A Critical Analysis Of Banking Structure In India.

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ABSTRACT
In today's world, the banking sector performs as the core or basis of modern business. A country's economic improvement depends mostly on the banking structure of the country. A bank is an entity of finance. The core banking businesses that a bank carries out are receiving the money deposits and lending money and/or investing it. Nowadays the banking business plays a crucial part in human life as in the modern lifestyle of people, without having a properly developed banking network, they might not carry out proper financial transitions.
This paper deals with the banking structure in India. The present structure of banking in India which has developed over many decades is complex but detailed and it serves the requirements of credit and banking businesses of the Indian economy. The present banking structure has different layers to serve the certain and various needs of various customers. The banking structure in India plays a critical role to mobilize savings and also in the economic development of the country.

Keywords: Bank, Banking, Indian Banking Structure, Indian economy

INTRODUCTION

A bank may be defined as an institution of finance which carry outs the banking businesses and provides other financial services to the people who are its customers. In general, a bank may be understood by a layman as an institution that carries out the basic banking business like the acceptance of deposits and issuing of loans. However, the banking business is far more complex and thorough. The banks can be considered as a subset of the financial sector of the economy. According to the Banking Regulation Act, 1949, banking has been interpreted as acceptance of the money deposits from the people to lend and invest and these deposits could be re-paid by demand or withdrawal by cheque, drafts or orders.

In India, the banking business is ancient and has some of its ancient references in the Manu writings. The present-day banking in India emerged in the final decade of the 18th century. Before the establishment of the banks in India, all the financial work or business was managed by money lenders and individuals. During that period the rate of interest was overpriced and unreasonable. Moreover, the public savings had no security and there was no conformity nor regularity in matters related to loans. To resolve these issues, there was the establishment of an organized banking sector that was completely managed by the Government of India. This organized banking sector worked inside the financial system to issue loans to their customers, accept their deposits and dispense other services. The Indian banking system has developed enormously during the last few decades. Recently, this system has accomplished new heights and has moved quickly passed the traditional concept of banking in the world. In 1935, due tothe increasing number of banks established in India, a central regulatory authority had to be established that had supervisory power over all the banks in India. As per this need, the ReserveBank of India (RBI) was established in India in 1935.

In today's world, the banking system of a nation is a critical pillar that holds up the financial sector of the economy of a nation. The spirit of the banking business is the acceptance of moneydeposits from the public along with the provision to withdraw that money by various modes such as cheques. The most important part that the banks play in the financial sector is the free flow of deposits and the disposal of credit to different sectors of the country's economy(John B.,2012).

STRUCTURE OF BANKING IN INDIA

The structure of the baking system varies from nation to nation based on the condition of the economy of the country, its political structure, and its financial sector. During the era of post- independence, the structure of banking in India had undergone two significant and vital changes. Firstly, the nationalization of the banks took place in 1969. During this period, as perthe Banking Companies (Acquisition and Transfer of Undertaking Ordinance), 1969, the nationalization of 14 commercial banks took place. Moreover, except for these 14 banks, therewas also a merger of 4 other banks with other public sector banks. Consequently, by the 1980s, nearly 90% of the banks in India were controlled by Government banks of India. During the 1990s, along with the massacre of the programmes of the economy, a motion of liberalization and privatization took place which consequently, helped the private sector banks to set foot inthe Indian market and operate. To ensure their proper functioning in the market, a pile of guidelines and mechanisms were set up.

The Indian banking structure is remarkably distinct from the banking structure of any other country. This complex but detailed banking structure that exists in India has developed over many decades. The Indian banks can be classified based on the volume of operations, the pattern of the businesses and the areas where it operates. The Reserve Bank of India is the central bank of the country that controls all the other banks of India. The Indian banking structure is broadly classified into two types: Scheduled banks and Non-Scheduled banks. The Scheduled banks in India have been further classified into Commercial banks or Cooperative banks. The commercial banks can be further categorized into public sector banks, private sectorbanks, foreign banks or regional rural banks. The cooperative banks are further categorized into rural cooperative banks and urban cooperative banks.

Reserve Bank of India (RBI)

The Reserve Bank of India is the central bank of India that was established on 1st April 1935 under the provisions of the Reserve Bank of India Act, 1934. The RBI has the apex position in the Indian banking structure. It supervises, controls and manages all the other banks in India. It carries out many different functions in the development and promotion of the banking sectorof the country's economy. It is also known as the 'banker's bank'[3]. The RBI has the power to prepare monetary and credit policies and implement them. the Government of India owns the central bank of India, RBI and also has the market power to issue notes.

