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Impact of Reforms to the Banking Sector: Profitability Perspective

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ABSTRACT- Any modern economy's lifeline is the banking industry. It is one of the crucial financial pillars of the financial system, and its impact on an economy's success or failure is crucial. A bank is a business that deals in money and credit and wants to make money. It is a financial institution that deals in money because it takes deposits from the public and keeps them safe in its custody. Additionally, it offers credit. The primary objective of this research is to determine whether public sector banks, particularly State Bank of Hyderabad and Andhra Bank, have adhered to the Narasimham Committee's recommendations and whether their performance lives up to those expectations.

KEYWORDS- Bank, Commercial Bank, Banking System, Economy, Reforms

I. INTRODUCTION

A banking company in India is one that "transacts the business of banking, which means the accepting, for the purpose of lending or investing, of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, draft, order or other". as defined by the Banking Companies Act of 1949. A bank possesses two distinct characteristics [1, 3, and 6].

- Accepting payments
- Lending them to others.

In today's economy, there are numerous, distinct, and significant financial requirements. As a result, the following distinct types of banks have been established to meet the various community requirements.

- Commercial Banks
- Co-operative Banks
- Specialized Banks
- Central Banks

II. STRUCTURE OF INDIAN BANKING SYSTEM

The two criteria of Statutory and Ownership can broadly be used to classify commercial banks in India. There are two types of banks according to the law: Non-Scheduled and Scheduled Banks There are two types of banks based on ownership: Banks in the Public and Private Sectors The fundamental characteristics of the structure of commercial banks in India are outlined in table 1[2,4].

Table 1: Statement showing Commercial Banking System in India at the end of June, 1969

Indicator	Foreign Banks	Private Sector			Public Sector	
		Indian Scheduled Bank		Non-Scheduled Banks	State Bank of India	Subsidiaries sof SBI
		Major Banks	Other			
No. of banks	150	14	36	16	1	7
No. of Offices	130	4130	1324	216	1566	888
Deposits (Rs. Crores)	478	2632	296	28	948	291
Credit	385	1829	197	16	967	219

III. GROWTH OF INDIAN BANKING

The development of Indian banking can be broken down into the following three distinct phases.
First Phase: Phase-II: Indian banks up until 1969: Phase-III of the nationalization of Indian banks from 1969 to 1991: Banks in India after 1991[5, 7, 8].
Phase I: Prior to the British occupation of India, banking had not developed significantly. In the pre-British era, the Maharajas and Sahykars typically ran the banking industry.
Between 1913 and 1948, the first phase of growth was extremely sluggish, and banks also experienced periodic failures. There were roughly 1100 banks, most of which were small. The Banking Companies Act of 1949 was enacted by the Indian government to streamline the activities and operations of commercial banks. As a result of an amendment Act of 1965 (Act No. 23 of 1965). As the Central Banking Authority, the Reserve Bank of India was granted extensive authority to oversee Indian banking [9, 10].
The general public lacks faith in the banks on those days. As a result, deposit mobilization took a long time. In addition, the Postal Department's savings bank facility is comparatively safer. Additionally, traders received the majority of the funds [11].
Phase II: During this phase, the Indian banking industry experienced significant expansion across the board. After India gained independence, the government instituted significant changes to the banking system by nationalizing banks. Of course, the Reserve Bank (Transfer of Public Ownership) Act of 1948 was the first act of nationalization of banks. It became law on September 3, 1948, and it continued until the Nationalization of the Imperial Bank of

India in 1955 and its seven subsidiary banks in 1960. However, the main nationalization process began on July 19, 1969.

14 major Indian commercial banks were nationalized as a result of Mrs. Indira Gandhi's efforts as Prime Minister at the time. The following table provides an understanding of the expansion of India's banking system during this time period [12].

Table 2: No. of Banks in India

Types of Banks	No. of Banks			
	1969	1976	1980	1991
Scheduled Commercial Banks	73	92	148	272
Out of which RRB"s	-	19	73	196
Non-scheduled Commercial Banks	16	8	5 15	4
Total:	89	100	153	276

The second phase of Indian banking growth is depicted in Table 1.2. No. The total number of banks increased from 89 in 1969 to 276 in 1991, with SCBs increasing from 73 in 1969 to 272 and

RRBs increasing from 19 in 1976 to 196

by 1991.

