



A study on dynamics of banking sector in India

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Abstract

Banking is defined as the business of accepting and securing money owned by other people and companies, and then lending it out to execute economic activities such as creating a profit or merely covering operating expenditures. The Indian Commercial banks face a vivid competition from private sector banks. Private Banks, having more incentive and risk, are right now one step ahead, but public sector banks have been doing well too. Banks play a key role in India's financial system and underpin economic growth. Although Indian authorities have taken a number of steps to strengthen the banking system, progress has been difficult and has been further curtailed by the COVID-19 pandemic. In the banking field, there has been an unprecedented growth and diversification of banking industry and banks are now utilizing the latest technologies like internet and mobile devices to carry out transactions and communicate with the masses.

The performances of various banks have been measured using some crucial ratios under this research paper to determine the working efficiency of the banks. This research paper intends to cover the crucial aspects and dynamics that has affected or will further affect the banking sector as a whole of India. This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policy makers and researchers.

Keywords: banking, financial system, economic growth, technologies, efficiency

Introduction

The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial sector, which plays a vital role in the functioning of an economy. It is very important for economic development of a country that its financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. Thus, the development of a country is integrally linked with the development of banking. In a modern economy, banks are to be considered not as dealers in money but as the leaders of development. They play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system reflects the economic health of the country. The strength of an economy depends on the strength and efficiency of the financial system, which in turn depends on a sound and solvent banking system. A sound banking system efficiently mobilized savings in productive sectors and a solvent banking system ensures that the bank is capable of meeting its obligation to the depositors.

In India, banks are playing a crucial role in socio-economic progress of the country after independence. The banking sector is dominant in India as it accounts for more than half the assets of the financial sector. Indian banks have been going through a fascinating phase through rapid changes brought about by financial sector reforms, which are being implemented in a phased manner.

Banking Regulations Act, 1949 Section 5(b) defines banking as 'accepting, for the purpose of lending and investments, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, demand, and order or otherwise.'

The following are the reasons why banking is at the top of the list of financial literacy pillars

- Keep your money safe.
- Keep track of your finances and create a budget.
- Direct deposit allows you to receive your pay check fast.
- Make financial transactions easier.
- Protect your liquid assets by purchasing insurance.
- Debit and credit card services are available.
- Make money by earning interest.
- Take out a loan
- Put your money to good use.
- Create a credit history to establish a FICO credit score that can help you borrow money and grow wealth.

The major functions of banks are in granting loans for personal or business use, accepting deposits, agency functions like transfer of funds, periodic payments, collection of cheques, portfolio management, etc. and utility functions like drafts, lockers, underwriting, social welfare programmes and other utility functions.

Banks are generally categorised into two types i.e., Public Banks and Private Banks. Public banks refer to a bank or financial institution whose owners are the government, a municipality, or other public players. It is a government-controlled business. Private banks refer to the specialised financial services and products provided by a retail bank or other financial institution to high-net-worth individuals (HNWIs).

Banking sector growth may increase either directly by improving the quality of financial services and increasing funds available, or indirectly by improving the efficiency of financial intermediaries, both of which may lower the cost of financing, thereby increasing capital accumulation and economic growth.

Objectives of the Study

The following are the main objectives of the present study

1. To create awareness of the Indian Banking, its history and functions.
2. To study the structure of Indian Banking System and how banks make money (credit creation).
3. To study about the nationalization of Indian banks.
4. To identify the recent trends in the Banking System.
5. To study the growth and profitability in banking sector.
6. To study the impact of Covid-19 on Indian banking system
7. To study the future of banking system- The road ahead

Research Methodology

The present work entitled "Dynamics of Indian Banking Sector" is based on secondary data that has been collected with the help of various online sites, books and resources. The study is based on information and secondary data accessed from reputed Journals, RBI & Various Official Committees Reports and authentic Websites.

Literature Review

Brijesh K. Saho et al. (2007): This paper attempts to examine, the performance trends of the Indian commercial banks for the period: 1997-98 to 2004-05.

Vradi et al. (2006) [7]: In his study on 'Measurement of efficiency of bank in India' concluded that in modern world performance of banking is more important to stable the economy. In order to see the efficiency of Indian banks we have seen the fore indicators i.e. profitability, productivity, assets, quality and financial management for all.

Petya Koeva (2003): His study on the 'Performance of Indian Banks during Financial Liberalization' states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behavior and determinants of bank intermediation costs and profitability during the liberalization period.

