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EMERGING TRENDS IN INDIAN BANKING

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CERTIFICATE

This is to certify that the Project entitled **"EMERGING TRENDS IN INDIAN BANKING"** is genuine and bonafide work done by **Sk.AHAMADHUNNISA**, under my guidance and supervision for the submission to **St.Theresas College for Women**, Eluru under RUSA 2.0.

Project Guide

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I convey my sincere thanks to all the people concerned who have helped me directly or indirectly in successful completion of this project.

DECLARATION BY THE CANDIDATE

I hereby declare that the project report entitled "**EMERGING TRENDS IN INDIAN BANKING"** submitted by me to **St. Theresa's College** for Women, Eluru under RUSA 2.0 Scheme is a bonifide Project Work carried out by me under the guidance of **Ms.R.VENKATA LAKSHMI DEVI**, Lecturer in Commerce, Department of Commerce. I further declare that the work reported in this project has not been submitted either in part or in full, for the award of any degree in any other institute or university.

Narsapur

Date : Signature of Candidate

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INTRODUCTION

Banking Sector Plays a vital role in any economy. Development of any Country mainly depends upon the banking system. It acts as the backbone of modern business. A bank is a financial institution which deals with money and credit. It receives money from those who want to save in the form of deposits and it lends money to those who need it”.

Definition:

In the words of Kinley “A bank is an establishment which makes to individuals such advances of money as may be required and safely made and to which individuals entrust money when not required by them for use”.

According to the Indian Banking Regulation Act 1949 Banking means “the 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”.

Over the years, the Banking Sector in India has seen a number of changes. Most of the banks have begun to take an innovative approach towards banking with the objective of Creating more values for customers and Consequently the banks various innovations in Banking and Financial Sectors are NEFT, ATM, Retail Banking, Debit and Credit Cards and many more. With the emergence of Privatization, Globalization and Liberalization in India, Banks are focusing on Research and development and applying various innovative ideas and technology. The alliance between the innovative technologies of the financial Sector and banking services has changed the conventional Systems of handling money. The rise of Fintech Companies, Internet banking and mobile banking are some of the classic examples of emerging trends in the banking Sector.

Objectives of the Study:

- To procure knowledge about Indian banking.
- To study the emerging technology in Indian Banking Sector.
- To know recent developments in Indian Banking.
- To explain the banking scenario in India.

Methodology of the Study:

This study is based on the analysis Banking scenario in India and the recent trends and opportunities in the banking with the help of secondary source of data.

The secondary source of data are...

- Banking books
- Annual reports of RBI
- Research papers
- Journals and reports on trends
- News papers, Magazines
- Relevant websites

Frame work of the Study:

- Chapter one comprises theoretical view of Indian banking, objectives of the study, Methodology, frame work and limitations.
- Chapter two consists of profile of Indian Banking Industry.
- Chapter three includes structure of Indian Banking.
- Chapter four consists of Merging of banks.
- Chapter five includes Emerging Trends, Summary, Conclusion and Bibliography.

Limitations of the Study:

Though the project is completed successfully but with a few limitations.

It is easy to collect secondary data, however we need to be aware of the limitations.

- The study is based on secondary data and secondary data can be general and vague.
- Limited knowledge about the banking sector in the initial stage.
- Inability to get full information from the bank managers.
- It might be originally collected for other purpose.

PROFILE OF INDIAN BANKING INDUSTRY

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it has had to control miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today, Indian banks can confidently compete with modern banks of the world.

Before the 20th century, usury, or lending money at a high rate of interest, was widely prevalent in rural India. Entry of Joint stock banks and development of Cooperative movement have taken over a good deal of business from the hands of the Indian money lender, who although still exist, have lost his menacing teeth.

In the Indian Banking System, Cooperative banks exist side by side with commercial banks and play a supplementary role in providing need-based finance, especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities.

Generally, co-operative banks are governed by the respective co-operative acts of state governments. But, since banks began to be regulated by the RBI after 1st March 1966, these banks are also regulated by the RBI after amendment to the Banking Regulation Act 1949. The Reserve Bank is responsible for licensing of banks and branches, and it also regulates credit limits to state co-operative banks on behalf of primary co-operative banks for financing SSI units.

Banking in India originated in the first decade of 18^{th} century with The General Bank of India coming into existence in 1786. This was followed by Bank of Hindustan. Both these banks are now defunct. After this, the Indian government established three presidency banks in India. The first of three was the Bank of Bengal, which obtains charter in 1809, the other two presidency bank, viz., the Bank of Bombay and the Bank of Madras, were established in 1840 and 1843, respectively. The three presidency banks were subsequently amalgamated into the Imperial Bank of India (IBI) under the Imperial Bank of India Act, 1920 – which is now known as the State Bank of India.

A couple of decades later, foreign banks like Credit Lyonnais started their Calcutta operations in the 1850s. At that point of time, Calcutta was the most active trading port, mainly due to the trade of the British Empire, and due to which banking activity took roots there and prospered. The first fully Indian owned bank was the Allahabad Bank, which was established in 1865.

By the 1900s, the market expanded with the establishment of banks such as Punjab National Bank, in 1895 in Lahore and Bank of India, in 1906, in Mumbai – both of which were founded under private ownership. The Reserve Bank of India formally took on the responsibility of regulating the Indian banking sector from 1935. After India’s independence in 1947, the Reserve Bank was nationalized and given broader powers.

As the banking institutions expand and become increasingly complex under the impact of deregulation, innovation and technological upgradation, it is crucial to maintain balance between efficiency and stability. During the last 30 years since nationalization tremendous changes have taken place in the financial markets as well as in the banking industry due to financial sector reforms. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of services to cater emerging needs of their customers. Banks have been given greater freedom to frame their own policies. Rapid advancement of technology has contributed to significant reduction in transaction costs, facilitated greater diversification of portfolio and improvements in credit delivery of banks. Prudential norms, in line with international standards, have been put in place for promoting and enhancing the efficiency of banks. The process of institution building has been strengthened with several measures in the areas of debt recovery, asset reconstruction and securitization, consolidation, convergence, mass banking etc.

