

# Analogy of Scheduled Banks in India, Pakistan and Bangladesh

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**Abstract**—This research paper is about the comparative study of scheduled banks of India, Pakistan, and Bangladesh. This will include legal structure, regulatory structure, function, and economic importance of scheduled banks. Scheduled banks play an important role in the banking industry because they help in maintaining financial stability, creating credit, promoting economic growth, and implementing monetary policy in their respective countries. In this context, the paper discusses how regulatory authorities like the Reserve Bank of India, the State Bank of Pakistan, and Bangladesh Bank regulate scheduled banks. In this context, the paper compares the banking systems of the three countries with respect to banking license, capital adequacy requirements, banking reform, and financial inclusion. Besides, the paper explains the evolution of the scheduled banking system after independence, along with the effect of globalisation and digital banking on the financial sector. In addition to this, the paper identifies various challenges faced by scheduled banks, such as the NPA problem, cybersecurity, rural banking, and regulatory inefficiency. The research paper adopts the approach of comparative and doctrinal research to assess the effectiveness of scheduled banks in fostering economic growth and ensuring financial stability in South Asia. Conclusions drawn from the research include recommendations for policies that should be adopted to ensure effective governance and transparency in the banking sector in South Asia.

**Keywords**—Scheduled Banks, Banking Regulation, Comparative Banking System, Financial Stability, Central Banking, Reserve Bank of India, State Bank of Pakistan, Bangladesh Bank, Financial Inclusion, Banking Reforms, South Asian Economy.

## I. INTRODUCTION

The banking institution is an important entity in the economic development and financial stability of any nation. Of all the banking institutions, the scheduled banks have a special importance because they operate under the supervision of the central banking institutions of their respective countries. The banking institutions of India, Pakistan, and Bangladesh have similar origins because of their colonial history;

however, they have developed their own financial systems after gaining independence. Thus, the concept of scheduled banks is relevant in studying the working of the present-day banking system in the three countries.

Scheduled banks are usually defined as those banks that are included in the schedule of the central banking laws and meet certain requirements regarding paid-up capital, reserve, and soundness of operations. Scheduled banks in India are regulated under the provisions of the Second Schedule of the Reserve Bank of India Act, 1934<sup>1</sup>. Likewise, scheduled banks in Pakistan are regulated by the State Bank of Pakistan<sup>2</sup>, while those in Bangladesh are regulated by the Bangladesh Bank<sup>3</sup>. They play a crucial role in the implementation of monetary policy, savings mobilisation, loans and advances, and trade and commerce. The banking systems of India, Pakistan, and Bangladesh have been reformed significantly over the years due to factors such as globalisation, technological changes, and economic liberalisation. Digital banking and financial inclusion programs have changed the nature of scheduled banks in the three countries. However, problems such as non-performing assets, cybersecurity, corruption, ineffective regulation, and uneven access to banking services continue to hinder the efficiency of the banking system.

This research paper is meant to conduct a comparative analysis of scheduled banks in India, Pakistan, and Bangladesh by looking at the legal framework, regulation, functions, and economic significance of these banks.

## II. LITERATURE REVIEW

Many scholars have studied the banking systems and efficiencies of the scheduled banks of South Asian nations, especially those of India, Pakistan, and Bangladesh. Present literature mainly revolves around the topics of banking reforms, financial

liberalization, efficiency, productivity, financial stability, and regulation.

Ali Ataullah, Tony Cockerill, and Hang Le in their research paper “Financial Liberalization and Bank Efficiency: A Comparative Analysis of India and Pakistan” have studied the effect of financial liberalization on bank efficiency from 1988 to 1998. The study concluded that the reform process had enhanced the operational efficiency and competitive advantage in India and Pakistan; however, India emerged as a comparatively advanced nation in banking reforms<sup>4</sup>.

In “A Comparative Study of Banking Sectors of Pakistan and India: An Application of Data Envelopment Analysis,” Aamir Shahzad, Tahir Mahmood, and Mehwish Shahzad have made a comparative analysis of banking efficiency and productivity of commercial banks in India and Pakistan from 2013 to 2017<sup>5</sup>. The results indicated that Indian banks were technically efficient and experienced more productive growth than Pakistani banks, which suffered from inefficiencies in management and operations.

