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FINANCIAL SERVICES - WITH SPECIAL REFERENCE TO BANKING SERVICES IN INDIA

Dr. (Mrs.) Medha. J. Gupte
i/c Principal & Associate Professor, Bharatiya Vidya Bhavan's Hazarimal Somani College, Chowpattyy, Mumbai.

Abstract
Financial services play an important role in the economic development of a country. They essentially refer to the services provided by the finance industry. It covers four main areas and banking is one of them. India has had a long banking tradition dating back to 1806. Banks in India can be classified as: commercial; and co-operative. The Reserve Bank of India is the apex bank. It was established in 1935 and nationalized in 1949, after India gained independence. The RBI is entrusted with the responsibility of overseeing the financial sector in India. In 1969, 14 commercial banks were nationalized and in 1980, 6 more were added to the list. The liberalization of the economy in 1991 saw the emergence of private banks and foreign banks as strong players in the banking arena. These tech savvy banks have put pressure on the performance of the Indian banks, to improve their performance if they have to withstand the competition.

Liberalization has had an impact on the functioning of the banks. There are a number of challenges and opportunities for these institutions. The commercial banks have to still reach out to the masses, particularly in the rural areas. With the right policy mix and self-discipline they can surge ahead and make their presence felt in this current global environment.

Key Words: Financial Services, Commercial Banks, Liberalization, Private Banks, Foreign Banks.

Introduction

Financial services are fundamental for economic growth and development of any economy. Banking, savings and investment, insurance, debt and equity financing help individuals to save money, guard against contingencies and build credit while simultaneously allowing business to initiate, expand, become more efficient so as to compete in local and international markets. For the poor these services apart from reducing vulnerability help them manage their assets in a way that generates income to help them combat poverty.

In this Paper an attempt has been made to define the concept of financial services, examine the types of banking services in India, discuss the extent of these services, analyze the challenges and opportunities to the sector in India and conclude by making suggestions.

Financial Services

This concept refers to the services provided by the finance industry. The finance industry in turn refers to a broad range of organizations that deal with the management of money. These services are financial in nature. The organizations covered under this include banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

Types of Financial Services

Thus four major services are included under Financial Services: Banking Services, Investment Services and Insurance. We shall concentrate on Banking Services.

Banking Services in India

The Indian banking system has emerged as the strongest driver of India's economic growth. It has a large geographic and functional coverage. The sector has undergone significant developments and investments. Today,the banking industry has achieved new heights. Most of the banks provide services such as mobile banking, SMS, Net banking and ATMs for the convenience of the consumers. This century has witnessed the transformation of banking into a tech intensive and customer friendly model.

India has a long tradition of Banking, with the sector in the modern sense originating in the last decade of the 18th century. The largest bank is the State Bank of India. It originated from the Bank of Calcutta. This bank was established in June 1806 and soon became Bank of Bengal. Two other banks viz Bank of Bombay and Bank of Madras were subsequently established. The three banks were merged to form the Imperial Bank of India which became the State Bank in 1955 (SBI).

The Reserve Bank of India Act was passed in 1934 and RBI was constituted as an apex bank on 1st April 1935, in accordance with the provisions of the Act. After India became independent, the Banking Regulation Act was passed, and accordingly the bank was nationalized on 1st January 1949. Under this Act, RBI was given wide ranging powers for supervision and control of banks. In 1955 the RBI got control over Imperial Bank renamed SBI.

The Government of India issued an ordinance (Banking Companies – Acquisition and Transfer Undertakings – Ordinance) in 1969 and 14 commercial banks were nationalized in 1969. These banks accounted for 85% of the total deposits. The Presidential approval was received on 16th August 1969. Six more banks were nationalized in 1980. With the second round of nationalization, the government controlled 91% of the total banking business.

In early 1990s the government embarked on a policy of liberalization; licensing a small number of private banks. These were called New- Generation tech savvy banks and included Global Trust Bank which later amalgamated with Oriental Bank of Commerce, UTI Bank (renamed Axis Bank), ICICCI Bank, HDFC Bank Kotak Mahindra Bank, Yes Bank and IndusInd Bank.

