



Role of Indian Banking System in Financial Planning and Wealth Management



 Sarvesh Mohania*

 Girish Mainrai**

History of Banking

The history of banking can be traced back to thousands of years of ancient civilizations such as Mesopotamia, where early forms of lending and borrowing developed. However, modern banking as we know it today has its roots in the European Renaissance of the 14th and 15th centuries, when banking institutions began to emerge in Italy and other parts of Europe.

One of the earliest banks during that period was the Bank of Venice, which was established in the year 1157 to provide loans to merchants and Government officials. The bank's success led to the creation of other banks throughout Italy and eventually across Europe.

During the 16th and 17th centuries, European banking expanded and became more sophisticated, with banks developing new services such as international money transfers and letters of credit. The Dutch East India Company, founded in 1602, is often considered the first modern corporation and was one of the first companies to issue shares of stock to the public.

The 18th and 19th centuries saw further developments in banking, including the establishment of central banks such as the Bank of England and the Bank of France, which were responsible for regulating the money supply and providing stability to the financial system. During this time, many countries also saw the establishment of commercial banks, which provided loans and other financial services to individuals and businesses.

The 20th century brought further changes to the banking industry, including the rise of electronic

banking, the introduction of credit cards, and the development of new financial products such as derivatives and securitization. The globalization of the financial system also increased during this time, with banks expanding their operations across borders and the creation of new international financial institutions such as the International Monetary Fund and the World Bank.

Banking in India

Banking in India has a long history that can be traced back to the Vedic period, when money-lending was a common practice. However, modern banking as we know it today began in the late 18th century with the establishment of the first bank in India, the Bank of Hindustan, in 1770, located in the then Indian capital, Calcutta.

Over the next few decades, several other banks were established, including General Bank of India in 1786, Bank of Calcutta in 1806 (which later became the State Bank of India), and Allahabad Bank in 1865. However, these banks primarily served the needs of the British colonial Government and the trading community and were not accessible to the general public.

It was only after India gained independence in 1947 that the banking industry in India began to evolve into a more inclusive and accessible system. In 1949, the Reserve Bank of India (RBI) was established as the central bank of the country with the responsibility of regulating and supervising the banking industry.

The 1950s and 1960s saw the nationalization of several large commercial banks in India, with the Government taking control of these banks in order

*Associate Professor, Jagran Lakecity University, Bhopal.

**Chief Manager, (Faculty), Bank of India, Staff Training College, Bhopal.

to ensure that they served the needs of the broader Indian population. This led to the establishment of large banks such as State Bank of India, Punjab National Bank and Bank of Baroda, which became key players in the Indian banking system.

During the 1990s, the Indian banking industry underwent significant reforms aimed at liberalizing and modernizing the sector. These reforms included the introduction of new private sector banks, the establishment of foreign banks in India, and the deregulation of interest rates. The introduction of technology and digital banking in the late 1990s and early 2000s further transformed the banking industry in India, making banking more accessible and convenient for the customers.

Today, the Indian banking system is a large network of public sector, private sector, and foreign banks, as well as cooperative banks and regional rural banks. The RBI continues to play a central role in regulating and supervising the banking industry, and has implemented a number of measures to promote financial inclusion and improve the access to banking services for all the citizens.

Financial Planning

Financial planning is the process of creating a comprehensive strategy for managing finances to achieve the financial goals. It involves evaluating current financial situation, identifying financial goals and objectives and developing a plan to reach those goals through the effective management of financial resources.

Financial planning typically includes a range of different areas such as budgeting, investing, saving, insurance, retirement planning, tax planning, and estate planning. The specific components of a financial plan will depend on an individual's unique financial situation and goals.

The ultimate goal of financial planning is to help an individual in achieving financial security and independence and to provide a roadmap for managing finances effectively throughout his/her life. This can help in making informed decisions about money, minimize financial stress and achieve long-term financial goals.

Wealth Management

Wealth management is a comprehensive approach to managing the financial affairs of individuals and families with high net worth. It involves a range of services, including investment management, financial planning, tax planning, estate planning and risk management, among others. The goal of wealth management is to help clients achieve their financial objectives while minimizing risk and preserving their wealth for future generations.

Wealth management is a service typically offered by financial institutions such as banks, investment firms, and specialized wealth management firms. It is targeted at individuals with significant assets. Wealth management services aim to help clients grow and preserve their wealth, often over multiple generations.

Wealth management services typically include investment management, which involves the selection of appropriate investment vehicles and asset allocation strategies based on a client's risk tolerance, financial goals, and time horizon. Other services that may be provided as part of wealth management include financial planning, which can encompass everything from retirement planning to estate planning; tax planning and preparation, which aims to minimize tax liabilities and maximize after-tax returns; risk management, which involves identifying and mitigating various types of financial risks; and other specialized services, such as philanthropic planning or business succession planning.

