



# “Business Environment And Banking System In India”

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**Introduction :** The business environment means all the external and internal factors that influence how an organization operates, makes decisions, and achieves its objectives. It includes elements such as government policies, economic conditions, competitors, technology, customers, and social trends, all of which lie largely outside the control of a business but have a strong impact on its performance. Various changes in the external world often compel businesses to adjust their operations and strategies. The history of banking in India is one of the oldest and most fascinating in the world. Spanning over 3,000 years, India's banking evolution mirrors the country's social, political, and economic transformations from ancient moneylenders and indigenous banking systems to a modern, technology-driven financial ecosystem regulated by the Reserve Bank of India RBI. Understanding this journey provides critical insights into how India's financial architecture was built and how it continues to evolve. Trade data overhaul: FY23 set as new benchmark forexport-import indices.

## ➤ **BUSINESS ENVIROINMENT :**

The revised indices feature an updated commodity basket at the Principal Commodity level to better capture emerging and declining trade items. Weights have been recalibrated using trade values from the new base year to reflect current export and import shares.

In general, RBI now mandates that all credit facilities to capital market intermediaries CMI shall be provided on a fully secured basis. How do tighter lending rules impact capital market intermediaries New RBI guidelines calling for full collateral for funding to capital market intermediaries may reduce bank funding access, raise costs, said analysts. The fund aligns with India's long-term goal of becoming a developed economy by 2047. Explained: What is the new ₹10,000-crore Startup India Fund of Funds 2.0 and why it matters Unlike direct funding schemes, it does not invest in startups itself. Instead, it invests in SEBI- registered Alternative Investment Funds AIFs, which then deploy capital into startups. The RBI has proposed allowing banks to lend to listed REITs a shift from its earlier stance that barred such financing. Stricter collateral, no prop-trading finance: RBI reshapes bank exposure to capital markets The RBI has also barred banks from financing proprietary trading by brokers, though funding may continue for legitimate activities such as market-making and short-term warehousing of debt securities. The draft NEP, 2026 released by the power ministry targets per capita electricity consumption of 2,000 kWh by 2030 Draft electricity policy bats for ending cross-subsidies.

**KEYWORDS :** Business Environment , Government policies, Environmental changes, Technological and social changes, National Electricity Policy , Modi Govt Unveils Shanti Bill, Ancient and Medieval Banking , Colonial Era of Banking 1700s–1947 , The UPI Revolution and Digital Banking 2016–2020.

❖ **Characteristics of Business Environment** : The business environment is complex and dynamic in nature. It is made up of several key characteristics that help us understand how it influences business activities.

✓ **Dynamic**: It keeps changing continuously due to innovations, government policies, competition, and global trends. These rapid changes can create both opportunities and threats for businesses. Firms must stay flexible and proactive to survive and grow in such conditions.

✓ **Relativity**: The business environment varies across regions, industries, and countries. A condition favorable for one business may prove challenging for another.

This relativity makes it essential to assess environmental factors within a specific context.

✓ **Uncertainty**: Future changes in the environment cannot be predicted with complete accuracy. Sudden shifts in technology, consumer preferences, or government actions may occur unexpectedly. Businesses must be prepared to handle risks and adapt to unforeseen developments.

✓ **Multi-Faceted**: The same change in the environment can have different impacts on different businesses. Its effect depends on each organization's nature, size, and response strategy. Hence, managers must analyze environmental changes from multiple perspectives.

✓ **Complex** : The business environment consists of numerous interconnected economic, social, political, and technological factors. Each factor influences others in multiple ways, making it difficult to isolate their effects. Understanding their combined impact on business decisions requires careful analysis.

✓ **Far-Reaching Impact**: Environmental factors influence not only the business but also employees, consumers, and society as a whole. Their effects are broad, deep, and often long-term in nature. A single major change can transform industries, reshape markets, and redefine business strategies.

➤ **Importance of Business Environment** : Understanding the business environment helps organizations make informed decisions, adapt to changes, and achieve long-term success. Its main points of importance are:

❖ **Copes with Change**: Assists firms in adjusting to rapid economic, technological, and social changes, ensuring long-term stability and growth.

