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THE PROGRESS OF THE INDIAN BANKING SECTOR

Rahul Dhaigude
Symbiosis Institute of Management Studies,
Symbiosis International University, Pune,
Maharashtra, India

Abstract— **The purpose of this paper is to study and analyse the progress of the Indian Banking sector in the recent times and also to point out various measures that will be needed to be taken in order to steer the growth of the banking sector in India in the right direction. For detailed analysis on what changes banks have been through in the past and the initiatives banks have taken up in the recent times, journals, research papers and news articles were used as a secondary source of information. The Indian banking sector has improved drastically and has seen substantial growth in its efficiency and assets since liberalization began in 1991. From providing basic banking services, Indian banks have steadily transformed themselves into profit-making business organizations. With the introduction of ATMs, net banking, mobile banking apps, banks have taken banking services to a very high level. This paper focusses on the growth and various measures to be taken by banks so as to make the Indian banking system one of the robust banking systems in the world.**

Keywords— **Indian Banking sector, Growth, ATM, UPI, Financial inclusion**

I. INTRODUCTION

The Indian banking sector reforms were stimulated by the report of the Narasimham Committee, submitted in 1991. The report suggested several actions to be taken to improve the health and efficiency of the banking sector to make it more competitive. The effect of which led to increased productivity, efficiency and profitability of the banks to a very large extent.

The financial sector of a country is considered as the backbone of the economy. The profitability of the banks is primarily dependent on its working which in turn affects the financial sector thereby affecting the GDP and economy of a country. Financing the industrial sector not only helps the finance industry but also for the capital market development. By providing loans to the consumers, banks create demand

The Indian banking system consists of 26 public sector banks, 20 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to various cooperative credit institutions.

II. OBJECTIVES

1. To study the changes in the banking system in India.
2. To point out various measures that needs to be taken in order to steer the growth of the banking sector in India.

III. REVIEW OF LITERATURE

Koundal (2012) in his research “Performance of Indian banks in Indian Financial System” measured the relative performance of Indian banks. The main objective of this paper was to analyse the comparative performance of public sector banks, old and new private sector banks and foreign sector banks. The research also studied the challenges and prospects encountered by the public sector banks. It was found that public sector banks still lagged behind in numerous financial parameters in comparison to other banks as they faced several challenges (both internal and external), which hindered their performance significantly. It was concluded that there is a need for another reform to improve the performance of the public sector banks to meet the requirement of new and open competitive environments.

Dwivedi, Charyulu (2011) in their research determined the impact of regulatory initiatives and various markets on improving the efficiency of Indian banks. It was found that the nationalized banks, new private banks and foreign banks showed high efficiency over a period of time. Most of the banks showed more than 90% technical efficiency.

Bhanawat, Kothari (2013) in their research explored the impact of reforms on the profitability of banks in India. The impact was assessed on the basis of following parameters such as Operating Profit to Total Asset, Interest income to Total assets, Return on Asset and Return on Advances. The study revealed that the implementation of recommendations by Narasimham committee since 1998 did not have any favorable changes in the Indian banking sector.

Mamatha (2015) in her research on financial inclusion researched on the various initiatives taken by the Government of India and RBI to achieve inclusive growth. The study focused on Financial Inclusion in a developing country like India where majority of the population is deprived of financial services could have a bearing on the overall economic growth of the country. One of the objectives of the study was to evaluate the role of banks towards financial inclusion.

IV. RESEARCH METHODOLOGY

To understand the growing trends in the banking sector in India, Secondary data for this research was collected from research journals, articles and case studies. Further the data collected is presented in the form of tables and figures with discussions about each.

V. RESULTS AND ANALYSIS

As times have progressed, it has been observed that, customers today are spending more with the advent of credit cards and debit cards. However, a majority of the population in India still deals in cash transactions due to which ATMs have become very popular. Due to this reason, the number of ATMs in India has increased substantially over the past decade. The table below shows the number of ATMs that have been installed in India since 2005 to 2015. A total of 29.6% CAGR was recorded during this time.