Despite this commendable progress, serious problem have emerged reflecting in a decline in productivity and efficiency, and erosion of the profitability of the banking sector. There has been deterioration in the quality of loan portfolio which, in turn, has come in the way of bank‟s income generation and enchancement of their capital funds. Inadequacy of capital has been accompanied by inadequacy of loan loss provisions resulting into the adverse impact on the depositors‟ and investors‟ confidence. The Government, therefore, set up Narasimham Committee to look into the problems and recommend measures to improve the health of the financial system.

The acceptance of the Narasimham Committee recommendations by the Government has resulted in transformation of hitherto highly regimented and over bureaucratized banking system into market driven and extremely competitive one.

The massive and speedy expansion and diversification of banking has not been without its strains. The banking industry is entering a new phase in which it will be facing increasing competition from non-banks not only in the domestic market but in the international markets also. The operational structure of banking in India is expected to undergo a profound change during the next decade. With the emergence of new private banks, the private bank sector has become enriched and diversified with focus spread to the wholesale as well as retail banking. The existing banks have wide branch network and geographic spread, whereas the new private banks have the clout of massive capital, lean personnel component, the expertise in developing sophisticated financial products and use of state-of-the-art technology.

Gradual deregulation that is being ushered in while stimulating the competition would also facilitate forging mutually beneficial relationships, which would ultimately enhance the quality and content of banking. In the final phase, the banking system in India will give a good account of itself only with the combined efforts of cooperative banks, regional rural banks and development banking institutions which are expected to provide an adequate number of effective retail outlets to meet the emerging socio-economic challenges during the next two decades. The electronic age has also affected the banking system, leading to very fast electronic fund transfer. However, the development of electronic banking has also led to new areas of risk such as data security and integrity requiring new techniques of risk management.

Cooperative (mutual) banks are an important part of many financial systems. In a number of countries, they are among the largest financial institutions when considered as a group. Moreover, the share of cooperative banks has been increasing in recent years; in the sample of banks in advanced economies and emerging markets analyzed in this paper, the market share of cooperative banks in terms of total banking sector assets increased from about 9 percent in mid 1990s to about 14 percent in 2004.

Industry scenario of Indian Banking Industry:

The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years. Based on the projections made in the "India Vision 2020" prepared by the Planning Commission and the Draft 10th Plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate. The total assets of all scheduled commercial banks by end-March 2010 is estimated at Rs 40,90,000 crores. That will comprise about 65 per cent of GDP at current market prices as compared to 67 per cent in 2002-03. Bank assets are expected to grow at an annual composite rate of 13.4 per cent during the rest of the decade as against the growth rate of 16.7 per cent that existed between 1994-95 and 2002-03. It is expected that there will be large additions to the capital base and reserves on the liability side.

The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign). These banks have over 67,000 branches spread across the country.

The Public Sector Banks(PSBs), which are the base of the Banking sector in India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks are making tremendous progress. They are leaders in Internet banking, mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking Industry.

In the Indian Banking Industry some of the Private Sector Banks operating are IDBI Bank,ING Vyasa Bank,SBI Commercial and International Bank Ltd, Bank of Rajasthan Ltd. and banks from the Public Sector include Punjab National bank, Vijaya Bank, UCO Bank, Oriental Bank, Allahabad Bankamong others. ANZ Grindlays Bank, ABN-AMRO Bank, American Express Bank Ltd, Citibank are some of the foreign banks operating in the Indian Banking Industry.

As far as the present scenario is concerned the Banking Industry in India is going through a transitional phase. The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of their loan portfolio to sectors identified as “priority sectors”. The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold.

After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSB)s found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. Eight new private sector banks are presently in operation. These banks due to their late start have access to state-of-the-art technology, which in turn helps them to save on manpower costs and provide better services.

During the year 2000, the State Bank OfIndia (SBI) and its 7 associates accounted for a 25 percent share in deposits and 28.1 percent share in credit. The 20 nationalized banks accounted for 53.2 percent of the deposits and 47.5 percent of credit during the same period. The share of foreign banks (numbering 42), regional rural banks and other scheduled commercial banks accounted for 5.7 percent, 3.9 percent and 12.2 percent respectively in deposits and 8.41 percent, 3.14 percent and 12.85 percent respectively in credit during the year 2000.

Current Scenario:

The industry is currently in a transition phase. On the one hand, the PSBs, which are the mainstay of the Indian Banking system are in the process of shedding their flab in terms of excessive manpower, excessive Non-Performing Assets (NPA)sand excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through mergers and acquisitions.

PSBs, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs (a mind-boggling Rs 830 billion in 2000), falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service. The PSBs are of course currently working out challenging strategies even as 20 percent of their massive employee strength has dwindled in the wake of the successful Voluntary Retirement Schemes (VRS) schemes.

The private players however cannot match the PSB"s great reach, great size and access to low cost deposits. Therefore one of the means for them to combat the PSBs has been through the merger and acquisition (M& A) route. Over the last two years, the industry has witnessed several such instances. For instance, HDFC Bank's merger with Times Bank ICICI Bank's acquisition of ITC Classic, Anagram Finance and Bank of Madura. Centurion Bank, Indu-Sind Bank, Bank of Punjab, Vysya Bank are said to be on the lookout. The UTI bank- Global Trust Bank merger however opened a pandora's box and brought about the realization that all was not well in the functioning of many of the private sector banks.