Scheduled and Non-Scheduled Banks

The Scheduled banks are the banks that are comprised in schedule two of the Reserve Bank ofIndia Act, 1934. These banks are entitled to debts or loans at a bank rate from the central bank.The paid-up capital and reserves included in the scheduled banks are more than five lakh rupees. These banks are further classified into commercial banks and cooperative banks.

The Non-Scheduled banks are the banks which have not been included in schedule two of theReserve Bank of India Act, 1934. These banks unless there are any cases of emergencies are not entitled to borrow funds from the central bank for the usual banking businesses. The paid-up capital of these banks is less than five lakh rupees. The non-scheduled banks are free from the rules and regulations laid down by the central bank. These banks are needed to keep the cash reserve ratio with themselves rather than with the central bank of India.

1. **Commercial Banks**

Commercial banks are the institutions which receive deposits from general customers and businessmen and also lend loans or advances to them to make profits. These banks serve the financial needs of companies, industries and also different sectors such as agriculture, rural growth and development, and many others. Commercial banks are controlled by the Government of India or private or both. Some of the commercial banks of India are SBI Bank,HDFC Bank, ICICI Bank, Axis Bank, etc. These banks can be further categorized into public sector banks, private sector banks, foreign banks or regional rural banks.

Public Sector Banks

Public sector banks are the banks which are incorporated and/or controlled by the Governmentof India and also those banks of which the government possess a majority of the equity shares.These banks account for 90% of the total Indian banking business. The public sector banks hold a powerful place in the Indian market in comparison to the private banks as these are controlled by the Government of India itself. Recently, there was a merger of several public sector banks together by the Government of India to strengthen the bank's balance sheets. In today's banking sector, there are 12 public sector banks in India and among these, the State Bank of India (SBI) is the biggest commercial bank in India.

A. **Private Sector Banks**

Private sector banks are the banks of which the majority of the equity shares are possessed by anyone other than the Government of India such as private entities, institutions, corporations, or any individuals. These banks are regulated by private stakeholders or businesses. These banks have an important part in the growth of the banking sector of India. Some of the privatesector banks of India are the ICICI Bank, HDFC Bank, Axis Bank, etc.

B. **Foreign Banks**

Foreign banks are the banks whose headquarters are located abroad, however, it carries out their banking businesses in the form of private institutions elsewhere outside the country. Thesebanks are obligated to carry out their business by the rules and regulations laid down by the central bank of India, RBI and also those laid down by the nation where its headquarters are located outside India. Some of the foreign banks in India are HSBC Bank, Citi Bank, etc.

C. Regional Rural Banks (RRB)

Regional rural banks are state-promoted regional rural-oriented banks of India. These banks were established in India in 1975 as per the Regional Rural Banks Ordinance, 1975[4] to assist the difference in credit and develop the financial introduction in the rural areas. These banks are owned by three institutions that are the Government at the Central level, the Government at the State level and the Sponsor Banks. The RRBs carry out their banking business inside the limited rural areas for which they have been established. The first RRB that was established bythe Government was the Prathama Bank located in Uttar Pradesh.

2. Cooperative Banks

The Cooperative Banks are financial entities which are owned by their members who are alsotheir customers. These banks are the main supporters of activities related to agriculture, a few small-scale industries, and self-employed workers. These banks carry out their banking business based on the principles of cooperation and correlative help. The cooperative banking system has a three levelled banking structure that includes the cooperative bank of the state situated at the top level, then the central cooperative bank that is situated at the district level and then, at last, the primary cooperative banks that are at the local level. The Cooperative banks can be further categorized into Rural cooperative banks and Urban cooperative banks.

A. Rural Cooperative Banks

Rural cooperative banks are either short-term or long-term banks that are located in rural areas of India. These banks mainly finance agricultural based activities including farming, dairy, andviticulture, along with some small-scale industries and self-employment activities.

B. Urban Cooperative Banks

Urban cooperative banks are the banks that are established in the urban areas and/or the semi- urban areas of India. These are chief cooperative banks that primarily deal with the financial matters that are related to self-employment for different people, industries, small-scale industries, and also housing finances.

CONCLUSION

The Indian banking structure is complex but detailed and has a crucial part in not only the development of the economy but also inequality among all sectors of the economy. In today'sworld, the banks of India have been well developed in regards to supply, the range of product and their reach. However, considering the private sector banks and foreign banks, the reach inrural India has still been a bit challenging. At present, the banking system of India is formed by twelve public sector banks, twenty-two private sector banks, forty-four foreign banks, forty-three regional rural banks, 1,484 and 96,000 cooperative banks in urban and rural areas respectively along with the cooperative credit entities. As of March 2021, there has been a totalof 213,575 ATMs located in India. The growth and development of the financial sector of the economy depend a lot on the structure and functioning of banks. Therefore, for the development of the economy of a country, it should have a proper and efficient banking structure.

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