banking institutions with specific requirements for sectors like agriculture, foreign trade, housing, and small-scale industries. And the evolution of financial services in India began with noteworthy financial institutions like:

- NABARD (National Bank for Agriculture and Rural Development,1982) to support agricultural activities
- EXIM Bank (Export-Import Bank of India, 1982) to promote export and import
- National Housing Bank (1988) to finance housing projects
- SIDBI (Small Industries Development Bank of India, 1990) to fund small-scale industries

Now that you have understood commercial banks. Let's take a look at payment banks and the types of banking systems in India.[13,14,15]

Payments Banks

Payments banks are a newer genre of banks conceptualised by the RBI in 2014 to operate on a smaller scale with minimal credit risk. The main objective was to advance financial inclusion by offering banking and financial services to the unbanked and underbanked segments.

Payments banks come with certain limitations they can accept deposits of only up to ₹2 lakhs per customer and can't issue loans or credit cards. However, they can offer both current and savings accounts, issue ATM and debit cards, and offer net banking and mobile banking. The convenience of making online payments through mobile apps marked the evolution of e-banking in India.[16,17]

India currently has 6 Payments banks:

Payments Banks in India	
Airtel Payments Bank	Jio Payments Bank
Fino	NSDL Payments Bank
India Post Payments Bank	Paytm Payments Bank

Payments banks in India

Small Finance Banks

Small finance banks were granted approval by the RBI in 2016 to extend financial inclusion to people who are not served by regular banks. It's a niche category of banks that provides savings facilities and credit to small businesses, small and marginal farmers, and micro and small industries through modern technology at low-cost operations.[10,11,12]

IV.CONCLUSION

Digital Banking In India

Digital banking basically means the digitization of all banking activities that were traditionally available only by visiting a bank branch–opening an account, transferring funds, making payments, etc.

| ISSN: 2395-7639 | www.ijmrsetm.com | Impact Factor: 7.580| A Monthly Double-Blind Peer Reviewed Journal |

| Volume 4, Issue 4, April 2017 |

In 2016, the GOI launched the UPI (Unified Payment Interface) System and BHIM by the National Payments Corporation of India (NPCI), setting off the digital payments revolution with what we popularly known as mobile banking.[18]

Following the advancements in technology, several fintechs in the country have taken digital banking to the next level in partnership with traditional banks to bring an array of financial services.

Niti Aayog proposed setting up full-stack 'digital banks', which will entirely rely on the internet to offer their services and not on their physical branches. This is expected to revolutionize digital banking in India.[19]

REFERENCES

1. "Agreement on the New Development Bank – Fortaleza, July 15" (PDF). NDB Official Website. 15 July 2014. Archived from the original (PDF) on 26 September 2016. Retrieved 8 March 2016.
2. ^ Lewis, Jeffrey; Trevisani, Paulo (15 July 2014). "Brics Agree to Base Development Bank in Shanghai". The Wall Street Journal. Retrieved 16 July 2014.
3. ^ "Brics Bank now hiring in Johannesburg". Times LIVE. 7 March 2016. Retrieved 13 March 2016.
4. ^ "Host Country Agreement for NDB's Eurasian Regional Centre in Moscow, Russia Signed in Brasilia". New Development Bank. Retrieved 25 March2015.
5. ^ "BRICS Summit 2012: A long Journey to cover; Overview, Outcomes and Expectations". The World Reporter. 31 March 2012. Retrieved 31 March2012.
6. ^ Powell, Anita (27 March 2013). "BRICS Leaders Optimistic About New Development Bank". Voice of America. Retrieved 27 March 2013.
7. ^ "Brics nations to create $100bn development bank". BBC.com. 15 July 2014
8. ^ "K V Kamath, non-executive chairman of ICICI, is now BRICS Bank head". Hindustan Times. New Delhi. 11 May 2015. Archived from the original on 11 May 2015. Retrieved 16 May 2015.
9. ^ "NDB Official Website - Newsroom - Press Releases -- The New Development Bank Signed Headquarters Agreement with the Government of the People's Republic of China". Retrieved 11 April 2016.
10. ^ CCTV+ (28 February 2016), BRICS Countries Sign HQ Agreement, MOU for New Development Bank, retrieved 11 April 2016
11. ^ NDB Press Release entitled "Press Conference by NDB on the Eve of Signing Headquarters Agreement with Government of China" (http://www.ndb.int)
12. ^ "NDB Successfully Issued First RMB-denominated Green Financial Bond". www.ndb.int. Retrieved 15 August 2016.
13. ^ "NDB boards congratulate bank on its progress at the first annual meeting". www.ndb.int. Retrieved 15 August 2016.
14. ^ "BRICS bank to allocate $100 million for financing small-scale energy project in Karelia". www.ndb.int. Retrieved 15 August 2016.
15. ^ "First Set of Loans Approved by the Board of Directors of the New Development Bank". www.ndb.int. Retrieved 15 August 2016.
16. ^ "NDB BOARD OF DIRECTORS APPROVES LOANS FOR TWO PROJECTS IN CHINA AND INDIA DURING 7TH MEETING IN SHANGHAI". www.ndb.int. Archived from the original on 28 November 2016. Retrieved 28 November 2016.
17. ^ "NDB SIGNS FIRST LOAN AGREEMENT FOR FINANCING SHANGHAI LINGANG DISTRIBUTED SOLAR POWER PROJECT". www.ndb.int. Archived from the original on 30 December 2016. Retrieved 30 December2016.
18. ^ "New Development Bank Receives AA+ Credit Rating from Fitch - New Development Bank". New Development Bank. Retrieved 13 August 2016.
19. ^ "NDB receives AA+ rating from S&P, cementing its access to global financial markets - New Development Bank". New Development Bank. Retrieved 29 August 2016.