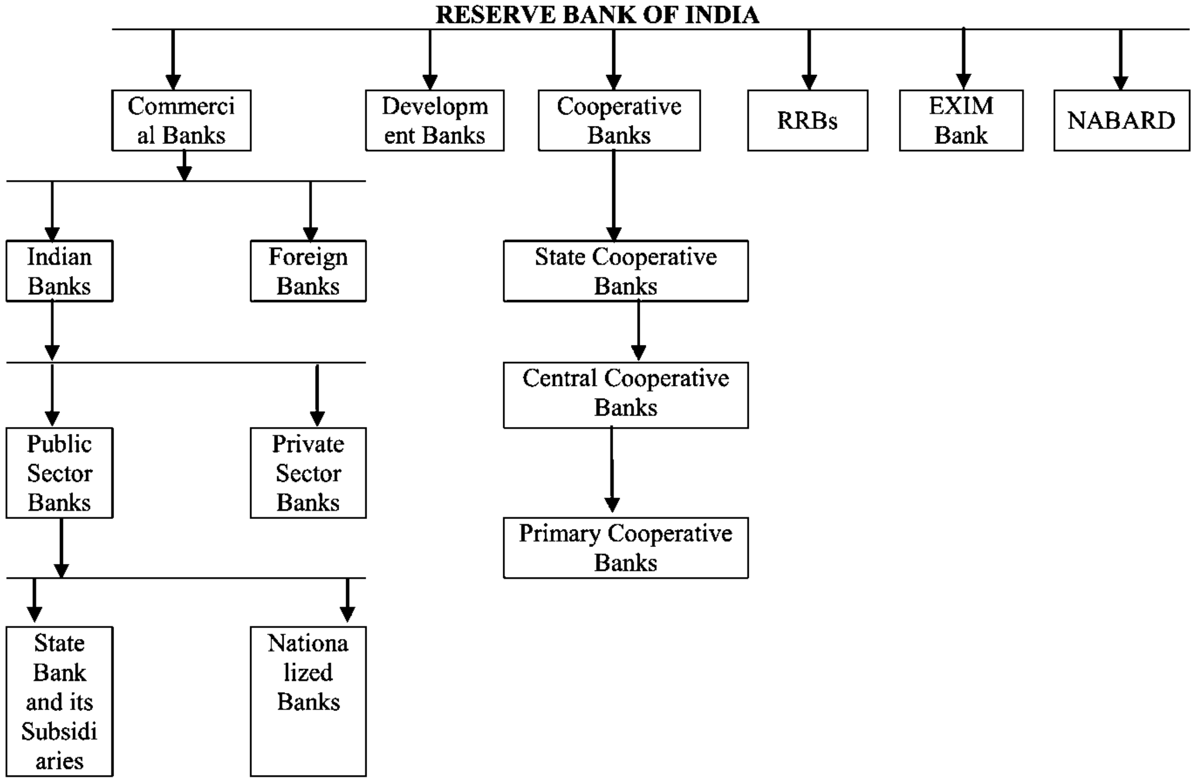
Private sector Banks have pioneered internet banking, phone banking, anywhere banking, mobile banking, debit cards, Automatic Teller Machines (ATMs) and combined various other services and integrated them into the mainstream banking arena, while the PSBs are still grappling with disgruntled employees in the aftermath of successful VRS schePPmes. Also, following India's commitment to the W To agreement in respect of the services sector, foreign banks, including both new and the existing ones, have been permitted to open up to 12 branches a year with effect from 1998-99 as against the earlier stipulation of 8 branches.

Talks of government diluting their equity from 51 percent to 33 percent in November 2000 has also opened up a new opportunity for the takeover of even the PSBs. The FDI rules being more rationalized in Q1FY02 may also pave the way for foreign banks taking the M& A route to acquire willing Indian partners.

Meanwhile the economic and corporate sector slowdown has led to an increasing number of banks focusing on the retail segment. Many of them are also entering the new vistas of Insurance. Banks with their phenomenal reach and a regular interface with the retail investor are the best placed to enter into the insurance sector.

STRUCTURE OF INDIAN BANKING SYSTEM

The Banking Sector in India Comprises of various banks big and small, Public and Private, old and new etc. There are wide varieties in their sizes, Organisational Patterns, geographical Presence and functional specialization. They operate both in urban and rural areas. A review of the Various Constituents of the Indian Banking Sector can be made from the following table



Reserve Bank of India

- ❖ Reserve Bank of India:-The Reserve Bank of India is the Central Bank of Our Country. It was established under the Reserve Bank of India Act of 1934. It began functioning from April 1, 1935. Initially it was a Shareholders bank. It was nationalized with effect from January 1, 1949.

The Reserve Bank Performs the following functions

- ❖ It acts as a Bank of issue and issues Currency notes of various denominations.
- ❖ It acts as a banker to the Government and maintains the accounts of the Government.
- ❖ It acts as a bankers bank and keeps the Cash reserves of Commercial banks.
- ❖ It acts as the lender of the last resort by providing financial assistance to the Commercial banks in times of need
- ❖ It acts as the custodian of nation's foreign exchange reserves.
- ❖ It Controls Credit with the help of Bank rate, open market operations, variation of cash reserve ratio and selective methods of Credit Control.

Commercial Banks:-

The Banks, which perform all kinds of banking business and generally finance trade and Commerce are called commercial banks. Since their deposits are for a short Period, these banks normally advance Short term loans to the business men and traders. However recently, the Commercial banks have also extended their areas of operation to medium term and long term finance Majority of the Commercial banks are in the Public Sector. But, there are Certain Private Sector banks operating as Joint Stock Companies. Hence the Commercial banks are also called joint Stock banks.

Indian Commercial Banks Perform Various functions

- ❖ The accept deposits of different kinds such as current deposits, time deposits and savings deposits etc.
- ❖ They advance loans to traders, producers and others generally for short periods.
- ❖ They perform agency services such as collection of bills, cheques etc. and payment of subscriptions, premia etc. on behalf of their customers.

- They provide general utility services such as issuing letters of Credit, acting as referee, trustee and executor and accepting valuables for safe custody.

Development Banks

Development Banks are also known as Industrial Banks and Investment Banks mainly incet the long term financial needs of industries. Industrial Banks accept long term deposits and grant long term loans to the industrialists. They help selling or even underwrite shares and debentures of industrial firms. In India Industrial Banks like Industrial Development Bank of India. Industrial Finance Corporation of India, State Finance Corporations are playing significant role in the Industrial Development of the country.

Cooperative Banks

Cooperative Banks are operated on the Cooperative lines. In India, Cooperative Credit Institutions are organized under the cooperative societies law and play an important role in meeting financial needs and rural areas. There are different types of Cooperative Credit Institutions coorking in India. These can be classified into agricultural and nonagricultural. Agricultural Credit Industry Institutions are divided into short term and long term institutions. The short term agricultural credit institutions which cater to the short term financial needs of agriculturists have three tier Federal structure.

a) At the apex, there is the State Cooperative bank in each State.,
b) At the district level, there are Central Cooperative banks.,
c) At the village level, there are primary agricultural Credit Societies.

Long term agricultural Credit is provided by the Land development banks.