Structure and Extent of Banking in India
The Banking industry in India works under the supervision of the Reserve bank of India. It mainly consists of:

- Commercial Banks
- Co-operative Banks

The commercial banking structure in India consists of Scheduled commercial banks and non - scheduled banks. The Scheduled Commercial banks refers to those banks which have been included in the Second Schedule of the Reserve Bank of India Act 1934.Cooperative bank is a retail and commercial bank organized on a co-operative basis. Their origin can be traced to the end of 19th century.

After liberalization the Indian growth process improved and the growth rate was 8% per annum in the period between 2001 and 2011. It dropped later and stood at 7%. The draft twelfth five year plan (2012-17) predicts India's average growth rate at 9%.In the Post liberalization, period the performance of the banking sector improved perceptibly. Over the years the reach of the banks has widened to include relatively under-banked regions particularly those in the rural areas.

The growth of commercial banks can be seen from the table given below

Table (2005-2013)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Aggregate Deposits	17002 (billions in rupees)	21090 (billions in rupees)	26119 (billions in rupees)	31969 (billion in rupees)	38341 (billion in rupees)	44928 (billion) in Rupees)	52078 (billion in rupees)	59091 (billion in Rupees)	67504.54 (billion in Rupees)
Bank Credit	11004 (billions in rupees)	15071 (billions in Rupees)	19312 (billion in Rupees)	23619 (billion in Rupees)	27755 (billion in Rupees)	32448 (billions in Rupees)	39421 (billion in Rupees)	46119 (billion in Rupees)	52605 (billion in Rupees)
Deposits as percentage of GNP	62%	64%	69%	73%	77%	78%	78%	78%	79%

From the above table it is clear that there has been a steady increase in the growth of deposits. As a percentage of GNP, deposits increased from 62% in 2005 to 79% in 2013. After liberalization of the economy the next stage was relaxation in the norms for foreign direct investment where all foreign investors in banks may be given voting rights which could not exceed the present cap of 10% . This could increase to 74% with some restrictions.

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The new wave ushered in a modern outlook and tech saving methods of working for commercial banks. This led to retail boom in India where people demanded and received more from banks.

The growing competition, growing expectations led to increased awareness among banks about the role and significance of technology in banking. The use of technology has brought a revolution in the working by transforming banking into a technology intensive and consumer friendly model.

Some of the devices in use are:

1. Electronic Payment Services – E-Cheques
   This novel concept has been developed in US, which will eventually replace the conventional paper 'cheque'. The Negotiable Instruments Act has been amended in India, so as to include truncated cheque and E-cheques;
2. Real Time Gross Settlement (RTGS)
   This system, which was introduced in 2004, helps facilitate giving of instructions by banks to transfer the funds from their account to the account of another bank;
3. Electronic Fund Transfer (EFT)
   Under this system a person wanting to make payment to another person or organization can approach his bank and make cash payment, or authorize the bank to transfer funds directly from his Account to the bank of the receiver. The service in India is provided by the RBI.
4. Electronic Clearing Service (ECS)
   This facility is essentially applicable to government departments/corporate bodies to make or receive large volumes of payments. It is a retail payment, which is used to make bulk payments/ receipts of similar nature especially where individual payment is of a repetitive nature.
5. Automatic Teller Machine (ATM)
   ATM is a popular and convenient device, which enables customers to withdraw money 24 hours a day and seven days a week.
6. Point of Sale Terminal
   This computer terminal is linked online to the computerized customer information files in a bank and there also exists a magnetically encoded plastic transaction card that identifies the customer to the computer. In the event of any transaction the customer's account is debited and the retailers amount credited by the consumer for the amount of purchase.
7. Tele Banking
   This facilitates non-banking transactions of the consumers on the telephone. While automatic voice recorders are used for simple queries and transactions, manned phone terminals are used for complicated queries and transactions.