❖ **Aids Planning**: Provides valuable information that helps managers set realistic goals and frame suitable policies in line with current trends.

❖ **Improves Performance**: Encourages continuous learning and innovation, leading to better decision-making, higher efficiency, and improved overall performance.

❖ **Recognizes Threats**: Alerts businesses to potential risks like competition, policy changes, or shifts in consumer preferences, helping them prepare in advance.

❖ **Taps Useful Resources**: Enables effective and efficient use of available resources such as labor, capital, and raw materials to improve productivity.

❖ **Identifies Opportunities**: Helps firms recognize new possibilities, such as emerging markets or changing customer needs, allowing them to take early action and gain a first-mover advantage.

✚ **The Draft National Electricity Policy 2026** : calls for major reforms in power sector with indexed power tariffs and exemption of cross-subsidies. Cryptocurrencies are not recognised as legal tender in India. However, transactions involving crypto assets are taxed under the Income-Tax law. Explained: Why India is mandating live selfies and location tracking for crypto users . The norms apply to all cryptocurrency exchanges classified as Virtual Digital Asset VDA service providers. These entities are regulated under the Prevention of Money Laundering Act PMLA and must be registered with the FIU as reporting entities. Budget 2026: Parliament will not sit on January 29 due to

the Beating Retreat ceremony, while both Houses are scheduled to meet on January 30, when the Economic Survey is expected to be tabled. Budget Session likely from Jan 28; Union Budget 2026 likely to be tabled on Feb 1 Budget 2026: After deliberations on the Motion of Thanks to the President's address and discussions on the Budget, Parliament is expected to adjourn for a near month-long recess on February 13. The session will reconvene on March 9 and is likely to conclude on April 2.

✚ The proposed amendment is driven by long-standing structural weaknesses in India's power sector, particularly at the distribution level. Electricity Amendment Bill 2025 may be headed for Budget Session. What's at stake The Electricity Amendment Bill, 2025 seeks to overhaul India's electricity distribution and regulatory framework to make power supply more competitive, financially sustainable and consumer-focused The latest approvals cover manufacturing across 11 target product segments spanning mobile phones, telecom equipment, consumer electronics, automotive electronics, IT hardware and strategic electronics. MeitY clears 22 electronics PLI projects worth ₹41,863 crore, eyes supply chain self-reliance The approved projects are expected to generate nearly 37,000 jobs, including 33,791 direct employment opportunities, the ministry said. The clearances mark the third tranche of approvals under the electronics component production-linked incentive PLI framework. India's exchange-based power market has expanded significantly over the past decade. Power trading overhaul: CERC eyes fee rationalisation as market coupling nears 2026 rollout Indian Energy Exchange IEX currently accounts for nearly 90% of exchange-based power trading volumes, while Power Exchange India Ltd PXIL and Hindustan Power Exchange Ltd HPX comprise the remainder. Crucially, the legislation opens India's tightly controlled nuclear ecosystem to private participation, breaking a decades-old monopoly of the Department of Atomic Energy DAE.

✚ **Modi Govt Unveils Shanti Bill:** Will private players power India's nuclear leap. The SHANTI Bill lays the foundation for a unified and modern legal framework for nuclear energy consolidating multiple existing laws, addressing regulatory gaps, and creating a structure that supports expansion at scale. Additionally, the government is expected to introduce a bill in the upcoming Winter Session of Parliament to raise the FDI cap in the insurance sector from 74% to 100%. FinMin reviews revival of mega PSU insurance merger; privatisation, FDI hike also under review Between 2019-20 and 2021-22, the government infused ₹17,450 crore into the three insurers Oriental Insurance, National Insurance, and United India Insurance to stabilise their finances. A major change is the requirement for IT and ITES companies to extend full social security benefits to fixed-term employees, putting them at par with permanent workers.