Regional Rural Banks:-

Regional Rural Banks provide Credit facilities to the agricultural sector with particulars emphasis on small and marginal farmers and agricultural labours. They help rural artisans and small entrepreneurs in rural areas by providing Credit facilities. They mobilize deposits of rural people. They grant direct loans and advances only to small and marginal farmers, rural artisans and other weaker sections of the Society.

Exim Bank:-

The Export-Import Bank of India was set up on January 1, 1982 and it started operations on March1,1982 It has taken over the export finance activities from the IDBI. The EXIM Bank Performs several functions relating to export finance.

Apart from the normal banking functions connected with the export and import of goods, a number of other functions have been entrusted to EXIM Bank. These include financing of exports from and imports of India, financing joint Ventures in foreign countries, and financing the export and import of machinery and equipment on lease basis. The Bank also undertakes limited merchant banking functions like underwriting of Shares, bonds and debentures of Companies engaged in export and import and providing technical, administrative and financial assistance to parties connected with export and import.

NABARD: - (National Bank for Agriculture and Rural Development)

NABARD was established on July 12, 1982. It is a Single integrated Organisation which looks after the Credit requirements of all types of agricultural and rural development activities. It functions as an apex institution, i.e., it takes up all the functions performed by the Reserve Bank of India with regard to rural credit.

- ❖ NABARD attends to all the matters concerning policy, planning and operations in the field of Credit for agriculture and other economic activities in rural areas.
- ❖ It serves as a refinancing agency for the institutions providing production and investment credit for promoting various developmental activities in rural areas.

- ❖ It provides short term Credit and medium term credit to State Cooperative banks and Regional Rural Banks for agricultural purposes.
- ❖ It extends medium term and long term Credit of investment schemes in agriculture of State Cooperative banks, Land development banks, RRBs and Commercial banks.
- ❖ It maintains a Research and Development fund to promote research in agricultural and rural development.
- ❖ It has the responsibility of inspecting RRBs, Central and State Cooperative banks.

Foreign Banks (Exchange Banks):-

Foreign banks, also known as Exchange banks have their head offices located outside the Country. The main function of these banks is to finance foreign trade.

They also perform normal Commercial banking functions. Loan limits for these banks are based on the Capital of the parent bank. RBI has provided rules and guidelines for a foreign bank to establish and operate in India.

Public Sector Banks:-

Public Sector Banks are owned and Controlled by the Government. These are banks where the direct holding of the Central State Government is 51% or more. In India Public Sector banks operate Under the guidelines of Reserve Bank of India. Some of these banks are the State Bank of India, Corporation Bank and Bank of Baroda etc..

Private Sector Banks:-

Private Sector Banks are owned by the private individuals or Corporations and not by the government or Cooperative Societies. After most of the banks had got nationalized in two phases, the non-nationalised banks carried on their operations, known as old generation Private Sector banks. Further when the liberalization Policy was Coined in India, the banks which got license like

HDFC Bank, Axis Bank, ICICI bank etc..are considered as new generation Private Sector banks.

State Bank of India:-

The State Bank of India occupies a unique position in our banking system. It is the biggest Commercial bank with very Vast financial resources and the largest number of banks. It acts as an agent of the Reserve Bank in Places where the RBI does not have branches. It undertakes ordinary Commercial banking business such as accepting deposits, granting loans on security of goods, bills, Shares and fixed assets etc.. It underwrites Shares and bonds. It also finances foreign trade by issuing letters of credit.

Nationalization of Banks in India

The history of nationalization of Indian banks dates back to the year 1955 when the Imperial Bank of India was nationalized and re-christened as State Bank of India (under the SBI Act, 1955). Later on July 19, 1960, the 7 subsidiaries of SBI viz. State Bank of Hyderabad (SBH), State Bank of lndore, State Bank of Saurashtra (SBS), State Bank of Mysore (SBM), State Bank of Bikaner and Jaipur (SBBJ), State Bank of Patiala (SBP), and State Bank of Travancore (SBT) were also nationalized with deposits more than 200 crores.

In the Indian banking scenario, most public sector banks are referred to as Nationalised Banks. This classification is, however, inaccurate. According to the IMF (International Monetary Fund), Nationalisation is defined as government taking control over assets and over a corporation, usually by acquiring the majority stake or the whole stake in the corporation. In 1949, during the early years of the country’s independence, India’s central bank, the RBl (Reserve Bank of India) became the first bank to be nationalised. This was an important move since the RBI would soon become the regulatory authority for banking in India. Most Indian banks at that time were privately owned. Thus, the Indian government then recognized the need to bring them under some form of government control to be able to finance India's growing financial needs.

Nationalisation in Two Phases

By the early 1960s, the Government of India realized that a significant share of deposits coming from the masses of India was controlled by 14 privately owned commercial banks. Indian agriculture and industries were booming and the need for finance was high. Financial regulations were also very important at that time since those would help shape the nature of the country's economy for decades to come. Nationalisation became the watchword even the state airline, Air India, was nationalised in 1953. Acquisition of the Imperial Bank of India in 1955 was the next big step.

With Mrs. Indira Gandhi's taking over as the Prime Minister of India, the Indian National Congress rallied for a state takeover of some of the major banks in the country. The government promulgated an ordinance - the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 - thereby nationalising all the 14 banks that were under consideration with effect from the midnight 19 July 1969...As a follow-up to passing the ordinance, the Banking Companies (Acquisition and Transfer of Undertaking) Bill was taken up by the Parliament for discussion. It received a clear majority as well as the assent of the President within a month of issuing the ordinance.

In 1980, when Mrs. Gandhi was re-elected as the Prime Minister for her third term at the PMO, she initiated the second spate of bank nationalization. This time about six banks were nationalised and the Government of India controlled over 90 percent of the banking business in the country. Of the 20 banks that were nationalised, New Bank of India was later (in 1993) merged with Punjab National Bank.