Shabbar Jaffry, Yaseen Ghulam, Sean Pascoe, and Joe Cox, in “Regulatory Changes and Productivity of the Banking Sector in the Indian Sub-continent,” analysed the banking sectors of India, Pakistan, and Bangladesh during the 1990s, when these countries were undergoing financial system reforms. According to their analysis, deregulation and modernisation led to enhanced technical efficiency and productivity in the banking sectors of the three countries<sup>6</sup>.

Muhammad Waqas, Nudrat Fatima, Aryan Khan, and Muhammad Arif in “Determinants of Non-performing Loans: A Comparative Study of Pakistan, India, and Bangladesh” focused on exploring the factors leading to non-performing loans (NPLs) in the banking sectors of the three countries. It was found that inefficient management, unstable macroeconomic situation, and lack of effective regulatory supervision had a significant impact on the performance of banks<sup>7</sup>.

Md. Ariful Islam, Luthful Karim, and Md. Rayhan Islam in “A Comparative Study of Prudential Regulation on Loan Classification and Provisioning of the Southeast Asian Countries” provided an

overview of banking regulations and loan classification in the countries of South Asia, namely India, Pakistan, and Bangladesh. The significance of prudential regulation for the soundness of scheduled banks was noted in the paper<sup>8</sup>.

Rezwan Mahmood and Sandip Sarker in “Inclusive Growth through Branchless Banking: A Review of Agent Banking and its Impact” concentrated on the evolution of branchless and digital banking in Bangladesh. The paper discussed the increasing importance of digital financial services and agent banking for promoting financial inclusion in rural areas<sup>9</sup>.

There is an abundance of literature available about banking efficiency, financial reform, and regulation in South Asia. But what is missing in the literature is the comparative legal research regarding the working and concept of scheduled banks in India, Pakistan, and Bangladesh. Hence, this study intends to bridge this gap by offering a comparative analysis of scheduled banks in these three countries.

### III. RESEARCH METHODOLOGY

The present research work is carried out under the doctrinal and comparative research methodology. Secondary sources of information have been employed for analysis in relation to the concept, legislation, and functioning of scheduled banks in India, Pakistan, and Bangladesh. A number of books, research articles, journal papers, governmental publications, and banking rules and regulations have been studied in order to carry out the present research.

The comparative approach has been employed in order to compare the banking systems of the three South Asian countries. The present research focuses on various aspects, including the regulatory system, requirements for scheduled banks, banking reforms, financial inclusion, and other challenges faced by the banking sectors of the three countries. Further, the relevant statutory and regulatory laws, along with financial reports, have also been analysed in order to understand the legal framework of scheduled banks.

An analytical approach has also been adopted in order to analyse the efficacy of banking regulations and reforms with regard to the promotion of financial stability and economic development. Systematic

interpretation of the information gathered through secondary sources has been made in order to reach some meaningful conclusions about the functioning and performance of scheduled banks in South Asia.

#### IV. RESEARCH QUESTIONS

1. What is the concept and legal meaning of scheduled banks in India, Pakistan, and Bangladesh?
2. What are the similarities and differences in the regulatory frameworks governing scheduled banks in these three countries?
3. How do scheduled banks contribute to economic growth, financial stability, and financial inclusion in South Asia?
4. What are the major challenges faced by scheduled banks in India, Pakistan, and Bangladesh, and what reforms can improve their efficiency and governance?

#### V. ANALYSIS

Analysis of Scheduled Banks in India, Pakistan and Bangladesh

##### 1. Meaning of Scheduled Banks

The banks that are included in the schedule of the central banking legislation and fulfil the required conditions concerning capital, reserve, and other criteria are known as scheduled banks. These banks are financially sound and enjoy different privileges offered by the central bank, including refinancing and clearing house membership.

In India, scheduled banks are mentioned in the Second Schedule of the Reserve Bank of India Act, 1934. On the other hand, banks in Pakistan come under the control of the State Bank of Pakistan, and scheduled banks in Bangladesh operate under the Bangladesh Bank. The idea of scheduled banks has been developed from the British colonial banking system, but each of these nations has adopted a different way of regulation after gaining its independence

Scheduled banks have great importance in accepting deposits, issuing loans, encouraging trade and business, providing liquidity and executing monetary policy. These banks serve as a link between the government and people through the promotion of economic activities.

