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Commercial banks practices in India: An overview

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Abstract
A financially strong banking sector has been backbone of economic development of the country. Indian Banking Industry has shown better progress in enhancing financial performance and health of the country and offering employment since last yester decades. This sector continues to remain a highly dominant sector in India inspite of economic slowdown. Globalization has changed the fate and future of Indian banking sector. With the entry of new players Indian Banks are competing at global level for sound business operation. Inflows of Foreign Direct Investment Banking in system in India plays significant role in accelerating pace of economy, and plays vital role in the economic development because it does not only provide opportunities to the bank to enhance their economic development but also opens new vistas. Banking sector creating innovative financial products and improving capitalization of banks by making them adaptable to changing market conditions.

Keywords: Assets, bank, commercial, loan, NPA

Introduction
Globalization has transformed the banking system by changing the traditional business and by creating new business. Banking system in India it getting redefined, and it is facing several threats. The biggest challenges which threatening is the stability of the Indian Public Sector Commercial Banking System and its Non-Performing assets (NPA). In India the banking business has raised after Independence, mainly after the LPG reforms. The sector is currently values at Rs 145 lakh crore and gone to more than double at Rs. 290 lakh crore by 2021. Out of this 68 percent of business is being done by Public Sector Commercial Banks. The present fact is that Indian Bank (Former Indian Bank) market share out of total banking business is 18%, and seeing the size of the banking business, the NPA are of major cause of concern. The Basel norms holds significant for the Banking system in India, but Indian Banks faces Challenges in implementing it. Non-Performing Assets (NPAs) is such asset of a bank which is not producing any income or such loan or lease that is not viewing its stated principal and interest payment. On bank balance sheet, any loans made to borrowers are listed as assets. The main risk to a bank is when borrowers take out loan amount and stop making their payments, this causing the worth of the loan assets to decline. Loans don’t goes bad right away. Most loans allow customers a certain grace period and after that they are marked as overdue. After a given number of days, the loan is treated as a nonperforming loans. Banks normally classify as NPA as any commercial loans which are more than 90 days overdue and the consumer loans that are more than 180 days overdue. For any agricultural loan, if the interest or the installment or principal remains overdue for two harvest seasons; it is treated as NPA.

Banking Practices in India
The Banking in India originated in the first Quarter of 18 century and the General Bank of India came in existence in 1786. It was followed by Bank of Hindustan, and both these banks are now defunct. After that, the Indian Government established three presidency banks in India. First of these were was the Bank of Bengal, which obtains charter in 1809, the other two presidency bank, such as the Bank of Bombay and the Bank of Madras, were established in respectively 1840 and 1843. The other three presidency banks were amalgamated into the Imperial Bank of India as per the Imperial Bank of India Act, 1920. This is presently termed as the State Bank of India.

India commercial banking consists of scheduled commercial banks and unscheduled banks. Scheduled Banks constitute those banks which have been included in the second schedule of RBI Act 1934.

For the assessment of performance of banks, the RBI grouped these banks as public sector banks, old and new private sector banks, and foreign banks. Later on foreign banks such as Credit Lyonnais started their Calcutta operations in the 1850. During these days, Calcutta was the most active trading port, mainly because of trade of the British Empire, and banking activity took roots there.

Up to 1901, the market expand with the establishment of banks like as Punjab National Bank, in 1895 at Lahore and Bank of India, in 1906, at Bombay, these were founded privately. The Reserve Bank of India (RBI) formally took the responsibility of regulating the Indian banking sector from 1935. After Independence in 1947, the RBI was nationalized and given vast powers. [2]Whenever the banking institutions expand and become complex under the influence of deregulation, and technologies advancement, it becomes crucial to maintain balance between profitability and stability. During the last 31 years from nationalization vast change have taken place in the markets as well as in the banking sector, because of financial reforms. The banking system have covered their traditional functions and have been, improving and coming out with new types of services to get the needs of the customers. Banks have been given more freedom to structure its policies. Fast advancement in technology has caused significant downfall in transaction costs, facilitated more diversification of portfolio and improvement in banking credit delivery. The Prudential norms with international standards, have been kept in place for developing and increasing the effectiveness of banks. The Process of organizational building has been strengthened with many measures. Like consolidation, convergence, and mass banking.