✚ **Equal pay, social security, night-shift protections:** What the new labour codes mean for India's IT workforce Industry body Nasscom called the reform "a step toward greater predictability and transparency," adding that full implementation must ensure alignment between the central codes and state-level labour and shops-and-establishments laws. A national floor wage will ensure no worker earns below a basic standard of living. Aatmanirbhar push: India rolls out historic labour codes for a future-ready workforce. Check details India's existing labour regulations were built on laws framed between the 1930s and 1950s, an era when work structures, technology, and economic realities were vastly different. Over time, these fragmented and complex laws created uncertainty for workers and heightened compliance burdens for industry. The move comes amid growing foreign interest in India's banking sector.

✚ **Finance Ministry proposes raising FDI limit ;** in state-run banks to 49% India has 12 state-owned banks, which together hold assets worth around \$1.95 trillion as of March, accounting for 55% of the country's banking sector. According to sources, the government intends to retain at least a 51% stake in these banks, ensuring majority ownership even if the proposal goes through. On 'Chhota SIPs', he acknowledged slow progress but assured steps to unlock their potential. SEBI to roll out digital KYC for NRIs, predictive market surveillance, faster FPI registration Speaking at an event organised by the Bombay Stock Exchange Brokers' Forum on October 11, SEBI Chairman Tuhin Kanta Pandey said the regulator's immediate goal is to ensure NRIs no longer need to travel to India to complete their KYC requirements. Online game service providers must apply for registration of their games with the Authority. Centre notifies draft rules for online gaming regulation and promotion. Here are the details Headquartered in the National Capital Region, the Authority will be tasked with recognising, categorising, and registering online games; maintaining a public registry of approved games; issuing

advisories; and imposing penalties for violations. The changes follow stakeholder consultations and are part of the government's broader initiative to streamline regulations. Finance Ministry overhauls old stock exchange rule to boost clarity and ease broker compliance. The revision comes in the wake of a discussion paper issued.

✚ **Department of Economic Affairs DEA** : in September 2024, which raised concerns over the ambiguous language in Rule 8 particularly the undefined scope of the term "any business." The proposed revision in the rules aims to ensure foreign investors cannot bypass the intent of India's FDI policy, the report added. India plans stricter rules for companies with foreign ownership: Report

✚ New Delhi plans to create a new category of "foreign-owned and controlled entities" FOCE, which will also include Indian firms with "indirect foreign investment", according to the report.

## Ancient and Medieval Banking Pre-Colonial Era Indigenous Banking Systems

Long before formal banks existed, India had a highly developed system of indigenous banking. The roots can be traced to the Vedic period 2000–1400 BCE, where texts like Manusmriti mention lending operations and interest rates. The concept of 'Kautilya's Arthashastra' 4th century BCE provided detailed regulations for financial transactions, interest rates, and deposits.

Key figures in early Indian banking included:

- **Shroffs and Seths**: Merchants and financiers who managed money exchange, lending, and deposit functions in urban centres.
- **Mahajans**: A class of moneylenders dominant in rural and semi-urban India who provided credit to farmers and artisans.
- **Chettis and Chettiars**: A Tamil trading community renowned for their sophisticated money-lending and trade-financing activities extending across South and Southeast Asia.

**The Hundi System** : The Hundi was a pre-colonial financial instrument — a form of bill of exchange used for transferring money across long distances. Merchants would issue Hundis in one city, which could

be redeemed in another, effectively functioning like modern-day demand drafts or letters of credit. This system was widely used during the Mughal period and formed the backbone of internal trade finance in India. The Hundi system demonstrated remarkable sophistication, with different types such as Darshani Hundi payable on demand, Muddati Hundi payable after a specified period, and Shah Jog Hundi payable to a respectable bearer. These instruments reduced the risk of carrying physical currency across dangerous trade routes.

## Colonial Era of Banking 1700s–1947

The arrival of the British East India Company marked a new chapter in Indian banking. Formal banking institutions began to emerge to support colonial trade and administration:

- **Bank of Hindustan 1770**: Established in Calcutta by the British agency house of Alexander & Co., it is considered the first bank in India. However, it failed in 1832 with the collapse of the parent firm.
- **General Bank of India 1786**: Another early attempt that wound up in 1791.
- **Bank of Bengal 1806**: The first Presidency Bank, established in Calcutta under a royal charter. It was later merged with the other Presidency Banks.
- **Bank of Bombay 1840**: Established to serve western India's trade needs.
- **Bank of Madras 1843**: Established to cater to the southern peninsula.