B. Sathish Kumar (2008): In his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy.

Roma Mitra et al. (2008): A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India.

Sharad Kumar (2010) [14]: In his article "Banking changing the gear" has reviewed that Indian banking is transforming itself into a customer centric, commercial position by providing the better and qualitative services in addition to primary services with the help of superior technology and effective innovation which is producing customer delight.

Shri. G. D. Medhe (1988) [16]: In "A study of Bank customer services with special reference to Kolhapur Janata Sahakari Bank Ltd, Kolhapur", he explained the term 'BANKING' as follows

B = Banking of efforts for nation economic prosperity.

A = Advancement of working capital, loans.

N = Nutrition food, it helps the weak farmers, land less laborers to pursue milk animals.

K = Keeps your money safe and grow at fastest rate.

I = Industrial development takes place.

N = Numerous deposits schemes to suit your expectations and packet and purpose.

G = Getting a prompt courteous and efficient services. In addition to above he gave more stress on bank

Anudhav. Anand. Mishra (2009): In his article, "A study on customers satisfaction in Indian Retail banking", has focused that the banking industry facing rapidly changing markets, new technology, economic uncertainties, fierce competition, more demanding customers and changing climate has presented and unprecedented set of challenges.

History of Banking Sector

The history of banking dates back to the year 1148, when the first bank named 'Casa De San Georgeo' was established. The origin of the word 'Bank' belongs to the word 'Banchi' or to the Greek word 'Banque'. Both these words refer to some kind of banking. According to another viewpoint bank originated from the general word 'Bank' meaning 'joint fund'.

The modern age banking in India originated in the last decade of 18th century. Among the first banks were the 'Bank of Hindustan' which was established in 1770 and liquidated in 1829-32 and the 'General Bank of India' established in 1786 but failed in 1791. 'Casa De San Georgeo' was the first bank established in 1148. The largest and the oldest bank still in existence is the 'State Bank of India'. It originated and started working as the 'Bank of Calcutta' in mid-June, 1806. In 1809, it was renamed as 'Bank of Bengal'. This was one of the three banks founded by the presidency government, the other two banks were 'Bank of Bombay' in 1840 and 'Bank of Madras' in 1843. These three banks then merged in 1921 to form the 'Imperial Bank of India' which upon India's independence became the 'State Bank of India' in 1955. For many years the presidency banks acted as the Quacy Central banks, until the Reserve Bank of India' was established in 1935, under the Reserve Bank of India Act, 1934.

Ancient India

The concept of usury is mentioned in the Vedas, with the word 'kusidin' being translated as "usurer." Usury is mentioned in the Sutras (700–100 BCE) and the Jatakas (600–400 BCE). Usury was also forbidden in texts of the time: the 'Vasishtha' forbade Brahmin and Kshatriya varnas from partaking in usury. Usury became more accepted by the 2nd century CE. Usury was regarded permissible by the 'Manusmriti' as a means of accumulating money or earning a living. Money lending above a specific rate, as well as separate ceiling rates for different castes, was also regarded a grievous offence. Loan deeds, known as 'rnapatra', 'rnapanna', or 'rmaleshaya', are mentioned in the 'Jatakas', 'Dharmashastras', and 'Kautilya'.

Medieval Period

Loan deeds were still used throughout the Mughal Empire, and they were referred to as 'dastawez' (in Urdu/Hindi). There have been two types of loan deeds documented. 'Dastawez-e-indultalab' was paid on demand, while 'dastawez-e-miadi' was paid after a certain period of time. The usage of payment orders, known as 'barattes', by royal treasuries has also been documented. There are also records of Indian bankers using foreign countries to issue bills of exchange. During this time, 'hundis', a form of credit instrument, evolved and are still in use today.

Colonial era

Merchants founded the Union Bank of Calcutta in 1829 during the British administration, initially as a private joint stock organisation, later as a partnership. Union Bank was founded by the owners of the former Commercial Bank and the Calcutta Bank, who came together by mutual agreement to replace these two banks. It opened an agency in Singapore in 1840, and it closed the one in Mirzapore that it had opened the year before. The Bank also stated in 1840 that it had been the victim of a fraud perpetrated by the bank's accountant. Union Bank was founded in 1845 but failed in 1848 after being insolvent for some time and paying dividends with new money from depositors.

The Allahabad Bank, founded in 1865 and still in operation today, is India's oldest joint stock bank, albeit it was not the first. The Bank of Upper India, founded in 1863 and surviving until 1913, when it failed and some of its assets and liabilities were transferred to the Alliance Bank of Simla, holds this distinction.