Challenges to the banking sector in India

The banking sector in India has made rapid strides in reforming and aligning itself according to the requirements of the competitive world. However, in its endeavor, it faces a number of challenges. Let us discuss them.

One, high transaction costs are involved in carrying non-performing assets in their books. The accelerated growth has strained the operational efficiency of banks, leading to accumulation of non-performing assets in their loan portfolio.

Two, application of IT and e-banking are being resorted to, leading to banking sector being virtual banking. This puts pressure to perform as the latter is a must for survival.

Three, post liberalization period has witnessed the entry of private banks and foreign banks thathave spearheaded the technical revolution. In order to survive and flourish in this competitive environment, banks have to follow efficient customer service policy.

Three, safety is the most important aspect of savings. With e-banking there is danger of the following risks: credit risk, liquidity, interest risk, market risk and legal risks.

Four, in today's business environment financial inclusion has become a necessity. The RBI has introduced a number of initiatives so as to achieve greater financial inclusion.

Opportunities for Banking in India

The Indian banking system as we have seen is faced with a number of challenges. On one hand we have millions of savers and investors who still do not use a bank, while on the other side we have the existence of ATMs, e-banking, and cashless economy. This increases the scope for market expansion.

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The opportunities for this sector include

Firstly, the sector has to cater to the needs of the growing economy. India is one of the fastest growing economies, who could withstand the aftermath of the Depression. Although there was a lull in growth after 2012, the economy is picking up. The services of the banking sector would be required to cater to the increasing demand.

Secondly, demographic shifts in terms of income levels, aspirations and life-styles are changing the profile of the consumer. This increases the demand for competitive and sophisticated banking services. The result has been a spurt in the demand for retail banking services. The consumers are not limited to big cities. In fact improving communications has been increasing awareness even in small towns and rural areas.

Thirdly, technology has entered the banking fields from all spheres. It is essential to develop or acquire the right technology or use it optimally and leverage it to the maximum extent so as to achieve and maintain high quality of service, while simultaneously remaining cost effective and delivering sustainable returns to all stake –holders.

Fourthly, there has been development of Indian industry and this has been accompanied by reintegration with the global markets. This offers opportunities to the banking sector. In the global environment, banks are thusempowered to service cross-border needs of both Indian companies and multinational corporations.

Finally, financial inclusion is a necessity in today's environment. It provides the poor people an opportunity to improve their economic conditions by availing of institutional sources of finance.

Suggestions and Conclusion

1. On the basis of the study so far we can say that the biggest challenge for the banking sector in India is reaching out to the masses. Financial exclusion exists on a large scale in India. This is mainly in the rural areas where the poor farmers are still at the mercy of non-institutional sources of credit like the money lenders. The problem is more serious in case of the North eastern, eastern and central parts of the country. It is therefore essential to take steps to impose measures which will increase penetration in India and tackle the mis-match between demand and supply.
2. Another issue is that of product differentiation. In addition to traditional banking services, Indian banks must adopt product innovation so as to be competitive and this requires up gradation of technology.
3. One major area is providing credit to the priority sectors such as agriculture and small-scale industries. These are crucial from the view point of generating employment and providing momentum to the growth process in the economy.
4. Strategies have to be adopted to fight the problem of high risk perception. There is need for setting up more risk management procedures so as to make business more viable. The banks should also gear themselves, to avert risks from innovations in financial products and technological advancement.
5. Banks in India are different from their counterparts elsewhere in the world, in terms of their large network and the fact that they cater to the diverse needs specific to the various sectors. There is also shortage of qualified manpower. The right policy mix is required to meet the demands of various sectors.

Thus post liberalization period has introduced environmental changes which have an effect on India's banking sector. While propelling India's growth process on one hand, it has on the other, posed some serious challenges, particularly with reference to banking sector. The emergence of private and foreign banks in the country has laid the platform for the provision of different innovative products. This has geared up the Indian banks to diversify and upgrade themselves, so as to survive in this fiercely competitive world. The introduction of the right policy mix along with discipline will help them to move ahead.

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