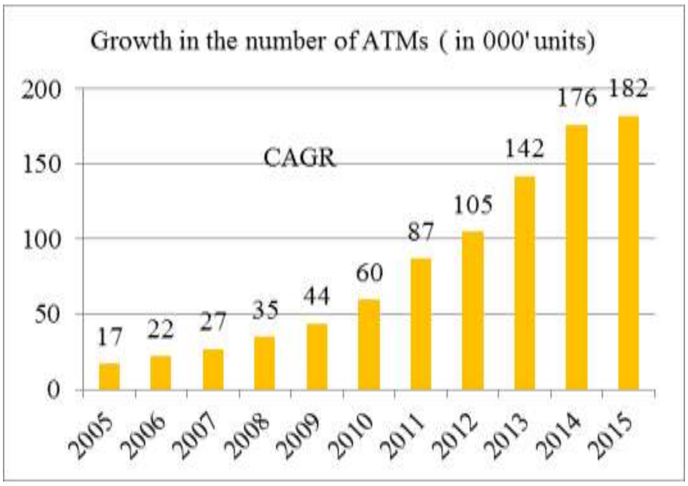

Figure 1: Increase in the use of ATMs

Since the year 2007, the credit off-take has picked-up from \$428 billion to \$1089 billion in the banking sector. This clearly indicates that as the demand for credit is going up, banks have reduced their investment in low-yielding Government securities. These funds have been deployed to the commercial sector, which are earning a higher return than the Government securities. This is a very positive shift for the Indian banking sector.

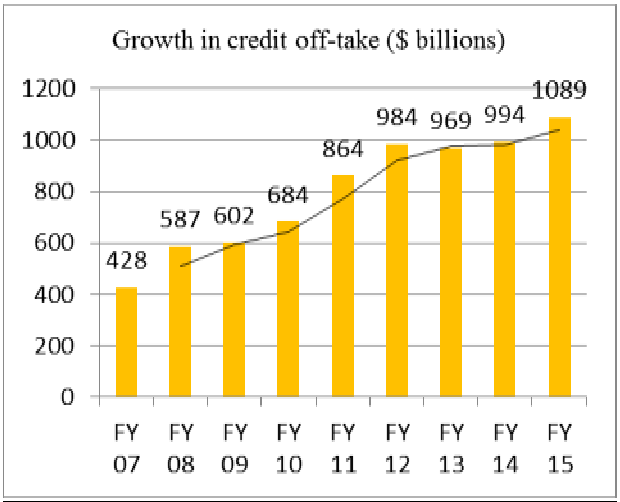

Figure 2: Growth in credit off-take

The assets in the Indian banking sector has increased from \$1271 billion to 1818.5 billion since FY 10. However in the recent times the issue of the Non-Performing Assets (NPA) has taken the Indian banking sector by storm. A high level of NPAs suggests a high probability of huge number of non-payments that affect the net-worth and profitability of banks which essentially diminishes the value of the bank assets.

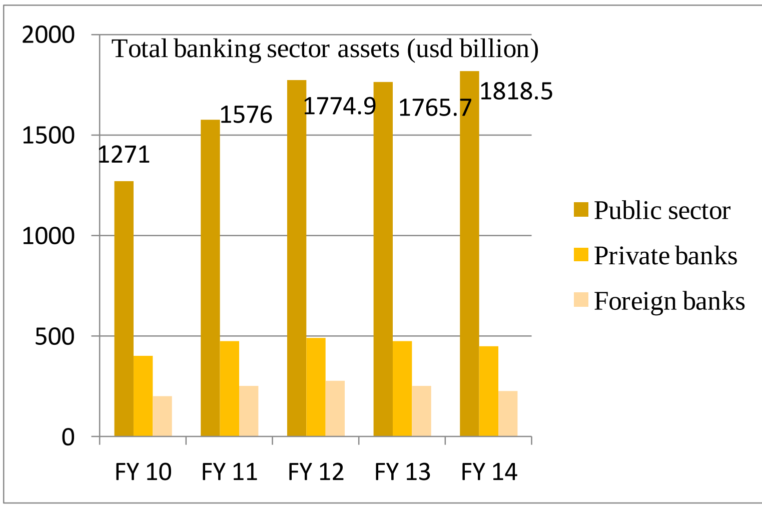

Figure 3: Assets base continues to expand

Key areas to focus on for the development of the banking sectors are:

