



Recent Trends of Banking Industry in India

Dilip Kumar Parmar

Scholar

Department of Banking & Business Economics (Honours)

University College of Commerce & Management Studies

Mohanlal Sukhadia University

Udaipur (Rajasthan)

ABSTRACT

The Indian banking plays a big role in the development of the economy of India. It is the backbone of any country's economy, and its well functioning is essential for nation-building. Banking is an important aspect of any country's economy. And like any other industry, it has its standards, sets of documents, and procedures. These ensure that banks carry out transactions with ease and efficiency. The banking principles are based on the need to have a central figure that administers all the banking activities of a country. My Present Paper related recent trends of banking sector in India. The reforms in the Indian banking sector have been introduced to increase the efficiency, stability, and effectiveness of banks. Current changing in banking related include: data and analytics, enhanced security and fraud mitigation, digital payments, cloud-based architectures and mobile apps in India.

Key Words : Recent Trends of public and private bank with Financial inclusion

Introduction

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country. The Indian banking system

consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions. As of September 2021, the total number of ATMs in India reached 213,145 out of which 47.5% are in rural and semi urban areas.

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the "export-led growth" of other Asian economies, with emphasis on self-reliance through import substitution. banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad.

Features of Banking Industry

These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as their Government-dominated ownership structure has reduced the conflicts of interest that private banks would face.

Public sector banks are the backbone of the Indian economy, and now more than ever, private players are entering the fray. This is good news for customers, who will be offered a widening menu of savings and loan products and innovative services like online banking: an introduction to easy transaction methods. However, it is also good news for banks, as they will be forced to improve their services and compete more aggressively to retain customers. The banking sector in India has been undergoing transformation, driven by public sector banks (PSBs).

Banking is the process of storing money for future use, either in cash or by investing it. Banks are where people get money from when they need it to make payments or buy goods and services. Businesses can also borrow money to grow or expand. Banks must have a wide network of branches across the country and overseas to perform these functions effectively.

They must also be able to keep their records safe in computerized databases that cannot be easily hacked.

Banks handle money and valuable items such as gold, silver, diamonds, and other precious items. They accept deposits and make loans and payments to their customers. They also provide credit cards, debit cards, checkbooks, etc. Banking institutions are divided into three categories: Commercial Banks also referred to as deposit banks - Mutual Funds, Central/State Governments Various Aspect of Banking

Public sector banks

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The Indian banking sector

The Indian banking sector has been experiencing a wave of change over the past decade. The growth in mobile banking and biometrics have, to an extent, affected the traditional business models of banks. However, most banks have shown tremendous resilience to these changes through adaptability and innovation. The banking sector has become most relevant for everyone. Through online banking, we can do our transactions from anywhere and at any time. The Internet has made sending money and transferring funds from one account to another at no cost.

The government's extensive recapitalisation exercise of public banks over the years has also helped these lenders become more self-sufficient. As public banks still dominate the Indian banking landscape, the good health of these banks is of utmost importance for credit and GDP growth.

Banking sector's outlook

The banking sector's outlook has improved, with asset quality and growth metrics possibly looking at their best over the last decade. The Reserve Bank of India (RBI), in its Financial Stability Report for June, showed India's gross net performing assets' ratio falling to a six-year low of 5.9% in March, highlighting the banking system's rising ability to support economic growth.

The bank then lends the money it has on deposit to other individuals and businesses and receives interest payments from the borrower in return. Banks make a profit on the difference between the interest rate that they pay depositors for the use of their money and the higher interest rate that they charge borrowers. By law, banks cannot lend out all of the money in their possession, but are required by regulators to keep a certain amount of capital in reserve to cover withdrawals and other needs. The rules change from time to time and vary by the size of the bank, but many large U.S. banks recently were required to keep 8% of their capital in reserve.

Credit System in Rural Areas

Credit is an important instrument for rural development. Most of the agricultural chores still depend on manual labour. It also involves techniques which are outdated and result in low outputs. The investment in rural areas has been on a low which effectively results in low output and productivity in all kinds of activities.

Capital Infusion

A capital infusion for a jump in productivity in reference to both agricultural and non-agricultural activities can be achieved by reforming credit and banking system. During the gestation period between sowing and harvesting seasons, farmers need credit to make ends meet, their general needs, initial requirements etc. Additionally, they also need credit to venture into modern agricultural techniques, to buy cattle, land etc.

Rural Banks

The banking and credit system in rural India has come a long way. With credit available at low-interest rates through operation of NABARD and microcredit generation by the various self-help groups, less poor are falling into the debt trap. After the advent of the green revolution, productivity in agriculture increased manifold. In essence modern techniques, high yielding variety seeds, sustainable activities etc. have been promoting productivity and output.

World's Largest Democracy

India is the world's largest democracy," reports (link resides outside ibm.com) the World Bank. "Over the past decade, the country's integration into the global economy has been accompanied by economic growth. India has now emerged as a global player."

For more than 200 years, State Bank of India (SBI) has been the country's largest public sector bank, and its financial foundation. As many of the bank's customers grew their wealth in recent years, the bank saw that people had new financial freedom and sought new

opportunities. It also knew that this growth could empower India's future as a global financial force.