MERGING OF BANKS IN INDIA

MERGER AND ACQUISITION, the very famous and exciting term in the Banking world which means Blending or merging of two or more undertakings which is existing in the market into one new identity, it means that both will lose their separate different identities and will start functioning together for common profits. It is being liberalized since 1991 due to Liberalization policies of India. It lowered down the limitations and obligations imposed on the banks. But before the actual commencement of Merging and Amalgamation of the banks, a long procedure is to be followed by them, including legal as well as financial. The most common and obvious reasons for merging are more financial gains, reducing the liabilities, operating synergies, expansion and marketing, consolidation of product capacities, growth of the business, more links, diversification and saving of taxes. Before any bank thinks of merging and amalgamation with any other bank, it needs to research on its current position in the market and standing of the other bank as well with whom it is going to merge. With increasing Globalization, the pressure of surviving in the market has also increased on every Industry due to high competition, it therefore promotes merging and amalgamation for survival in case where single bank is not performing well. Recent examples of it are, ICICI with Anagram Finance from Lalabhai group, again ICICI with Bank of Madhura, HDFC bank with Times Bank, likewise there are many examples in other sectors as well.

MEANING OF MERGER AND AMALGAMATION

Merger is a very commonly used term which means the combining of two banks to form a new identity and losing their own identity in the meanwhile process. The term used with it is Acquisition which means that overtaking a small bank by a relatively large bank and in that case no new identity is formed. Merging in simple words means that mixing of entities and their resources for growth, advancement and enrichment for renovation of the banks.

Amalgamation means the combination of banks into a single entity. It appears to be same as merger but the only difference is that in this, neither of the merging banks remains as legal entities afterwards. In this, an entirely new company is formed by combining all the resources.

BANKING REFORMS IN INDIA

NARSIMHA COMMITTEE REPORT

Set up in December, 1997, The Narsimha Committee submitted its first report on 23 April, 1998. The terms of reference of this committee includes, review of the progress in the reforms in the Banking sector, making the system internationally competitive to stand in the global market and robust. The reforms of the committee are reformed according to the situations, framing recommendations in full detailed manner regarding the policies of banking system for each and every dimension.

The following suggestions were also presented in its first report:

- Building the size and strength of operations by using the mergers for banks.
- Speeding up the computerization in Public Sector Banks.
- Strengthening the legal framework for the recovery of credit.
- Making the standing of Indian Banks in International Market.
- Two or three banks from India should be with International Orientation, nine to ten banks in National Banks and a number of local banks to cover the remote areas also.
- The banks should merge with the bank of its own status or the one which is equivalent to it.
- Confining the banks which are small for local banks or State banks or for Districts.
- Reviewing the procedures of Recruitment and training, also the remuneration policies of the Public Sector Banks.

- Enhanced risks can be verified or matched with the raising adequacy of capital.
- There is no alternative option to the asset reconstruction fund.
- Reviewing the three Acts: The Reserve Bank of India Act, The State Bank of India Act and The Nationalization Act.
- Making the bank board's professional.

SUGGESTIONS BY THE COMMITTEE

- Certain areas require Deregulation.
- Controlling the capital flow is impossible and it may create the uncertain situations and volatility in the economy.
- For an entry in the large banks, the system needs to offer an entry point which can be used by the entities.
- Service certificates lended by the Priority Sectors.
- Advanced technology may help in enhancing the performance of the small banks by reducing its operational costs.
- Proper encouragement and incentive to the professional market.
- Selling of the small Public Sector Units due to underperformance.
- Putting SEBI into role in regulating the trade.
- An innovative and friendly environment for the investors.

RECENT MERGERS IN INDIA

There is a probability that these banks may merger and come up with new identities in the coming two years:

1) HDFC bank Ltd.
2) Kotak Mahindra Bank Ltd.
3) IndusInd Bank Ltd.

Kotak Mahindra Bank Ltd. has already sold its 4.5% stake for $296 million in the bank to Sumitomo Mitsui Financial Group Inc. The vice-chairman already said that he is looking for "sniffing around" for acquisitions.

India has 12 Banks Now

The biggest overhaul in public sector banks has left India with only 12 banks now instead of 18 before the decision. According to the Government this decision of making large entities will make the Indian banks capable of meeting the higher funding needs of the economy and will help in acquiring the global scale.

Banking order (Largest to Smallest)	**Business in Lakhs of crore Rupees**	**Market Share**
State Bank of India	52.1	22.5
PNB+OBC+United Bank	17.9	7.7
HDFC Bank	17.5	7.6
Bank of Baroda	16.1	7
Canara + Syndicate Bank	15.2	6.6
Union+Andhta+Corporation Bank	14.6	6.3
ICICI Bank	12.7	5.5
Axis Bank	10.6	4.6
Bank of India	9.0	3.9
Indian + Allahabad Bank	8.1	3.5

Rs. 55000 Crore Recapitalization Plan With Mega Merger

The Finance Minister of India has also announced Rs.55,000Crore recapitalization plan for the banks formed after merger. Besides, recapitalization will also be infused to the six other banks which are not the part of this merger.

Banking Recapitalization (Highest to Lowest)	**Amount of Recapitalization announced (Rs. in Crores)**
Punjab National Bank	16,000
Union Bank of India	11,700
Bank of Baroda	7,000
Canara Bank	6,500
Indian Overseas Bank	3,800
Central Bank of India	3,300
UCO Bank	2,100
United Bank of India	1,600
Punjab & Sind Bank	750

CURRENT SCENARIO OF INDIAN BANKS

The total assets of Indian banks, which are regulated by the supreme authority, Reserve Bank of India (RBI) and the Ministry of Finance (MoF), were pegged at Rs. 82,99,220 crore (US$ 1564.8 billion) during FY 122

REASONS FOR MERGER

1) Mergers may help in diversifying the risk management.
2) Innovation of the new financial products as well as consolidation of the regional financial system. It is due to increase in competition in the market.
3) To increase the capabilities of generation the economies of scale.
4) To transfer the skills and share the resources and work efficiently to stand in the competitive market.
5) Globalization of the whole economy has resulted in mergers and amalgamations.

6) The introduction the advanced technology and e-banking and other instruments results in this.

7) Liberalized policies also lead to merger and amalgamation when it becomes difficult for one bank to stand alone.

8) It brings positivity in the system because it leads to reduction in the costs and increase in the efficiency.

