

## **Impact Evaluation of Privatization in Banking Segment in India and Associated Factors**

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### **Abstract**

The financial business in India has a tremendous canvas of history, which covers the customary financial practices from the hour of Britishers to the changes time frame, nationalization to privatization of banks and now expanding quantities of unfamiliar banks in India. Along these lines, Banking in India has experienced a long excursion. Banking industry in India has additionally accomplished another stature with the evolving times. The utilization of innovation has gotten an upset the working style of the banks. In any case, the key parts of banking for example trust and the certainty of the individuals on the establishment continue as before. Most of the banks are as yet fruitful with regards to the certainty of the investors just as different partners. Be that as it may, with the changing elements of banking business brings new sort of hazard introduction. In this paper an

endeavor has been made to distinguish the overall estimations, difficulties and open doors for the Indian Banking Industry.

***Keywords: Banking Sector in India, Impact of Privatization of Banks in India, Privatization of Banks***

### **Introduction**

In ongoing time, we have seen that the World Economy is going through some mind boggling conditions as liquidation of banking and money related establishments, obligation emergency in significant economies of the world and euro zone emergency. The situation has become dubious causing downturn in significant economies like top economies. This suggests some genuine conversation starters about the endurance, development and keeping up the reasonable turn of events. In any case, in the midst of this disturbance India's Banking Industry has been among the couple of to look after strength [1].

The rhythm of advancement for the Indian financial industry has been amazing over the previous decade. It is apparent from the higher pace of credit extension, growing benefit and efficiency like banks in created markets, lower rate of non-performing resources and spotlight on budgetary incorporation have added to making Indian banking energetic and solid. Indian banks have started to amend their development approach and reexamine the possibilities available to keep the economy rolling [2].

### **Historical Dimensions**

Bank of Hindustan was set up in 1870; it was the most punctual Indian Bank. Afterward, three administration banks under Presidency Bank's demonstration 1876 for example Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which established framework for present day banking in India [3]. In 1921, all administration banks were amalgamated to

frame the Imperial Bank of India. Supreme bank did predetermined number of focal financial capacities before foundation of RBI [4].

It occupied with a wide range of business banking business aside from managing in unfamiliar trade. Save Bank of India Act was passed in 1934 and Reserve Bank of India (RBI) was comprised as a summit body without significant government possession. Banking Regulations Act was passed in 1949. This guideline brought RBI under government control. Under the demonstration, RBI got wide running forces for management and control of banks. The Act additionally vested permitting powers and the position to lead assessments in RBI. In 1955, RBI obtained control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks drifted in the past august states, making them as its 100% auxiliaries. It was 1960, when RBI was engaged to compel necessary merger of powerless saves money with the solid ones [5].

It altogether decreased the all out number of banks from 566 of every 1951 to 85 of every 1969. In July 1969, government nationalized 14 banks having stores of Rs. 50 crores and above. In 1980, government procured 6 a greater number of keeps money with stores of more than Rs.200 crores. Nationalization of banks was to make them assume the job of reactant specialists for monetary development. The Narasimha Committee report recommended wide going changes for the financial part in 1992 to present universally acknowledged financial practices. The alteration of Banking Regulation Act in 1993 saw the passage of new private part banks. Banking industry is the spine for development of any economy [6].

The excursion of Indian Banking Industry has confronted numerous floods of financial emergency. As of late, we have seen the monetary emergency of US in 2008-09 and now the European emergency. The overall situation of the world economy is exceptionally basic. It is the financial standards and guideline structure of India which has kept it from the world monetary emergency. So as to comprehend the difficulties and chances of Indian Banking

Industry, as a matter of first importance, we have to comprehend the overall situation and structure of Indian Banking Industry [7].

### **Key Perspectives**

The overall financial situation in India has become exceptionally unique now-a-days. Prior to preliberalization time, the image of Indian Banking was totally unique as the Government of India started measures to assume a functioning job in the monetary existence of the country, and the Industrial Policy Resolution received by the administration in 1948 imagined a blended economy. This came about into more prominent contribution of the state in various fragments of the economy including banking and account [8].

The Reserve Bank of India was nationalized on January 1, 1949 under the provisions of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was instituted which engaged the Reserve Bank of India (RBI) "to manage, control, and assess the banks in India." The Banking Regulation Act likewise gave that no new bank or part of a current bank could be opened without a permit from the RBI, and no two banks could have regular chiefs. By the 1960s, the Indian financial industry had become a significant device to encourage the speed of advancement of the Indian economy [9].

### **Competitive Environment**

The developing rivalry builds the seriousness among banks. In any case, existing worldwide financial situation is genuinely presenting dangers for Indian financial industry. We have just seen the liquidation of some unfamiliar banks. As per Shrieves (1992), there is a positive relationship between changes in hazard and capital. Exploration considered the huge example of banks and results uncover that guideline was incompletely powerful during the period secured. Also, it was reasoned that adjustments in bank capital over the period contemplated was chance based .

Wolgast, (2001) contemplated the Merger and procurement movement among budgetary firms. The creator centered bank bosses in setting with accomplishment of mergers, hazard the board, money related framework dependability and market liquidity. The examination inferred that huge organizations can keep up an unrivaled degree of hazard the board . Al-Tamimi and Al-Mazrooei (2007) inspected the hazard the board practices and methods in managing various sorts of hazard. Besides, they thought about hazard the executives rehearses between the two arrangements of banks [10].

The examination found the three most significant kinds of hazard for example business banks unfamiliar trade hazard, trailed by credit chance, and working danger . Sensarma and Jayadev (2009) utilized chosen bookkeeping proportions as hazard the executives factors and endeavored to check the general hazard the board ability of banks [11].

They utilized multivariate measurable methods to sum up these bookkeeping proportions. Additionally, the paper likewise broke down the effect of these hazard the executives scores on stock returns through relapse investigation. Specialists found that Indian banks' hazard the executives abilities have been improving after some time. Profits for the banks' stocks gave off an impression of being touchy to chance administration ability of banks. The investigation recommend that banks need to upgrade investor riches should concentrate on effectively overseeing different dangers.

In the mid 1990s, the then Narasimha Rao government left on a strategy of progression, authorizing few private banks. The following stage for the Indian banking has been set up with the proposed unwinding in the standards for Foreign Direct Investment, where every single Foreign Investor in banks might be given democratic rights which could surpass the current top of 10%, at present it has gone up to 74% with certain limitations.

The new arrangement shook the Banking area in India totally. Brokers, till this time, were utilized to the 4-6-4 strategy (Borrow at 4%; Lend at 6%; Go home at 4) of working. The new wave introduced a cutting edge standpoint and well informed techniques for working for customary banks. This prompted the retail blast in India. Individuals requested more from their banks as well as got more.

### **Conclusion**

The Government of India gave a law and nationalized the 14 biggest business keeps money with impact from the 12 PM of July 19, 1969. A second portion of nationalization of 6 more business banks followed in 1980. The expressed purpose behind the nationalization was to give the administration more control of credit conveyance. With the second portion of nationalization, the Government of India controlled around 91% of the financial business of India. Later on, in the year 1993, the administration blended New Bank of India with Punjab National Bank. It was the main merger between nationalized banks and brought about the decrease of the quantity of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks developed at a pace of around 4%, closer to the normal development pace of the Indian economy.

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