##### 2. Regulatory Framework and Central Banking Supervision

Banks in India, Pakistan, and Bangladesh are mainly regulated by their central banks. The central bank supervises commercial banks, formulates monetary policy, manages liquidity, and maintains financial stability.

Banking in India is mainly regulated by the Banking Regulation Act, 1949<sup>10</sup>, along with the RBI Act, 1934. The Indian banking system is comparatively more diverse and technologically advanced. The Reserve Bank of India has implemented several reforms concerning digital payments, prudential regulations, and financial inclusion initiatives, including Jan Dhan Yojana.

Pakistan's banking system is regulated by the State Bank of Pakistan under the Banking Companies Ordinance, 1962<sup>11</sup>. The Islamic banking system has been a focus area for Pakistan, where Islamic banking has emerged as an essential part of the financial system. Reforms have also been implemented to improve banking supervision and reduce NPLs.

Bangladesh's banking sector is regulated by the Bank Company Act, 1991<sup>12</sup> and supervised by the Bangladesh Bank. Bangladesh has made tremendous efforts in rural banking and microfinance institutions. Mobile banking initiatives such as bKash<sup>13</sup> have improved access to banks for people in rural areas through financial inclusion. Despite the similarities between the regulatory frameworks of all three countries, India has a relatively more developed institutional infrastructure and technology, whereas the problems faced by Pakistan and Bangladesh include those related to governance, politics, and the regulation of banks.

##### 3. Comparative Analysis of Banking Systems

###### (a) India

India boasts one of the largest banking systems in the world, having public sector banks, private banks, cooperative banks, and regional rural banks, all of which operate within a well-defined regulatory system. The Indian banking system has undergone a rapid digitisation process through the use of UPI, online banking, and fintech services.

There exist several problems in the Indian banking system, including NPAs, loan defaults, and fraudulent activities within the banking industry.

(b) Pakistan

The banking system of Pakistan is comparatively small but has been steadily growing over time. Islamic banking has become one of the strengths of the banking system of Pakistan. The government and the State Bank of Pakistan have introduced several measures to enhance banking governance and digital banking services.

However, factors such as political instability, inflation, poor economic performance, and poor recovery of bad loans continue to impact the effectiveness of scheduled banks in Pakistan.

(c) Bangladesh

An inclusive banking system with emphasis on rural banking and microfinance institutions has been established in Bangladesh. Bangladesh has gained a worldwide reputation for its efforts towards financial inclusion through mobile banking and micro credit schemes.

On the other hand, problems like corruption, poor supervision of banks, and an increase in default loans remain prevalent in Bangladesh. Banking scams and poor governance practices in Bangladesh have caused serious concerns for the public.

4. Similarities between the Three Countries

- a) The three countries have been influenced by a common banking system legacy of British India.
- b) There is a central bank that regulates and supervises scheduled banks in all three countries.
- c) The scheduled banks of the three countries assist in implementing monetary policies, economic growth, and credit creation.
- d) Digital banking and financial inclusion practices have been introduced in all three countries in recent times.
- e) Issues like non-performing assets, bank frauds, and cybersecurity threats occur in all three banking systems.

5. Distinctions Among the Three Nations

DIFFERENCES AMONG THE THREE COUNTRIES			
BASIS	INDIA	PAKISTAN	BANGLADESH
<b>Regulatory Framework</b>	Strong and well-developed under the Reserve Bank of India (RBI).	Regulated by the State Bank of Pakistan (SBP) with focus on reforms.	Controlled by Bangladesh Bank with developing supervision.
<b>Banking Structure</b>	Diversified banking system with public sector banks, private sector banks, foreign banks and cooperative banks.	Growing banking sector with emphasis on Islamic banking.	Banking sector focused on rural banking and microfinance institutions.
<b>Technological Development</b>	Highly advanced digital banking, fintech services and online payment systems.	Moderate growth in digital banking and online services.	Strong mobile banking, agent banking and digital financial services.
<b>Special Feature</b>	UPI, digital payments, and financial inclusion schemes (Jan Dhan Yojana, etc.).	Expansion of Islamic banking and Shariah compliant financial services.	Rural banking, microfinance and mobile banking services (bKash, Nagad, etc.).
<b>Major Challenges</b>	Non-performing assets (NPAs), banking frauds and loan defaults.	Political instability, inflation, economic fluctuations and high NPAs.	Corruption, loan defaults and weak governance in some banks.
<b>Financial Inclusion</b>	Extensive government schemes and wide digital access in urban and rural areas.	Moderate financial inclusion with ongoing efforts to expand outreach.	High rural financial inclusion through mobile banking and microfinance.
<b>Economic Position</b>	Largest and strongest banking sector among the three countries.	Developing banking economy with gradual growth.	Rapidly growing inclusive banking system with focus on rural development.