These three Presidency Banks were eventually amalgamated in 1921 to form the Imperial Bank of India, which later became the State Bank of India in 1955.

## Rise of Exchange Banks and Joint-Stock Banks

The second half of the 19th century witnessed a proliferation of exchange banks — predominantly British-owned institutions — that primarily handled foreign trade and exchange operations. These banks transferred profits from India to Britain and largely excluded Indian businesses from meaningful credit access.

Simultaneously, a number of Indian-managed joint-stock banks emerged, though many failed due to mismanagement and economic crises. Notable survivors included the Allahabad Bank 1865

India's oldest joint stock bank still functioning today and the Punjab National Bank 1894, which was founded with nationalist motivations by Lala Lajpat Rai and others.

## The Swadeshi Movement and Indian Banking

The Swadeshi Movement 1905–1908, triggered by the Partition of Bengal, gave a significant impetus to Indian banking. The movement encouraged Indians to patronise indigenous products and institutions, resulting in the formation of several Indian-owned banks. The Bank of India 1906, Central Bank of India 1911, and Canara Bank 1906 were all founded during this period, reflecting nationalist economic aspirations.

## Banking Crises and the Need for Regulation

The early 20th century was marked by periodic banking crises. The failure of numerous small and ill-managed banks exposed depositors to significant losses and undermined public confidence. The need for a central banking authority became increasingly apparent. The Hilton Young Commission 1926 recommended the establishment of a Reserve Bank of India, culminating in the Reserve Bank of India Act, 1934.

### **Establishment of RBI and Post-Independence 1935–1969 :** Reserve Bank of India 1935

The Reserve Bank of India was established on April 1, 1935, under the RBI Act of 1934, with Sir Osborne Smith as its first Governor. Initially a privately-owned central bank, it was nationalised in 1949 following independence. The RBI assumed responsibility for:

- ✓ Issuing currency and regulating money supply.
- ✓ Acting as banker and financial agent to the government.
- ✓ Regulating and supervising commercial banks.
- ✓ Managing the country's foreign exchange reserves.
- ✓ Developing and maintaining payment and settlement systems.

**Banking Regulation Act, 1949 :** The Banking Regulation Act of 1949 was a landmark piece of legislation that gave the RBI comprehensive powers to regulate, supervise, and control banking companies. Key provisions included requirements for minimum capital, restrictions on management, provisions for inspection of banks, and powers to issue directions. This Act remains the bedrock of Indian banking regulation to this day, though it has undergone numerous amendments.

**Imperial Bank to State Bank of India 1955 :** In 1955, the Imperial Bank of India was nationalised and renamed the State Bank of India SBI under the State Bank of India Act, 1955. The rationale was to extend banking services to rural and semi-urban areas that were not served by private banks. The SBI was envisioned as an instrument of social banking and a vehicle for implementing government economic policies. Eight associate banks were also brought under its umbrella, making it the largest banking institution in India.

**Banking Nationalisation 1969–1991 :** On July 19, 1969, Prime Minister Indira Gandhi announced the nationalisation of 14 major commercial banks — a watershed moment in Indian banking history. The banks nationalised were those with deposits exceeding Rs. 50 crore each, and they included Central Bank of India, Bank of India, Punjab National Bank, Bank of Baroda, UCO Bank, Canara Bank, Dena Bank, United Bank of India, Syndicate Bank, Allahabad Bank, Indian Bank, Bank of Maharashtra, Indian Overseas Bank, and Union Bank of India. The stated objectives were to serve better the needs of development of the economy, in conformity with national priorities and objectives. In practice, this meant directing credit towards priority sectors like agriculture, small industries, and weaker sections of society, and extending banking to unbanked rural areas.