List of PSU Banks After Merger 2020

Anchor Bank	**Banks to be Merged with Anchor Bank**	**Combined Domestic Branches**
Punjab National Bank	Oriental Bank of Commerce + United Bank	11,437
Canara Bank	Syndicate Bank	10,342
Allahabad Bank	Indian Bank	-
Bank Of Baroda	Dena Bank +Vijaya Bank	9,490
Union Bank	Andhra Bank + Corporation Bank	9,609
State Bank of India (SBI)	State Bank of Bikaner and Jaipur (SBBJ) + State Bank of Hyderabad (SBH) + State Bank of Mysore (SBM) + State Bank of Patiala (SBP) + State Bank of Travancore (SBT) + BharatiyaMahila Bank	24,000 branches (approx)

BoB, Dena Bank and Vijaya Bank Merged Together on April 1, 2019

State-run Bank of Baroda has now become India's second largest public sector bank after its merger with Dena and Vijaya Bank respectively. The amalgamation of the two lenders with BOB, will be effective from 1 April,

2019. This is the first three-way merger of the banks in India, making the combined geographical reach of 9,490 branches, 13,400 ATMs with 85,678 employees serving 120 million customers.

From Monday onwards all the branches of Dena and Vijaya Bank will function as branches of Bank of Baroda and the customers of both banks will be treated as customers of BOB, the RBI said on Saturday. In addition to this, the customers will also continue to use the same account number, IFSC Code, MICR Code along with their current cheque books and ATM cards.

Financial Parameters	**Bank of Baroda (BoB)**	**Vijaya Bank**	**Dena Bank**	**Merged Entity**
Total Business (In Cr)	10,29,810	2,79,575	1,72,940	14,82,325
Gross Advances (In Cr)	4,48,330	1,22,350	69920	6,40,600
Deposits (In Cr)	5,81,485	1,57,325	1,03,020	8,41,830
Domestic Branches	5502	2130	1858	9490
Advance Branches	81	57	38	68
Deposit Branches	106	74	55	89

Financial Parameters	Bank of Baroda (BoB)	Vijaya Bank	Dena Bank	Merged Entity
Employees	56360	15875	13440	85675
RoA	0.29%	0.32%	-2.43%	-0.02%
CRAR Capital Ratio	12.13%	13.91%	10%	12.25%
CET-1 Capital Ratio	9.27%	10.35%	8.15%	9.32%
Net NPA	5.40%	4.10%	11.04%	5.71%
CASA Ratio	35.52%	24.91%	39.80%	34.06%

After this three-way merger, the combined entity will have deposits and advances of Rs.8.75 lakh crore and Rs.6.25 lakh crore respectively. Not only this, the merger also helps BOB increase its reach in the Western, Southern and North-Eastern regions of India such as Maharashtra, Karnataka, Gujrat, Kerala, Tamil Nadu and Andhra Pradesh. Well, if experts are to be believed, the new Bank of Baroda will improve customer base, market reach, operational efficiency and a capacity to offer a wider bouquet of products and services to the customers.

Check Out the Plan of Government with Merger

The government is seriously considering to reduce the number of public sector banks (PSUs) from the existing 21 to 12 with a view to creating 3-4 global sized banks. The existing count of these banks can get reduced to 10-12 in the medium term, while there would be 3-4 banks of the size of State Bank of India (SBI) as per the 3 tier structure. However, regional centric banks like Andhra Bank and Punjab & Sind Bank would continue to exist as independent entities. The same will go with some mid-sized banks.

What's giving more fodder to the government to go ahead with the merger is the grand success SBI achieved by combining its five associate banks and Bhartiya Mahila Bank to form a single entity. The five associate banks included State Bank of Bikaner & Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Travancore (SBT), State Bank of Patiala (SBP) and State Bank of Mysore (SBM).

By virtue of the merger, SBI got into the hall of fame by making an entry into the list of 50 banks in the world. The merger has helped the bank take its customer count to 37 crores and add a vast network branches and ATMs that went up to 24,000 and 59,000, respectively. Humongous, isn't it? So, how's government going to execute a massive consolidation drive involving banks of different capital base? Let's find out the answer now.

Top PSU Banks to Choose Smaller Ones for Merger

According to several reports in the media, top PSU lenders like Punjab National Bank (PNB), Bank of Baroda (BoB), Bank of India (BOI), Canara Bank and Union Bank of India would take under their umbrella some 3-4 banks to create a large entity and would have a massive distribution channel to boast of. The merger will add to the operational strength of the PSU banks. So, see in the table where will the PSU banks stand if the proposed merger structure does take effect.

Table Showing the Merger List of PSU Banks

Acquirer Banks	Banks to be Merged	Staff Count (Approx.)	Asset Count (Crores) (Approx.)
PNB	Oriental Bank of Commerce (OBC), Allahabad Bank, Corporation Bank, Indian Bank	1,50,000	2,60,000
Bank of Baroda	Vijaya Bank, Dena Bank	85,675	6,40,600
Bank of India	Andhra Bank, Bank of Maharashtra	94000	10,90,0000
Canara Bank	UCO Bank, Syndicate Bank, Indian Overseas Bank	1,40,000	13,82,000
Union Bank of India	IDBI, Central Bank of India	1,04,000	11,80,000

BENEFITS

Many parties are benefited due to Merger and Amalgamation of the banks, such as:

1) Banks
2) Customers
3) RBI
4) Depositors
5) Other related parties

The process and results of Merger and Amalgamation has reduced the burden over the banks and also lowered the unhealthy market competition among them. It has also improved the financial base of the banks and there are benefits of solutions to core banking. It helps in improving the technology and advances the functioning of the system. Increased profits, better management, larger coverage and more customers is a result of this.

Customers get faster and improved services due to this. They also get access to new and upgraded technologies. Increased no. of branches helps the customers in easy access to them and utilizing the benefits.

RBI is benefited due to improved and better monitoring over the banks. It reduces the increased number of meetings due to less number of CEO’s and also easy implementation of its policies due to better and upgraded technology.

Depositors have better and improved options as they are a major source of money flow. They also get high dividends. Other parties are benefited because huge deals will be there and that means more connections and involvement of large part of the public.

NEW PICTURE OF PSU BANKS

1) The after the Oriental Bank of Commerce and United Bank are merged into the Punjab National Bank, it will become India's second largest bank. (SBI remains India's largest bank). Once these three banks are merged it will create a bank with a business of Rs 17.95 lakh crore and have 11,437 branches.