Clients typically pay for wealth management services through a combination of fees and commissions. Wealth management firms often charge a percentage of assets under management as an ongoing fee, which may range from 1% to 3% of assets. Some wealth management firms also charge performance fees, which are a percentage of any investment gains made on behalf of the client. In addition, some wealth management firms may receive commissions on products they recommend, such as mutual funds or insurance policies.

Wealth management is a complex and well-regulated industry, with a wide range of service providers and financial products. It is important for individuals

seeking wealth management services to carefully research the potential service providers, evaluate their fees and performance track records and consider the full range of services and products offered before making any decision.

Overall, wealth management can be a valuable service for individuals and families with significant assets, providing access to specialized expertise and a comprehensive approach to managing their financial affairs.

Awareness of Financial Planning and Wealth Management in India

Awareness about financial planning and wealth management in India has been growing in recent years, as more people become interested in managing their finances and investing for the future. There are several factors driving this trend such as increasing disposable income, growing middle class and increasing access to financial education and information.

Financial planning involves developing a comprehensive plan to manage the finances and achieve financial goals. This may include budgeting, savings for retirement, investing in the stock market or other financial assets and managing debt. Wealth management, on the other hand, is a more specialized form of financial planning that is focused on managing the assets of high-net-worth individuals or families. This may include managing investments, estate planning, tax planning, and other financial services.

In India, there has been a growing demand for financial planning and wealth management services, particularly among the urban middle class. Many financial institutions and advisory firms now offer a range of services to help individuals manage their finances and investments, including financial planning, portfolio management and investment advisory services.

There has also been a growing emphasis on financial education and literacy in India, with the Government and other organizations working to promote greater awareness about personal finance and investing.

Overall, the increasing awareness about financial planning and wealth management in India is a positive trend, as it can help individuals and families better manage their finances and achieve their long-term financial goals. However, it is important to work with qualified and reputable financial advisors and institutions to ensure that sound advice is received and guidance is tailored to one's specific needs and circumstances.

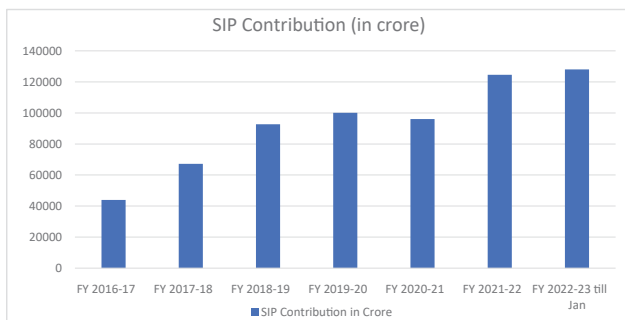
Reasons

There are several reasons why Indians are becoming more inclined toward financial planning and wealth management in today's scenario:

- *Growing middle class:* India's middle class has been growing steadily in recent years, with increasing disposable income and a greater focus on achieving financial stability and security. As a result, more Indians are becoming interested in managing their finances and investing for the future.
- *Increasing financial literacy:* There has been a growing emphasis on financial education and literacy in India, with the Government and other organizations working to promote greater awareness about personal finance and investing. This has helped to empower individuals to take control of their finances and make informed decisions about their investments.
- *Demographic shift:* India has a young population, with a large number of millennials and Gen Z individuals who are more tech-savvy and financially aware than previous generations. This has helped to drive the demand for online financial planning and investment services, which are more accessible and convenient for this demographic.
- *Rise of technology:* The rapid growth of technology and digital platforms has made it easier for individuals to access financial planning and wealth management services. Online investment platforms, robo-advisors, and mobile apps have made it easier and more convenient for individuals to manage their investments and track their financial goals.

- **Need for financial security:** With rising inflation and economic uncertainty, many Indians are seeking to build a more secure financial future for themselves and their families. Financial planning and wealth management can help individuals to protect their assets, grow their wealth and achieve long-term financial goals.
- **Changing Customer preferences:** The taste for investment products is also undergoing a paradigm shift as evident through investment figures for Systematic Investment Plan (SIP) subscriptions depicted below. Indians who preferred fixed income products are shifting towards mutual funds, which is reflected by SIP contribution in different mutual fund schemes.

Trend in SIP



Source: <https://www.amfiindia.com/mutual-fund>

Overall, the growing interest in financial planning and wealth management in India reflects a broader shift towards greater financial awareness and responsibility among individuals and families. As India continues to develop and modernize, it is likely that this trend will continue, with more people seeking to manage their finances and investments in a more strategic and informed manner.

Role of Banking in Financial Planning and Wealth Management

The Indian banking system plays a significant role in financial planning and wealth management in India. Here are some ways in which the Indian banking system supports financial planning and wealth management:

- **Savings and deposits:** Banks in India offer a range of savings and deposit accounts that help

individuals save and accumulate wealth. These accounts offer competitive interest rates and other benefits such as low fees and easy access to funds.