6. Problems Encountered by Scheduled Banks

(a) Non-Performing Assets (NPAs)

The most important problem that scheduled banks face is the high number of bad debts and loan defaults. Non-performing assets lead to lower profitability and poor bank health.

(b) Cyber Security Issues

With the development of digital banking and online transactions, cybersecurity and data protection have become issues for all three nations.

(c) Political and Economic Unstability

Problems such as economic crises, inflation, corruption, and political influence negatively impact the efficiency and reputation of banking organisations.

(d) Gaps in Financial Inclusion

Although there have been advances in digital banking, many rural areas and weaker economic strata still lack access to banking services.

## 7. Need for Reforms

The following reforms are required to enhance the performance of scheduled banks in South Asia:

- Improvements in banking governance and transparency.
- Better ways to recover bad loans.
- Improved cybersecurity infrastructure.
- Increased encouragement for digital and rural banking.
- Decreased political influence in banking operations.
- Collaboration among South Asian nations for financial stability and economic growth.

Therefore, the scheduled banks continue to be the foundation of the financial systems of India, Pakistan, and Bangladesh. Even though all these countries share the same historical background, the development of their banking systems has been different due to varied economic policies and financial reforms. Proper governance and modernisation are important to maintain the stability and efficiency of scheduled banks in South Asia.

## VI. OBSERVATIONS

A comparative study of scheduled banks in India, Pakistan, and Bangladesh demonstrates that the three nations have a similar banking system structure because it was developed during the era of British India; however, each nation has a distinct banking system based on its economy, regulation, and goals. India is one of the countries that can be identified by its highly developed and technologically advanced banking sector with successful development of digital banking, financial inclusion, and regulation<sup>14</sup>. In turn, Pakistan has gained some success in developing Islamic banking. It became an important component of the national financial system; nevertheless, political and economic issues hinder the efficient functioning of its banking sector. As for Bangladesh, the country has significantly improved rural, microfinance, and mobile banking services. This way, it enhanced financial inclusion in the rural population.

At the same time, it can be observed that all three countries still face certain issues such as non-performing assets, corruption, poor governance, loan defaults, and cybersecurity problems. Thus, the role of central banks, namely the Reserve Bank of India, the State Bank of Pakistan, and the Bangladesh Bank,

remains very important in terms of ensuring financial stability, regulating banking activities, and implementing monetary policy. Moreover, the study highlights the need for sustained banking reforms, technological development, better supervision, and regional financial cooperation in making the scheduled banks more efficient and stable in South Asia.

## VII. CONCLUSION

Scheduled banks play an important role in the economic and financial development of India, Pakistan, and Bangladesh. They form the backbone of the banking sector in mobilisation of savings, credit services, promoting trade and commerce, and monetary policies. While the banking sector of the three countries has been developed in the same colonial era, there is a difference in the development of each country's banking sector owing to different economic policies and technological developments.

The study finds out that India has a relatively well-developed and technologically sophisticated banking sector with effective digital banking services and greater financial inclusion policies. Pakistan has done well in the area of Islamic banking and banking reforms<sup>15</sup>, whereas Bangladesh has recorded success in rural banking, micro-banking, and mobile banking services. However, the three countries still face common problems such as non-performing assets, corruption, cybercrime, poor governance, and financial instability. This research further stresses the significance of the Reserve Bank of India, the State Bank of Pakistan, and the Bangladesh Bank in ensuring banking discipline and stability. Regulation, transparency, technology, and good governance are crucial for increasing the efficiency of scheduled banks in South Asia. Thus, there is a need for continued banking reforms, better supervision, and financial cooperation in the region for the development of the banking sector in India, Pakistan, and Bangladesh.

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