2) Once the Syndicate bank is merged into the Canara Bank, the resultant bank will become India's fourth largest public sector bank with Rs 15.20 lakh crorebusiness.

3) Union Bank, Andhra Bank, Corporation Bank to merge to become India's fifth largest public sector bank with Rs 14.59 lakh crore business.

4) The 12 public sector banks that India will have after today's decision are: State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Central Bank of India, Canara Bank, Union Bank of India, Indian Overseas

Bank, Punjab and Sind Bank, Indian Bank, UCO Bank and Bank of Maharashtra.

- Merger and Amalgamation has no effects on the total assets or return on capital employed but they do result in improved return on investments.
- There are a few banks in India who are involved in this process, rest functions individually.
- There is a significant and noticeable impact on the net profits and also on shareholders' capital.

EMERGING TRENDS IN INDIAN BANKING

In the era of ‘Digital India’ the banking and financial services in India have undergone a massive evolution. The change can be attributed to various components. The emergence of innovative financial technology has revolutionised financial services in India as well as the banking sector. It has resulted in the introduction and advancement of several technology trends that have contributed to the radical transformation and advancement of these industries.In addition to the betterment of traditional systems, these banking and financial services industry trends are a few steps towards creating a cashless society.

1. Digitization:

With the rapid growth of digital technology, it became imperative for banking and financial services in India to keep up with the changes and innovate digital solutions for the tech-savvy customers. Besides the financial institutions, insurance, healthcare, retail, trade, and commerce are some of the major industries that are experiencing the enormous digital shift. To stay competitive, it is necessary for the banking and financial industry to take the leap on the digital bandwagon.

In India, it all began not earlier than the 1980s when the banking sector introduced the use of information technology to perform basic functions likes customer service, book-keeping, and auditing. Soon, Core Banking Solutions were adopted to enhance customer experience. However, the transformation began in the 1990s during the time of liberalization, when the Indian economy exposed itself to the global market. The banking sector opened itself for private and international banks which is the prime reason for technological changes in the banking sector. Today, banks and financial institutions have benefitted in many ways by adopting newer technologies. The shift from conventional to convenience banking is incredible.

Modern trends in banking system make it easier, simpler, paperless, signatureless and branchless with various features like EPS,RTGS,NEFT,Online Banking and Telebanking. Digitization has created the comfort of "anywhere and anytime banking".

i) Electronic Payment Services – E-Cheques

An e-Cheque is an electronic document which replaces the paper Cheque for online transactions. Digital signatures (based on public key cryptography) change handwritten signatures. The e-Cheque system is planned with message integrity, authentication and nonrepudiation features, strong enough to secure fraud against the banks and their customers. The e-Cheque is suited with interactive web transactions or with email and does not depend on real-time interactions or on third party authorizations. It is considered to work with paper Cheque practices and systems, with minimum impact on payers, payees, banks and the financial system.

ii) Real Time Gross Settlement (RTGS)

Real Time Gross Settlement system has been introduced in India in March 2004, is a system through which electronic instructions can be provided by banks to transfer funds from their account to the account of another bank. The RTGS system is preserved and operated by the RBI and provides a means of well-organized and faster funds transfer among banks facilitating their financial operations.

In other words, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantly and the beneficiary's bank has the obligation to credit the beneficiary's account within two hours. Timings for RTGS transaction on Monday – Friday is 9 A.M to 4.30 P.M and for Saturday it is 9 A.M to 2 P.M. RTGS charges are as below

1. Inward transactions – Free, no charge to be levied.
2. Outward transaction – Rs. 2 lakh to 5 lakh – not exceeding Rs. 30 per transaction
3. Above Rs. 5 lakh – not exceeding Rs. 55 per transaction.

iii) Electronic Funds Transfer (EFT)

Electronic Funds Transfer (EFT) is a system where a person/Company who wants to make payment to another person/company etc. can approach his bank and make cash payment or provide instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. EFT is the widely used transaction way in which money is directly deposited straight into employee's bank account. For transferring funds faster and in an accurate way we have to complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. RBI provides the service of EFT. EFT also provides convenient funds transferred from one account to another within a second. It eliminates the need of personally visiting banks for their transactions.

iv) Automatic Teller Machine (ATM)

Automatic Teller Machine is the most popular and widely used device in India, which provides the customers to withdraw their money 24 hours a day 7 days a week. Customer who has an ATM card can use this device to perform routine banking transactions without interacting with a human teller. Along with the cash withdrawal, ATMs can also be used for payment of utility bills, funds transfer between accounts, deposit of Cheques and cash into accounts, balance enquiry etc.

v) Tele Banking

Tele banking assists the customer to do entire non-cash related banking over the telephone. By using this devise Automatic Voice Recorder is used for simpler queries and transactions. Manned phone terminals are used for complicated queries and transactions.

vi) Electronic Data Interchange (EDI)

Electronic Data Interchange is the exchange of business documents like purchase order, invoices, shipping notices, receiving advices via internet in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transfer financial information and payments in electronic form.

Vii) Credit Cards

These plastic cards allow customers to spend whenever he/she wants within the defined limits and pay later. Debit card is a prepaid card with stored value, whereas credit card is postpaid card with fixed limits of money. Credit cards provide overdraft facility to the customers for buy now pay later.

2. Enhanced Mobile Banking:

Mobile banking is one of the most dominant current trends in banking systems. As per the definition, it is the use of a Smartphone to perform various banking procedures like checking account balance, fund transfer, and bill payments, without the need of visiting the branch. This trend has taken over the traditional banking systems. In the coming years, mobile banking is expected to become even more efficient and effortless to keep up with the customer demands. Mobile banking future trends hint at the acquisition of IoT and Voice-Enabled Payment Services to become the reality of tomorrow. These voice-enabled services can be found in smart televisions, smart cars, smart homes, and smart everything. Top industry leaders are collaborating to adopt IoT-connected networks to create mobile banking technologies that require users' voice to operate.