- **Loans and credit facilities:** Banks in India provide a range of loan and credit facilities such as personal loans, home loans, and business loans, that help individuals and businesses finance their goals and investments.
- **Investment products:** Banks in India offer a range of investment products such as fixed deposits, mutual funds and insurance policies, that help individuals grow their wealth and achieve their financial goals.
- **Wealth management services:** Many banks in India also offer wealth management services such as portfolio management, financial planning and investment advisory services, that help high-net-worth individuals manage their wealth and investments.
- **Financial education:** Banks in India also play a role in promoting financial education and literacy through seminars, workshops, and other resources that help individuals understand financial concepts and make informed decisions about their finances.

Overall, the Indian banking system provides a range of products and services that support financial planning and wealth management in India. As the Indian economy continues to grow and develop, it is likely that the role of banks in promoting financial planning and wealth management will become increasingly important.

Current Scenario

There have been several recent developments in financial planning and wealth management that have the potential to impact the industry. Here are some of the latest developments:

- **Digital transformation:** The financial planning and wealth management industry is undergoing a digital transformation with the adoption of new technologies such as artificial intelligence, machine learning, and blockchain. This has the

potential to revolutionize this industry and thus, making it more efficient, cost-effective, and accessible to a wider range of population.

- *Sustainable investing*: There is a growing trend towards sustainable investing, with investors increasingly seeking to align their investments with their values and support companies that are making a positive impact on the environment and society. This has led to the development of new investment products such as green bonds and impact investing funds.
- *Integration of financial planning and tax planning*: There is an increasing recognition of the need for integrated financial and tax planning, as individuals seek to optimize their financial and tax strategies. This has led to the development of new tools and platforms that enable individuals to manage their finances and tax planning in a more coordinated and efficient manner.
- *Growing focus on financial wellness*: There is a growing recognition of the importance of financial wellness, with individuals seeking to improve their financial literacy and developing a more holistic approach to manage their finances. This has led to the development of new tools and resources such as financial wellness programs, that help individuals improve their financial health and well-being.
- *Increased regulation and compliance*: The financial planning and wealth management industry is becoming increasingly regulated as Government and regulatory bodies seeking to protect investors and ensure the industry operates in a more transparent and ethical manner. This has led to the development of new compliance frameworks and standards such as the fiduciary standard which aims to promote greater accountability and transparency in the industry.

Overall, these developments are likely to have a significant impact on the financial planning and wealth management industry, shaping the way it operates and the services it provides to clients.

Challenges

While the Indian banking system has made significant strides in promoting financial planning and wealth

management, there are still several challenges that banks face in this area. Some of the major challenges include:

- *Low financial literacy*: A significant proportion of the Indian population still lacks basic financial literacy and is not aware of the benefits of financial planning and wealth management. This makes it challenging for banks to promote these services and reach out to a wider range of population.
- *Limited access to technology*: While digital transformation is underway in the Indian banking system, there are still significant gaps in technology adoption and access. This makes it difficult for banks to provide personalized and innovative financial planning and wealth management services to clients.
- *Regulatory challenges*: The regulatory environment in India can be complex and challenging, with banks required to comply with a range of regulations and guidelines related to financial planning and wealth management. This can be time-consuming and expensive for banks, particularly smaller ones.
- *Competition from non-banking players*: With the rise of fintech companies and other non-banking players in the financial services sector, banks are facing increasing competition in the area of financial planning and wealth management. This requires banks to innovate and develop new products and services to stay competitive.

Overall, these challenges are likely to continue to impact Indian banks in the area of financial planning and wealth management and banks will need to address these challenges to promote greater adoption of these services among the population.

Future road

The future of financial planning and wealth management in the Indian banking system looks promising, with significant growth opportunities in this area.

Overall, the trends and developments indicate a promising future for financial planning and wealth management in the Indian banking system. While there are challenges to be addressed such as low financial

literacy and limited access to technology, the growing demand for these services and the increasing focus on innovation and customer-centricity by banks are likely to drive growth in this area.

Conclusion

In conclusion, financial planning and wealth management are becoming increasingly important for individuals and families in India. With rising incomes, growing middle class, and a greater focus on financial wellness, more and more people are seeking to manage their finances better and plan for their future. The Indian banking system has responded to this demand by offering a range of financial planning and wealth management services and is increasingly

adopting new technologies to make these services more accessible, efficient and cost-effective.

While there are challenges to be addressed, such as low financial literacy, the future of financial planning and wealth management in India looks promising. With the government launching several initiatives to promote financial inclusion and literacy and with banks focusing on innovation and customer-centricity, the growth of financial planning and wealth management in India is likely to continue. Overall, financial planning and wealth management are likely to play a critical role in shaping the financial future of individuals, families and the Indian economy as a whole.



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