



Growth of Foreign Bank in India

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ABSTRACT

Finance and banking is the life blood of trade, commerce and industry. Now –a-days, banking sector acts as the backbone of modern business. In current faster lifestyle peoples may not do proper transitions without developing the proper bank network. And the Indian financial sector has also incessantly faced the rapid change in the banking system. And we can also say that before the reform period, Indian banking industry was neither perfect nor flexible. In order to create the more diversified, efficient and the elastic banking system, in 1992, government of India commenced inclusive banking reforms. Foreign bank in India captured a large number of the customer base due to their speedy and well organized working style and better customer service. Foreign bank have also brought the newest technology and new banking practices to India which has helped the domestic banks to improve their performance and the provide better the customer service. After the entry of the foreign bank in India, the Indian banking sector has become more competitive and the proficient. And in the Asia Pacific zone, India is considered to be most leading investment market due to the growth of the Indian economy and the assortment of income streams and product lines which gives them the sturdiness to grow. Foreign banks have a progressive position in India banking system after financial reforms.

INTRODUCTION

It is well known fact that from Earliest, time in the Indian possessed a system of indigenous banking. A large number of foreign banks are now also keep on opening shop in India to gain a critical mass by April, 2009. And when private banking space is expected to open up for the foreign banks in India always brought an explanation about the various prompt services to customers. And the share of the foreign banks in the

business done in the country (deposits and advances) has been hovering between 5 and 7 per cent during the Past decade. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. A new rule is also announced by the Reserve Bank of India for the foreign banks in India in this budget have put great hopes among foreign banks which allow them to grow unfettered. And foreign banks in India are also permitted to set up local subsidiaries. There are twenty-nine foreign banks are present in India through 273 branches and 871 offsite ATMs. Besides there are the 34 foreign banks operating through representative offices. Four are set up shop in the past one year. Standard Chartered Bank, the oldest foreign bank that came to India 150 years ago, and now operate the maximum number of the branches, 83. It is followed by HSBC, which entered India in 1867, with 47 branches. Citibank has the 39 branches and ABN Amro, 28 branches. The only other banks have that the double digit branch presence is Deutsche, 11.

List of some foreign banks in India

- ABN-AMRO Bank
- Abu Dhabi Commercial Bank
- Bank of Ceylon
- BNP Paribas Bank
- Citi Bank
- China Trust Commercial Bank
- Deutsche Bank
- HSBC
- JPMorgan Chase Bank
- Standard Chartered Bank
- Scotia Bank
- Taib Bank
- Bank of America
- Doha Bank

- Barclays Bank
- DBS Bank
- Royal Bank of Scotland
- Deutsche Bank

The story of foreign banks in India goes back to the 19th century when the colonial economy brought with it the need for modern banking services, uniform currency and remittances by British army personnel and civil servants. The earliest banking institutions, joint stock banks, agency houses and the presidency banks, established by the merchants during the East India Company regime largely catered to this growing need. While the agency houses and joint stock banks largely failed and disappeared, the three presidency banks would later merge to form the State Bank of India, India's largest lender. British owned and controlled, these early banks may be considered India's first 'foreign banks'. It was decades after their establishment that the first bank owned and controlled by Indians, the Allahabad Bank, would be established. Milestone events for banking in India such as the passing of the Reserve Bank of India (RBI) Act, 1934, the creation of the central bank in 1935, bank nationalization in 1969 and 1980 did not impact foreign banks much. They adapted well to the changing economy and retained their niche as service providers and employers of the elite; bringing capital, innovation and best practices from their home countries.

The first phase of banking reforms, triggered by recommendations of the Narasimhan Committee in 1991 and the licensing of the new private sector banks through the next two decades inaugurated an era of change. Meanwhile, the opening-up of the economy to increased participation by foreign players created greater opportunities for foreign banks to work with their multinational clients in India. In the more recent past, foreign banks have followed Indian corporate entities in their outbound expansions. The survival of the banking system in India through the financial crisis has demonstrated its strengths and most foreign banks present in India believe that India is a market with undeniable potential. However, like their predecessors, they continue to look for the best possible role they can play amidst the challenging political economy, heightened competition and changing financial services regulations.¹