Table 3: No. of Bank Offices in India

Location of Bank offices	1969	1976	1980	1991
Rural	1833	7690	1510 5	3520 6
Semi-urban	3342	6421	8122	1134 4
Urban	1584	3998	5178	8046
Metro Politan	1503	3111	4014	5624
Total:	8262	2122 0	3241 9	6022 0

In addition, the number of branch offices increased from 8262 in 1969 to 60220 in 1991. This growth also mainly affects the rural and semi-urban categories, which increased from 1833 and 3342 in 1969 to 35206 and 11344 in 1991,

respectively. As a result of this analysis, we are able to state that urban banking is moving toward rural banking, class banking is moving toward mass banking, and so on[13,14].

Tables 1 through 5 provide an explanation of the rise in credit granted by Indian commercial banks, which totaled Rs. 3599 crores in 1969, before rising to Rs. 121865 crores at the end of 1991, and the priority sector's share of total advances increased from 14% in 1969 to 37.6% in 1991. Advances in the priority sector now total Rs in absolute value. From Rs. 44,572 crores in 1991

$504 million in 1991. This makes it clear that significant credit was given to a priority sector by commercial banks in India, which actively participated in the implementation of government policies [15].

Table 4: Deposits of Scheduled Commercial Banks (Rupees in Crores)

Types of Deposits	Year			
	1969	1976	1981	1991
Demand Deposits	2104	6106	8290	38300
Time Deposits	2542	9072	32259	162898
Total Deposits	4646	15178	40549	201199

Table 5: Credit of Scheduled Commercial Banks (Rupees in Crores)

Indicator	Year			
	1969	1976	119581	1991
Credit of SCB"s in India	3599	11476	26551	121865
SCB"s Advances to Priority Sector	504	2815	9444	44572
Share of Priority Sector Advances in total credit of SCB"s	14.0	2405	35.6	37.6

Phase – III: During the third phase of the reforms, Indian banking has made significant progress in terms of the total amount of deposits that have been mobilized. In contrast, Indian commercial banks' total deposits increased from Rs. 2, 01,199 crores in 1991 to Rs. 26, 08,309 crores in 2013. In India, Scheduled Commercial Banks now have deposits per office of Rs. From Rs. 3,631 lakhs in 2013, 314,000 in 1991. Additionally, the Scheduled Commercial Banks in India have increased their per capita deposits to Rs. 23,468 in 2013, derived from 2,368[1, 16].

In addition, the total amount of credit granted by commercial banks has increased from Rs.

$121 million in 1991. In India, the SCBs' credit per office has reached Rs. From Rs. 2,685 lakhs in 2013, 202 million in 1991 the same has also increased its per capita credit to Rs. 17,355 in 2013, derived from 1,434 in 1991. In addition, the phase has expanded the number of products and services offered by Indian banks. A committee in M. Narasimham name was established in 1991 to advocate for the liberalization of banking practices [1, 12, 17].

There are a lot of foreign banks and ATMs in the country. An effort is being made to provide customers with satisfactory services. The Indian banking system has also seen an increase in competition. The most significant developments are as follows: The banking sector in India is experiencing a sea change as a result of the economic reforms implemented in 1991 and the rise of information technology6. The various types of plastic money used today are depicted in the diagram that follows.

Credit Card: The only use for this card would be to operate the Automated Teller Machine. Cash Card: When making purchases from Member Establishments (MEs) that have made arrangements with the bank or agency issuing the card, this card would be useful. VISA and Master Card are the two primary card issuers to which all card issuers belong. Credit/Debit Card: This is the most widely used plastic money in today's world. The same debit card can be used to pay for purchases and withdraw cash from ATMs. This card has two uses.