**Nationalisation of Banks Second Part 1980:** In 1980, six more private banks with deposits exceeding Rs. 200 crore were nationalised — Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab & Sind Bank, and Vijaya Bank. With these two rounds, the public sector came to dominate the Indian banking landscape, controlling over 90% of banking business. The nationalisation era had profound effects on Indian banking. On the positive side, branch networks expanded dramatically from about 8,000 in 1969 to over 60,000 by the late 1980s, particularly in rural areas. Priority sector lending norms ensured credit flow to agriculture and small enterprises. Financial inclusion expanded significantly. However, the period also brought significant drawbacks: mounting non-performing assets (NPAs), inefficiency, overstaffing, political interference in credit decisions, and deteriorating profitability. Banks became bureaucratic institutions rather than commercially-oriented enterprises.

**Liberalisation and Reform 1991–2000 :** India's balance of payments crisis of 1991, which brought the country to the brink of sovereign default, triggered comprehensive economic reforms. In the banking sector, this led to the landmark Narasimham Committee Reports, which became the blueprint for banking sector reform.

**Reports of Narasimham Committee 1991 & 1998 :** The Committee on the Financial System, headed by M. Narasimham, submitted two influential reports in 1991 and 1998. Key recommendations included:

- ✓ Reduction in Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) to give banks more freedom to deploy funds.
- ✓ Introduction of prudential norms for income recognition, asset classification, and provisioning (IRAC norms).
- ✓ Adoption of capital adequacy standards aligned with international Basel norms.
- ✓ Phased deregulation of interest rates.
- ✓ Entry of new private sector banks to introduce competition.
- ✓ Operational autonomy for public sector banks.
- ✓ Setting up of Asset Reconstruction Companies ARC to address NPAs.

**Era of Private Banks Sector :** Acting on Narasimham Committee recommendations, the RBI issued licences to new private sector banks in 1994. HDFC Bank, ICICI Bank, Axis Bank formerly UTI Bank, IndusInd Bank, Kotak Mahindra Bank, and others were established in this wave. These new-generation banks brought professional management, advanced technology, customer-centric services, and competitive efficiency that transformed the banking landscape. The contrast between these modern private banks and the staid public sector banks was stark. New private banks rapidly adopted computerisation, ATM networks, phone banking, and eventually internet banking, setting new benchmarks for service quality.

**Capital Adequacy and NPA Resolution:** The RBI introduced Basel I norms for capital adequacy, requiring banks to maintain a Capital Adequacy Ratio CAR of 8% of risk-weighted assets. Income recognition and asset classification norms were tightened, and provisioning requirements were introduced for bad loans. Debt Recovery Tribunals DRT were established under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, to expedite recovery of large loans.

### **Technology Revolution in Banking 2000s**

**Core Banking Solutions :** The 2000s saw Indian banks, both public and private, embrace Core Banking Solutions CBS. CBS enabled real time transaction processing across branches any-branch banking became a reality. The government owned banks, previously reliant on manual ledgers or standalone branch computers, underwent massive technology upgrades. By 2010, virtually all nationalised banks had implemented CBS, fundamentally changing the customer experience.

**Revolution of Payment Systems :** The RBI and the National Payments Corporation of India NPCI, established in 2008, became catalysts for payment system modernization ,RTGS Real Time Gross Settlement: Launched in 2004 for high-value interbank fund transfers. NEFT National Electronic Funds Transfer: Introduced in 2005 for retail electronic fund transfers, operating on a batch-processing basis before moving to 24x7 operations in 2019. National Automated Clearing House NACH: Replaced the earlier ECS system, enabling bulk electronic mandates for salaries, dividends, and utility payments. Cheque Truncation System CTS: Implemented across India from 2010 to enable electronic clearing of cheques without physical movement.

**Mobile Banking through the Internet :** The internet banking revolution began in the early 2000s, with private banks leading adoption. By the mid-2000s, most major banks offered online banking portals. Mobile banking emerged more slowly due to limited smartphone penetration, but the launch of 3G networks and affordable smartphones accelerated adoption from around 2010 onwards. ATM networks expanded from a few hundred in 1997 to over 200,000 by 2015.

**Regulatory Advances 2005–2015 :** Implementation India moved from Basel I to Basel II norms from 2007, requiring banks to maintain capital not just against credit risk but also operational and market risks. The minimum Capital Adequacy Ratio was retained at 9% (higher than the international 8% benchmark), reflecting the RBI's conservative approach. Banks adopted the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk initially.