Commercial Banking System

According to section 5 of the Banking Regulation Act, 1949, Banking means such institution accepting money for the purpose of lending or investment or deposits from the public, repayable on demand or otherwise, or withdrawn by cheque, draft, order or otherwise. All such banks which are included in the II schedule to the RBI Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks. The Scheduled Commercial Banks are categorised into five different classes according to ownership or nature of operation. These bank groups are stated below

- State Bank of India and its Associates,
- Nationalized Banks,
- Regional Rural Banks,
- Foreign Banks and
- Scheduled Commercial Banks of the private sector

Apart from the nationalized banks, the State Bank of India and the associate banks of SBI, the commercial banks comprise foreign and Indian private banks.

In which the State Bank of India and its associated, nationalized banks and Regional Rural Banks are constituted under proper enactment of the Indian Parliament. The private sector banks are banking companies as defined in the Banking Regulation Act. These banks, with regional rural banks, constitute the public sector banking system in India. The Public Sector Banks in India have been vital for the Indian Financial structure. Indian banks play a significant role in the development of the nation with its high social commitments. These banks act as a development agent and are the source of hope of the public. Structure of the banking system is decided on two basic forces namely economic forces and legal forces. The demand for these banking services affects the banks design. It is National aspirations resulted in government regulations, have a vast influence on the banking structure.

Broadly these regulations are basically of two types

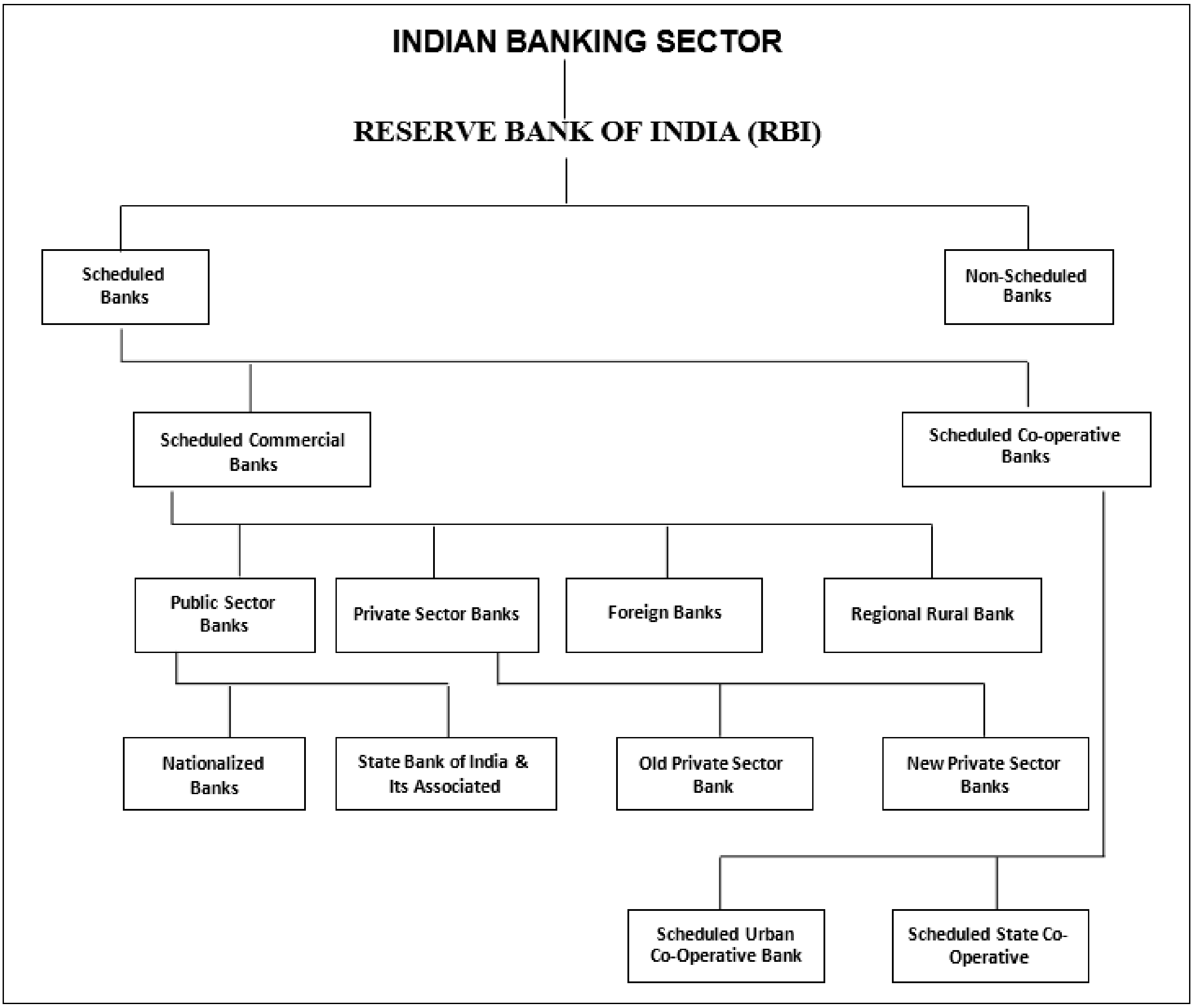
Firstly, regulation which result in the formation of new banks to meet the needs of a group of economic and activities and Regional Rural Banks. Regionally based and rural oriented commercial banks. The Government set up the Regional Rural Banks Ordinance on 1975, which was replaced by the Regional Rural Bank Act, 1976. The objective of this act is to develop rural economics by providing credit for the development of agriculture, commerce, trade, industry and other productive work in the rural areas, for marginal farmers, agricultural people, and very short enterprises.