Banking and growth

Theoretically, financial intermediaries help in mobilization of savings, project evaluation, risk diversification, monitoring management of firms in debt, facilitating transactions through technological innovation, and creating an environment for higher economic growth. Bank credit acts as money-capital and thus, is necessary for realization of innovative processes planned by entrepreneurs. The commercial banks and financial intermediaries loan out money to producers in order to help them invest in capital goods and sustain a steady rate of growth. Banks also are not passive intermediaries and help in transferring resources to new entrepreneurs.

Banks also interact with intermediaries to decide the volume of credit based on their profit expectations of the project and the entrepreneur's ability to pay back the loans. Thus, banks play a crucial role in economic activity, innovation and entrepreneurship. The banking institutions play an important role in credit markets and serve as a center of social accounts. This function of a "social accountant", stressing the role of banking as a social institution needed for the constrained realization of individual choices and to make those choices mutually compatible, has a critical impact on the economy. The commercial banks are also repositories of unique information about their borrowers, an important segment of the credit market.

Financial inclusion

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

Public and private sector banks

Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-

banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis. Banks have been advised that their FIPs should be disaggregated and percolated down up to the branch level. This would ensure the involvement of all stakeholders in the financial inclusion efforts. Development banks can be known as special industrial financial institutions. These banks were mostly established after World War II in both developed as well as developing countries in the world. Just like elsewhere, the development banks in India are responsible for accelerating the economic development of the country. In the following banking awareness study notes on development banks, we shall learn more about them in terms of meaning, types, features, and more!

Unlike other commercial banks, the development banks do not mobilize savings. Instead, they invest the resources in a productive and efficient manner. These banks are expert financial bodies that perform the dual functions of granting medium and long-term finances to private entrepreneurs and performing promotional roles for the economic development of the country.

Bank resilience and risk-taking

Bank resilience and risk-taking. Banks globally have enhanced their resilience to future risks by substantially building up capital and liquidity buffers. The increased use of stress testing by banks and supervisors since the crisis also provides for greater resilience on a forward-looking basis, which should help support credit flows in good and bad times. In addition, advanced economy banks have shifted to more stable funding sources and invested in safer and less complex assets. Some of these adjustments may be driven partly by cyclical factors, such as accommodative monetary policy, and hence may diminish as conditions change. Qualitative evidence indicates that banks have considerably strengthened their risk management and internal control practices. Although these changes are hard to assess, supervisors point to significant scope for further improvements, in particular because of the inherent uncertainties about the future evolution of risks.

According to S&P Global's forecasts in November 2022, India's real GDP could grow by an average of 6.3% annually from FY2021 to FY2030, allowing the country to be the third largest in the world by the end of the decade. Currently, the country is the fifth largest in terms of nominal GDP. The Ministry of External Affairs, Government of India writes in 2021, "India's 1.3 billion people make it the second most populous country in the world, but with an average age of 29, it has one of the youngest populations globally. As this vast resource of young citizens enters the workforce, it could create a 'demographic dividend'. A demographic dividend is defined by the United Nations Population Fund as economic growth resulting from a shift in a

population's age structure, mainly when the working-age population is larger than the number of dependents."

Capital Requirement

As the capital requirement served as a barrier to entry, our data also allows us to study whether differences in bank behavior are a response to actual entry or driven by the threat of potential entry. In particular, when studying the dynamics of the differences in credit provision across markets with different entry barriers, we find that credit provision decreases right after the publication in markets with higher barriers to entry. Given that actual additional entry only occurs after time has passed, we interpret this as an indication that incumbent banks attempt to deter banks from entering by increasing credit provision in their local market. Likewise, theory has ambiguous predictions with respect to risk taking. Competition potentially increases bank risk taking as it may decrease the charter value of banks and hence destroy the incentives of bankers to behave prudently. (see, e.g., Keeley, 1990; Allen and Gale, 2004). Yet other theories predict that competition decreases the overall riskiness of bank lending as it induces lower interest rates, which in turn mitigates moral hazard concerns of bank borrowers.

Non-banking financial companies

Non-banking financial companies (NBFC) are companies registered under the Companies Act, 1956. They are responsible for providing financial services but are not regulated by a national or international governing body and do not hold a full-fledged license for conducting operations. The financial services offered by NBFCs include disbursement of loans and advances, acquisition of stocks, shares or bonds etc. They do not accept demand drafts and are not a part of payment/settlement system unlike banks. NBFCs are more commonly known in the forms of microloan organisations, insurance companies, investment houses and more.

According to Alan Greenspan, non-banking financial institutions contribute in empowering the economy as they deliver "multiple alternatives to transform an economy's savings into capital investment [which] act as backup facilities should the primary form of intermediation fail.

Conclusion

The banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. The economic growth of the country is an indicator for the growth of the banking sector. The big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as

their Government dominated ownership structure has reduced the conflicts of interest that private banks would face. In modern era Large banks will focus on offering value added services to their commercial customers and creating new revenue streams through better integration with ERP systems, embedding finance, payments and information services.

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