In the 1860s, foreign banks began to appear, mainly in Calcutta. In 1864, Grindlays Bank established its first branch in Calcutta. In 1860, the Comptoir d'Escompte de Paris opened a branch in Calcutta, and another in Bombay in 1862; Madras and Pondicherry, then a French territory, followed in 1863. HSBC first opened its doors in Bengal in 1869. Calcutta was India's most active trading port, owing to the British Empire's trade, and so became a banking centre.

The Oudh Commercial Bank, founded in 1881 in Faizabad, was the first wholly Indian joint stock bank. It was a flop in 1958. The Punjab National Bank, which was founded in Lahore in 1894 and is today one of India's largest banks, was the second to be created.

The formation of banks influenced by the Swadeshi movement occurred between 1906 and 1911. Local merchants and politicians were encouraged by the Swadeshi movement to establish banks for and by the Indian population. Catholic Syrian Bank, The South Indian Bank, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank, and the Central Bank of India are among the banks that have survived to this day.

For Indian banking, the years between the First World War (1914–1918) and the end of the Second World War (1939–1945), as well as the two years afterward until India's independence, were difficult. The chaotic years of

the First World War took their toll, with banks simply folding despite the Indian economy receiving a boost from war-related economic operations. Between 1913 and 1918, at least 94 banks in India failed.

Post-Independence

Between 1938 and 1946, the number of bank branch offices tripled to 3,469, with deposits quadrupling to 962 crores. Nonetheless, the 1947 partition of India had a negative impact on the economy of Punjab and West Bengal, paralysing banks for months. India's independence signalled the end of a laissez-faire financial regime in the country. The Indian government took steps to play a more active part in the country's economic life, and the government's Industrial Policy Resolution of 1948 envisioned a mixed economy. As a result, the government has become more involved in various sectors of the economy, including banking and finance. The following were the significant steps taken to regulate banking

- The Reserve Bank of India, India's central banking authority, was founded in April 1935, but under the Reserve Bank of India (Transfer to Public Ownership) Act, 1948, it was nationalised on January 1, 1949. (RBI, 2005b).
- The Banking Regulation Act of 1949 gave the Reserve Bank of India (RBI) the authority to regulate, oversee, and inspect Indian banks.
- The Banking Regulation Act further stipulated that no new bank or branch of an existing bank could be established without first obtaining a licence from the RBI, and that no two banks could have the same board of directors

Structure of Indian Banking System

Basically, today's banking system is a two-tier structure: a central bank and many commercial banks. It is now more or less standardised in nearly all countries. Commercial bank does the ordinary business for the general public. The central bank controls the operations of commercial banks. Each country has one central bank. The Reserve Bank of India is the country's central bank, and it oversees the country's banking sector. On April 1, 1935, the Reserve Bank of India was established. The present governor of RBI is Shri Shaktikanta Das. The Central board of directors of RBI consists of: Governor, Deputy Governor, Executive Directors, Principal Chief General Managers, Chief General Managers, General Managers, Deputy General Managers, Assistant General Managers, Managers, Assistant Manager, and the supporting staff. RBI is in charge of the Indian rupee's issue and supply, as well as the banking system's supervision, oversees the country's primary payment networks and aims to further the country's economic growth. The Bharatiya Reserve Bank Note is a banknote issued by the Bharatiya Reserve Mudran is a specialised division of the Reserve Bank of India that mints Indian bank notes and coins. The Reserve Bank of India formed the National Payments Corporation of India as a specialised division to regulate India's payment and settlement systems.