Nationalization of Banks

It is Government of India has issued an ordinance and nationalized the fourteen largest commercial banks with effect from the 1969. In 2 weeks of the issue of the ordinance, the Indian Parliament passed the Banking related Bill, and it received the approval on 1969 (August). The nationalization of banks felt mainly because private commercial banks have not satisfied the social and development goals of banking sector which were essential for industrializing of the nation. Apart of enactment of the Banking Regulation Act, 1949 in India the nationalization of the largest bank, the State Bank of India, in 1955, the expansion of commercial banking had greatly untouched from rural areas and small-scale borrowers [6]. It is important to know that the second round of nationalization has been give the government more control on credit delivery. With the second afford of nationalization, the Indian Government controlled around 92% of the banking business of India. In 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the year 1990, the nationalized banks grow at a pace of near about 4% very close to the average growth rate of the economy of India. Details List of Indian Nationalize Banks are as follows:

▪ Allahabad Bank	▪ Punjab National Bank
▪ Andhra Bank	▪ State Bank of Bikaner & Jaipur
▪ Bank of Baroda	▪ State Bank of Hyderabad
▪ Bank of India	▪ State Bank of India (SBI)
▪ Bank of Maharashtra	▪ State Bank of Indore
▪ Canara Bank	▪ State Bank of Mysore
▪ Central Bank of India	▪ State Bank of Patiala
▪ Corporation Bank	▪ State Bank of Travancore
▪ Dena Bank	▪ Syndicate Bank
▪ Indian Bank	▪ UCO Bank
▪ Indian Overseas Bank	▪ Union Bank of India
▪ Oriental Bank of Commerce	▪ United Bank of India
▪ Punjab and Sind Bank	

Reserve Bank of India (RBI) has, in 2005 confirmed that IDBI Ltd, May be considered as Government-owned bank. Ministry of Finance has in 2007 advised Secretaries of all Ministries of Government of India that IDBI Bank Ltd, Will be treated on PAR with Nationalized Bank/State Bank by Govt. Department & Public Sector Undertakings and another. Entities for all purpose, including deposits, investment, guarantees and Government business. Reserve Bank of India (RBI) treated as is the central bank of the country.