- Basel III norms:
  Basel III is a voluntary regulatory network for robust banks and banking systems. These reforms are the response of the Basel Committee on Banking Supervision (BCBS). As on April 1st 2013, the Basel III capital regulations have been implemented in phases in India. These regulations will be fully implemented by March 31st, 2019.

- Policy support by RBI:
  Healthy regulatory oversight and credible Monetary Policy
  Increase the number of licenses given to private sector companies to increase bank penetration
  Simplification of KYC norms, and introduction of no-frills accounts and Kisan Credit Cards to increase rural banking penetration.

- Schemes by the Government of India:
  Pradhan Mantri Suraksha Bima Yojana
  Pradhan Mantri Jeevan Jyoti Bima Yojana
  Atal Pension Yojana
  Pradhan Mantri Jan Dhan Yojana

- Developing corporate bond markets:
  Currently, banks can use only government bonds to access funds under the LAF window, essentially a short-term mechanism for lenders to raise money quickly. By the end of this year, the
  In the year 2011, RBI had allowed repos in corporate bonds bilaterally, with the hope that this would boost the secondary market turnover in the bonds. However the repos didn't take off and the average daily turnover of the secondary market is still around Rs.4,000 crore. Due to this reason, the Central Bank aims to enhance transparency by designing an electronic trading platform for corporate bond repos. This is a crucial link in well-developed financial markets and could help banks in the future.

- New banks:
  RBI has approved 23 banking licenses since April 2014, 11 out of these 23 were issued payment banks licenses and 10 were granted licenses for small finance banks. In the future, RBI will be scraping the cut-off date concept for applying so as to encourage more applicants.

- Financial inclusion:
  There are only about 55% of the individuals in India who have deposit accounts and only about 9% who have credit cards. As per the World Bank, the percentage of rural population in India is 67%. This clearly shows that there is a need for banks to reach out to the rural areas and help the unbanked to open bank accounts and make use of at least the basic banking services. Experimenting with new business models to serve potential customers like the unbanked will help banks to build profitable and scalable businesses.

Future ahead:
Banks will need to have an organizational structure that is flexible with decentralised decision-making overall to cut down on the turnaround time (TAT) for different processes. This will in particular hold good when new entities including Microfinance Institutions (MFIs), large corporate houses, Non-Banking Finance Companies (NBFCs) get new banking licenses.
In the future, banks will need to understand tech-savvy new age customers so as to offer innovative products on a timely basis. In addition to these, the existing customers will have to be attended to, by the employees of the sales and marketing departments to cross-sell their services. Data analytics tools will have to be used majorly to gain insights from their existing customers' databank to grow their business and thereby ensure customer loyalty. One of the major requirements for the success of any bank will be its capacity to partner with multiple agencies to increase its business.

VI. CONCLUSION

The major areas that RBI is targeting are multi layered (tiered) banking structure, conversion of small banks to large scale banks, consolidation of banks, and dilution of Government in PSBs and consider continuous banking license application window. These measures may help in the restructuring of the Indian banking industry.
As per the RBI, India's banking sector is adequately well-regulated and capitalized. The economic and financial condition in this country is far superior to any other country in the world at the moment. Credit, market and liquidity risk studies have indicated that our banks are generally tough and have managed to stay strong during the global downturn. This clearly shows that the Indian banking system has come a long way and has marked its presence in the global economy.

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