**Initiatives of Financial Inclusion :** Recognising that large sections of India's population remained unbanked, the RBI and government launched several financial inclusion initiatives No-Frills Accounts later renamed Basic Savings Bank Deposit Accounts Zero-balance accounts for low-income customers. Business Correspondent BC Model: Banks could use third-party agents BCs to extend banking services in unbanked areas using technology. Pradhan Mantri Jan Dhan Yojana PMJDY 2014: The most ambitious financial inclusion drive, opening over 300 million bank accounts in its first few years, providing zero-balance accounts with debit cards and access to credit and insurance products.

**SARFAESI and NPA Management Act :** The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest SARFAESI Act, 2002, gave banks significant powers to recover secured loans without court intervention. Banks could take possession of and sell collateral after a 60-day notice period. Asset Reconstruction Companies ARCs like ARCIL were set up to acquire and resolve NPAs. These measures improved the credit culture, though NPA levels continued to be a systemic challenge.

**The UPI Revolution and Digital Banking 2016–2020 :** The launch of the Unified Payments Interface UPI by NPCI in April 2016 was a transformational moment for Indian banking and payments. UPI

enabled real-time interbank mobile payments using a Virtual Payment Address VPA, eliminating the need to share bank account details. Key features included: Instant 24x7 fund transfers between any two UPI-enabled bank accounts. Interoperability across banks and payment apps. Support for both push and pull transactions. Integration with merchant payments via QR codes. The demonetisation of Rs. 500 and Rs. 1,000 currency notes in November 2016 gave a massive, if disruptive, boost to digital payments adoption. UPI transactions grew exponentially from 17.9 million transactions in October 2016 to over 8 billion monthly transactions by 2023. Apps like PhonePe, Google Pay, and Paytm became household names, built on the UPI infrastructure.

**Payment Banks and Small Finance Banks :** The RBI introduced two new categories of banking licences in 2015 to deepen financial inclusion .Payment Banks: Could accept deposits up to Rs. 2 lakh per customer and facilitate payments but could not lend. Airtel Payments Bank, Paytm Payments Bank, India Post Payments Bank, and others were granted licences.Small Finance Banks: Focused on providing credit to unserved and underserved sections — small businesses, marginal farmers, micro and small industries, and unorganised sector entities. Examples include AU Small Finance Bank, Equitas Small Finance Bank, and ESAF Small Finance Bank.

**Code and NPA Resolution :**The Insolvency and Bankruptcy Code IBC, 2016, was a landmark reform that created a unified, time-bound framework for resolving insolvency of companies and individuals. The IBC empowered financial creditors banks to initiate insolvency proceedings before the National Company Law Tribunal NCLT. It set a 180-day timeline for resolution. The IBC fundamentally improved the credit culture and gave banks a credible mechanism to resolve large NPAs, especially in sectors like steel, power, and infrastructure.The Prompt Corrective Action PCA framework was also strengthened, placing banks with weak financials under operating restrictions until they met minimum prudential thresholds, creating strong incentives for better risk management.