3. UPI (Unified Payments Interface):

UPI or Unified Payments Interface has changed the way payments are made. It is a real-time payment system that enables instant inter-bank transactions with the use of a mobile platform. In India, this payment system is considered the future of retail banking. It is one of the fastest and most secure payment gateways that is developed by National Payments Corporation of India and regulated by the Reserve Bank of India. The year 2016 saw the launch of this revolutionary transactions system. This system makes funds transfer available 24 hours, 365 days unlike other internet banking systems. There are approximately 39 apps and more than 50 banks supporting the transaction system. In the post-demonetization India, this system played a significant role. In the future, with the help of UPI, banking is expected to become more "open."

4. Block Chain:

Blockchain is the new kid on the block and the latest buzzword. The technology that works on the principles of computer science, data structures and cryptography and is the core component of cryptocurrency, is said to be the future of banking and financial services globally. Blockchain uses technology to create blocks to process, verify and record transactions, without the ability to modify it.

NITI Aayog is creating IndiaChain, India’s largest blockchain network, which is expected to revolutionize several industries, reduce the chances of fraud, enhance transparency, speed up the transaction process, lower human intervention and create an unhackable database. Several aspects of banking and financial services like payments, clearance and settlement systems, stock exchanges and share markets, trade finance, and lending are predicted to be impacted. With its strenuous design, blockchain technology is a force to be reckoned with.

5. Artificial Intelligence Robots:

Several private and nationalized banks in India have started to adopt chatbots or Artificial intelligence robotsfor assistance in customer support services. For now, the use of this technology is at a nascent stage and evolution of these chatbots is not too far away. Usage of chatbots is among the many emerging trends in the Indian banking sector that is expected to grow.

More chatbots with the higher level of intelligence are forecasted to be adopted by the banks and financial institutions for improved customer interaction personalized solutions. The technology will alleviate the chances of human error and create accurate solutions for the customers. Also, it can recognize fraudulent behavior, collate surveys and feedback and assist in financial decisions.

6. The rise of Fintech Companies:

Previously, banks considered Fintech companies a disrupting force. However, with the changing trends in the financial services sector in India, fintech companies have become an important part of the sector. The industry has emerged as a significant part of the ecosystem. With the use of financial technology, these companies aim to surpass the traditional methods of finance. In the past few decades, massive investment has been made in these companies and it has emerged into a multi-billion-dollar industry globally.

Fintech companies and fintech apps have changed the way financial solutions are provided to the customers. Besides easy access to financial services, fintech companies have led to a massive improvement in services, customer experience, and reduced the price paid. In India, the dynamic transformation has been brought upon by several important elements like fintech startups, established financial institutions, initiatives like "Start-Up India" by Government of India, incubators, investors, and accelerators. According to a report by National Association of Software and Services Companies (NASSCOM), the fintech services market is expected to grow by 1.7 times into an $8 billion market by 2020.

7. Digital-Only Banks:

It is a recent trend in the Indian financial system and cannot be ignored. With the entire banking and financial services industry jumping to digital channels, digital-only banks have emerged to create paperless and branchless banking systems. This is a new breed of banking institutions that are overtaking the traditional models rapidly. These banks provide banking facilities only through various IT platforms that can be accessed on mobile, computers, and tablets. It provides most of the basic services in the most simplified manner and gives access to real-time data. The growing popularity of these banks is said to be a real threat to traditional banks.

ICICI Pockets is India's first digital-only bank. These banks are attractive to the customers because of their cost-effective operating models. At the same time, though virtually, they provide high-speed banking services at very low transaction fees. In today’s fast lane life, these banks suit the customer needs because they alleviate the need of visiting the bank and standing in a queue.

8. Cloud Banking:

Cloud technology has taken the world by storm. It seems the technology will soon find its way in the banking and financial services sector in India. Cloud computing will improve and organize banking and financial activities. Use of cloud-based technology means improved flexibility and scalability, increased efficiency, easier integration of newer technologies and applications, faster services and solutions, and improved data security. In addition, the banks will not have to invest in expensive hardware and software as updating the information is easier on cloud-based models.

9. Biometrics:

Essentially for security reasons, a Biometric Authentication system is changing the national identity policies and the impact is expected to be widespread. Banking and financial services are just one of the many other industries that will be experiencing the impact. With a combination of encryption technology and OTPs, biometric authentication is forecasted to create a highly-secure database protecting it from leaks and hackers attempts. Financial services in India are exploring the potential of this powerful technology to ensure sophisticated security to customers’ account and capital.

10. Wearables:

With smartwatch technology, the banking and financial services technology is aiming to create wearables for retail banking customers and provide more control and easy access to the data. Wearables have changed the way we perform daily activities. Therefore, this technology is anticipated to be the future retail banking trend by providing major banking services with just a click on a user-friendly interface on their wearable device.

These are some of the recent trends in the banking and financial sector of India and all these new technologies are predicted to reshape the industry of business and money. The future is going to bring upon a revolution of sorts with historical changes in traditional models. The massive shift in the landscape has few challenges. Nonetheless, the customers are open to banking innovations and the government is showing great support with schemes like “Jan Dhan Yojana,” which aims at proving a bank account to every citizen. Meanwhile, the competition from the foreign and private sector banks have strained the government regulators, nationalized banks and financial institutions to adopt new technology in order to stay relevant in the race.

CONCLUSION

Banking sector plays a dominant role in building the economy of an individual as well as a nation. A strong banking and finance sector is necessary for a country to emerge as a developed one. It is vital for growth, creation of jobs, generation of wealth, eradication of poverty and increasing the gross domestic product.

Today Banking is known as innovative banking. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. Customer services and customer satisfaction are their prime work.

With the advent of electronic banking, electronic funds transfer and other similar products, funds transfer with in time frames which would have appeared impossible a few years ago now came to reality. But with networking and internet connection new challenges are arising related to security privacy and confidentiality to transactions. Finally the banking sector will need to master a new business model by building management and customer services with a variety of products and controlled costs to stay in the long run.

SUMMARY

The banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. The economic growth of the country is an indicator for the growth of the banking sector. The Indian economy is projected to grow at a rate of 5-6 per cent34 and the country's banking industry is expected to reflect this growth. As banking in India will become more and more knowledge supported, capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide business opportunities to harness. The onus for this lies in the capabilities of the Reserve Bank of India as an able central regulatory authority, whose policies have shielded Indian banks from excessive leveraging and making high risk investments. By the government support and a careful re-evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby setting the stage for expansions into a global consumer base.

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