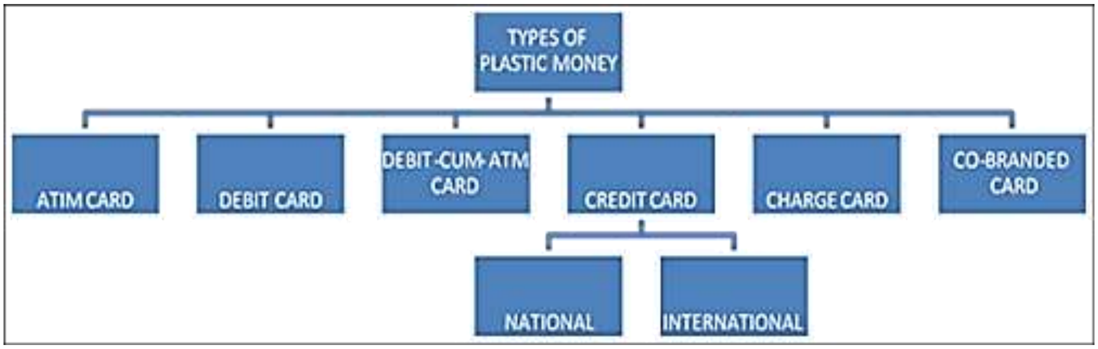

Figure 1: Types of plastic Money

IV. BANKING SECTOR REFORMS IN INDIA

Numerous banking sector reforms have been implemented [4, 5]. The government wants to tighten its grip on the banking industry. 14 major private sector banks in India had been nationalized, and their deposits exceeded Rs. 500,000,000 in 1969. The number of government-run scheduled bank branches had increased as a result. Control from 31% to 84 percent. However, the public sector banks' poor performance was becoming a growing cause for concern. As a result, a number of committees have been established and The appointment of the banking commission in 1969, when R.C. Sariya served as chairman, marked a pivotal moment in the growth of banking. In February 1972, the commission submitted its report. The report asked questions about the commercial banking system as it currently exists, paying special attention to its size, geographical spread, and area of operation, and it made important suggestions that will help the banking system improve the lives of Indians. One fundamental goal guides all of the major recommendations: that the country's banking system needs to play a full role in achieving the desired rate of economic growth [9, 10]. The banking sector reforms that began at the beginning of the 1990s basically followed a two-pronged strategy: In the beginning, the level of competition within the banking system was gradually raised, and international best practices in prudential regulation supervision that were tailored to Indian requirements were also implemented. While measures were initiated to ensure flexibility, operational autonomy, and competition in the banking sector, particular emphasis was placed on enhancing Indian banks' risk management capabilities. Second, proactive measures were taken to enhance the legal and technological frameworks of the institutional arrangements. The following are some of the actions taken in this regard [15, 16].

V. EFFECTS OF REFORMS ON THE BANKING SECTOR

The Indian banking sector had made enough progress during the reforms period. The expansion of branches and the growth of credit and deposits can be used to evaluate the industry's progress. Even though SCB branch expansion has slowed since 1991, the number of people living in each bank branch has not changed much, hovering around 15,000. Consequently, during the reform period, the banking sector has maintained its gains in terms of branch network in the social banking phase [1, 7][17].

VI. CONCLUSION

The primary objective of the interest rate reforms was to simplify India's tiered,
complex interest rate structure before 1990. Different interest rates depending on the size, purpose, loan maturity, group, industry, or location, were rationalized to converge over a five-year period at a single lending rate known as the prime lending rate. The objective was to move toward indirect monetary control16 and provide banks with more options and flexibility for their asset liability management operations.

Quantitative restrictions were implemented simultaneously with interest rate deregulation. In 1990, priority industries received 40% of the bank's credit. More than 40% of the banking sector's net demand and time liabilities were covered by the reserve requirement.

The deregulation of interest rates has been the banking liberalization in India's most significant and far-reaching effect. Previously governed by the government, Indian banks are now using a market-driven interest rate structure. Driven structure of interest rates. The integration of lending rates across the spectrum is a result of interest rate deregulation. The bank rate and the prime lending rate of each bank are now synchronized. The Reserve Bank of India (RBI) revived the bank rate as the industry standard. Domestic interest rates have decreased and the gap between domestic rates and foreign rates has narrowed in India as a result of interest rate deregulation. India's high budget deficits have made domestic. Borrowing more expensive, which helps the country attract equity capital from abroad.

CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest

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