**Contemporary and Future Developments 2020 – 2025 :**The COVID-19 pandemic of 2020 tested the resilience of Indian banks. The RBI responded swiftly with a comprehensive package including loan moratoriums, reduction in repo rates to historic lows 4%, targeted long-term repo operations TLTRO, and regulatory relief. The moratorium allowed borrowers to defer EMI payments for up to six months. Digital banking adoption surged as physical branches operated with restrictions, accelerating the shift to online and mobile banking.The government pursued a bold consolidation strategy in public sector banking. In 2019 and 2020, ten public sector banks were merged into four Punjab National Bank ,Oriental Bank of Commerce , United Bank = PNB second-largest PSB.Canara Bank ,Syndicate Bank = Canara Bank fourth-largest PSB.Union Bank , Andhra Bank , Corporation Bank = Union Bank.Indian Bank , Allahabad Bank = Indian Bank.The mergers aimed to create banks of scale capable of competing globally, reduce duplication, and improve capital efficiency. Combined with the earlier merger of Bank of Baroda, Vijaya Bank, and Dena Bank in 2019, the number of public sector banks reduced from 27 to 12 through consolidation.The Account Aggregator AA framework, launched in 2021, created a consent-based data- sharing architecture for financial data. Licensed Account Aggregators act as intermediaries that allow individuals to share their financial data from bank statements to insurance policies to tax data with lenders or other financial service providers, with explicit consent. This innovation dramatically improved the ability of banks and fintechs to assess creditworthiness and deliver personalised financial products.The RBI launched pilot programmes for India's Central Bank Digital Currency CBDC, popularly called the Digital Rupee e-Rupee, in 2022. Pilots covered both wholesale and retail segments. The e-Rupee is a tokenised form of legal tender issued by the RBI, designed to complement not replace physical currency. It offers the benefits of digital payments while maintaining the trust and safety of central bank money.India's fintech ecosystem, valued among the world's top three, has dramatically reshaped banking. Neo-banks and fintech companies operating on top of licensed banking infrastructure offer hyper-personalised financial services, instant credit, and seamless digital experiences. Partnerships between traditional banks and fintechs the so-called 'co-lending' model have expanded credit access to MSME and retail borrowers significantly. The regulatory sandbox introduced by the RBI in 2019 has fostered responsible innovation.

**Capital Strengthening :** India has been progressively implementing Basel III norms, requiring banks to maintain higher quality and quantity of capital. Key ratios include the Common Equity Tier 1 CET1 ratio, Total Capital Adequacy Ratio at least 11.5% including the capital conservation buffer, and Liquidity Coverage Ratio LCR. Public sector banks have received substantial capital infusions from

the

government over Rs. 3 lakh crore between 2016 and 2022 to meet Basel III requirements and provision for NPAs.

The following timeline summarises the most significant milestones in the evolution of Indian banking:

- 1770 – Bank of Hindustan established, India's first formal bank.
- 1806–1843 – Three Presidency Banks Bengal, Bombay, Madras established.
- 1865 – Allahabad Bank founded, oldest surviving joint-stock bank.
- 1894 – Punjab National Bank established under nationalist influence.
- 1921 Presidency Banks merged to form Imperial Bank of India.
- 1935 – Reserve Bank of India established.
- 1949 – RBI nationalised; Banking Regulation Act enacted.
- 1955 – Imperial Bank converted to State Bank of India.
- 1969 – Nationalisation of 14 major commercial banks.
- 1980 – Second round of nationalisation 6 more banks.
- 1991 – Economic liberalisation; Narasimham Committee reforms.
- 1994 – New private sector bank licences issued; HDFC Bank, ICICI Bank, etc.
- 2002 – SARFAESI Act enacted for secured loan recovery.
- 2004 – RTGS launched for real-time interbank settlement.
- 2008 – NPCI established; financial inclusion focus intensified.
- 2014 – Pradhan Mantri Jan Dhan Yojana launched.
- 2016 – UPI launched; Demonetisation; IBC enacted; Payment Banks licensed.
- 2019–2020 – Major PSB consolidation reducing banks from 27 to 12.
- 2021 – Account Aggregator framework launched.
- 2022 – Digital Rupee CBDC pilots initiated.
- 2023–present – Continued fintech integration, global UPI expansion, and digital banking deepening.

**Conclusion :** Today, India's banking system stands at an inflection point. With over 500 million Jan Dhan accounts, 8 billion monthly UPI transactions, a thriving fintech ecosystem, and a Digital in development, India is among the global leaders in financial innovation. At the same time, challenges persist: NPA management, rural credit gaps, cybersecurity risks, and the need for skill upgradation in a rapidly changing technological environment. The journey from Bank of Hindustan in 1770 to a UPI-powered digital banking ecosystem in 2026 encapsulates India's broader economic journey. Understanding this evolution is essential for anyone seeking to comprehend how India has built, reformed, and continues to transform one of the world's most populous and complex financial systems. The ancient Hundi systems and indigenous moneylenders to the sophisticated, technology-driven, regulated financial ecosystem of today. Each phase of India's banking history reflects the broader socio- economic and political context of its time: colonial extraction, post-independence nation-building, socialist dirigisme, market-oriented liberalisation, and now digital democratisation.

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