Result and Discussion

Concept of Banking

A bank is financial institution which deals with deposits and advances and other related services. It also receives the money from those who want to save in the form of deposits and it lends money for those who need it. The term bank is either derived from old Italian word banc or from a French word banque both a mean a bench or the money exchange table. Now-a days, banking sector act as the backbone of the modern business. And we can also say that in olden days, European money lenders or money changers used to show the coins of different countries in the big quantity on benches or the table for the purpose of lending or exchanging. And we can also say that the bank is the establishment for the custody of money, which it pays out on customer's orders. And the bank is the financial institution which deals with other people's money. A bank lends out the money in the form of the loans to those who requires it for different purpose. A bank may be a firm, person or a company. Banks accept money from the various people in the form of the deposits which is the usually repayable on demand or after the expiry of a fixed period. It also gives safety to the deposits of its customers. It also acts as the custodian of funds of its customers. A bank also provide the easy payment and withdrawal facility to the customers in the form of the cheques and drafts, it also brings the bank money in the circulation. And bank also includes the general utility services and agency services. A bank is the profit seeking institution having services oriented approach. A bank act as the connecting link between the borrowers and lenders of the money. Banks collect the money from those who have surplus money and give the same to those who are in the need of the money.

History of Banking

The origin of western type commercial Banking in India dates back to the 18th century. The story of banking starts from **Bank of Hindustan** established in 1770 and it was first bank at Calcutta under European management. It was liquidated in 1830-32. From **Bank of Hindustan** in 1770, the evolution of banking in India can be divided into three different periods as follows:

- **Phase I:** Early phase of primitive Indian banks to Nationalization of Banks in 1969
- **Phase II:** From Nationalization of India banks in 1969 up to advent of liberalization and banking reforms in 1991

¹ www.pwc.in

- **Phase III:** From Indian Financial and Banking Sector Reforms 1991 onward

In 1786 **General Bank of India** was set up.

Since Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, it became a banking centre. Three Presidency banks were set up under charters from the British East India Company- Bank of Calcutta, Bank of Bombay and the Bank of Madras. These worked as quasi central banks in India for many years.

The Bank of Calcutta established in 1806 immediately became Bank of Bengal. In 1921 these 3 banks merged with each other and Imperial Bank of India got birth. Imperial Bank of India was later renamed in 1955 as the State Bank of India. Thus, State bank of India is the oldest bank of in India. In 1839, there was a fruitless effort by Indian merchants to establish a Bank called Union Bank. It failed within a decade. Next came Allahabad Bank which was established in 1865 and working even today. The oldest Public sector Bank in India having branches all over India and serving the customers for the last 145 years is Allahabad Bank. Allahabad bank is also known as one of India's Oldest Joint Stock Bank. However, the Oldest Joint Stock bank of India was Bank of Upper India established in 1863 and failed in 1913.

The first Bank of India with limited Liability to be managed by Indian Board was Oudh Commercial Bank. It was established in 1881 at Faizabad. This bank failed in 1958. The first bank purely managed by Indians was Punjab National Bank, established in Lahore in 1895. The Punjab national Bank has not only survived till date but also is one of the largest banks in India. However, the first Indian commercial bank which was wholly owned and managed by Indians was Central Bank of India which was established in 1911. So, Central Bank of India is called India's First Truly Swadeshi Bank.²

The Role of foreign bank in India

- Enhance the competition in the banking sector.
- Technology and skill transfer.
- Both Foreign and local banks has been investing on finical innovation.
- Modern banking services expanded.

- Enhanced provision of foreign currency to corporation.
- Foreign banks participation in foreign exchange and money market contribute for deepening of financial system.

Reason for foreign bank enter in India

- India's GDP is seen growing at a robust pace of round 7% over the next few years, throwing up opportunities for the banking sector to profit from.
- The credit of banks has risen by over 25% in 2004-05 and the growth momentum is expected to continue over the next four to five years.
- Participation in the growth curve of the Indian economy in the next four years will provide foreign banks a launch pad for greater business expansion when they get more freedom after April 2009.
- RBI is following a liberal branch licensing policy for those foreign banks who want to go to the unbaked pockets. They have started sensing enormous business opportunities in financing trade and small and medium sectors in small towns in the worlds second fastest growing economy.³

Conclusion

Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. The history of Indian banking system is associated with foreign banks. The post 1990 economic liberalization period in India resulted in increasing number of foreign bank operations. Foreign banks contributed to the banking sector and entire economy. The growth in Indian economy coupled with emerging educated middle class showed that the banking sector could have further potential for foreign banks in India. Though their advantage foreign bank has been criticized for their profit supremacy over social banking.

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