***Source*:** Banking system in Indian economy

Legislations to banking are as follows: Legislations (Core)

Followings are the core legislations which should be considered.

1. Reserve Bank of India Act, 1934
2. Banking Regulations Act, 1949

Banking Operation Act: These must be considered

1. The Banking Companies Act, 1970
2. The Negotiable Instruments Act, 1881
3. The Bankers Books Evidence Act, 1891
4. The Securities and Exchange Board of India Act, 1992
5. The Prevention of Money Laundering Act, 2002

6. The Companies Act, 1956 and 2013

Problems to commercial banking system

Commercial banks in India are facing several problems. In India the Banking Industry has undergone sea change due to the promotion in economy and also deregulation. These changes has an effect on banking industry which is trying to arrange in proper way. Hence such problems which Indian Public sector commercial banks are encountering must be negated.

- Deregulation
- Rules
- Effectiveness
- Loyalty
- Mind-set
- Competency
- Strategy for solution
- Globalization of Banking Industry

Reasons of NPA in commercial banks

Indian economy were in the boom between 2000-2008. During this time Banks mainly Public sector banks lend extensively to corporate. Whenever, the profits of most of the corporate houses go down due to slowdown in the world economy, the ban in mining activities and delay in environment related permits affecting power, iron and steel industry, volatility in prices of material and the shortage in its availability. These have affected their ability to pay back loans and hence most important reasons behind increase in NPAs of public sector commercial banks [17].

Simple Norms: The Prime cause of rising NPAs is the easy lending norms mainly for corporate houses whenever financial status and credit rating is not analyzed rightly. Apart of this to face competition banks have largely sold unsecured loans which attributes to the level of NPA.

Absence of planning: Banks have not conducted proper planning, for negating project risk. They do not consider factors, such as failure of gas projects to ensure supply of gas failure of land acquisition process for highways projects.

Restructuring of loan facility: Restructuring of loan facility had been extended to such organization that have facing larger problems of over-leverage and inadequate profit. This problem have been more in the Public sector Commercial Banks.

Unforeseen economics shocks: Unforeseen economics shocks like Demonetization and Covid-19 has changed the picture of Indian Banking system and increased the volume of NPA of PSCB.

High NPA for Banks

It is clear, Higher NPAs impact on revenue strength of the banks to lose the confidence level of clients. Banks are back bone to the financial power to economy of country.

Conclusion

The banking system in India has been the key sector of national economic development the post liberalization era has viewed many environment related change in the banking system in India having direct impact on the economy. It is apparent that in the country India post liberalization period has promote the development of banking sector which has been instrumental in the shaping of economy of the country. It is banking sector which helped in promoting the development of various sector in India. Inspite of the progress of this sector, this sector has faced serious problems like decline in productivity and erosion of the profitability. On the recommendation of Narsimham Committee government has transformed the banking sector and this has been cause fast expansion and diversification of banking cause fast expansion and diversification of banking in India, with the entry of new private and foreign players, the operational efficiency of Indian Banking sector has expected to undergo a big change because these banks became foundation of entire banking business in the country and hold major portion of Indian banking business in India has burdened with more and more Non-Performing Assets (NPAs). Non-Performing or less performing human resource and absence of latest technology and high volume on Non- Performing Assets has been the feature of Indian Banking system. There is need to set-up a common currency, in order to attain the positive result of globalization so that the introduction of new private sector banks and foreign banking players can contribute, while interring in domestic market to compete with Indian Public sector commercial banks.

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