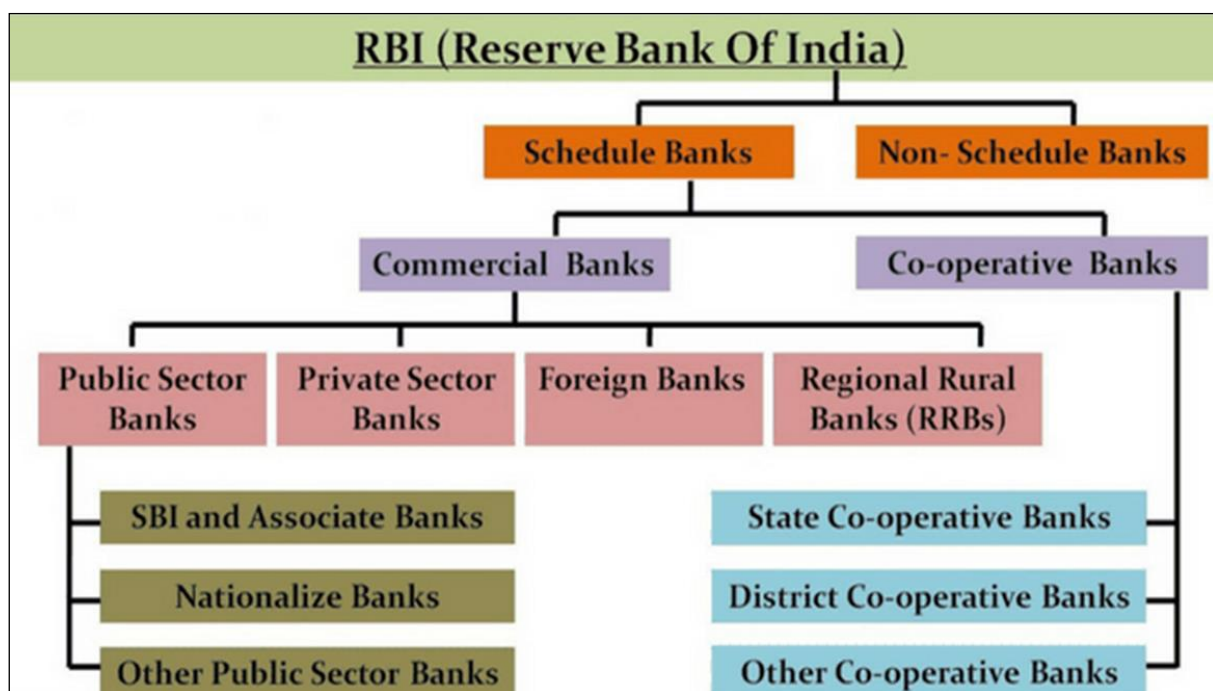


Fig 1: Structure of Indian Banking System

The State Bank of India, Punjab National Bank, Axis Bank and ICICI Bank are some examples of commercial bank in India. India's banking system is organised into three categories: scheduled banks, non-scheduled banks, and development banks.

Scheduled Banks

They are defined as those included in the second schedule of the Reserve Bank of India Act, 1934.

The following services are available to all scheduled banks

- Such a bank is eligible for debts/loans at the RBI's bank rate.
- A clearing house membership is automatically acquired by such a bank.

Commercial and cooperative banks are two types of scheduled banks.

Non-Scheduled Banks: These are those that are not covered by the Reserve Bank of India Act, 1934's second section. Except in crises, they are not eligible to borrow from the RBI for conventional banking reasons.

Commercial Banks: Commercial banks are financial entities that accept deposits from the general public and provide loans with the intent of making a profit. Public sector, private sector, foreign banks, and RRBs are the four types of commercial banks.

The government owns the majority of shares in public sector banks. There are now 12 public sector banks in India, following the recent merger of smaller banks with larger banks. State Bank of India is an example of a public sector bank.

Private sector banks are those in which private stakeholders or business houses own the majority of the equity. HDFC Bank, ICICI Bank, and Axis Bank are a few of India's prominent private sector banks.

A foreign bank is one that has its headquarters outside of the country and operates its offices as a private business in any other country. Such banks must follow the rules set forth by the country's central bank as well as those set forth by the parent corporation based outside of India. Citi Bank in India is an example of a foreign bank.

The Regional Rural Banks Ordinance of 1975 was passed with the goal of securing adequate institutional credit for agriculture and other rural sectors. RRBs can only operate within the areas that the government has designated.

Cooperative Bank: It is a financial institution owned and operated by its members, who are also the bank's owners and clients. They offer a wide range of banking and financial services to their members. Agricultural activities, some small-scale industries, and self-employed workers are all supported by cooperative banks. Mehsana Urban Co-operative Bank is an example of a cooperative bank in India.

Development Banks: These are financial institutions that provide long-term lending to fund capital-intensive investments with low rates of return and significant social benefits spread over a long period of time. Industrial Finance Corporation of India (IFCI Ltd) was founded in 1948, followed by the Industrial Development Bank of India (IDBI) in 1964, the Export-Import Banks of India (EXIM) in 1982, the Small Industries Development Bank of India (SIDBI) in 1989, and the National Bank for Agriculture and Rural Development (NABARD) in 1982.

Money Creation by Commercial Bank

Money supply is made up of two parts: cash held by the public and demand deposits held by commercial banks. Because it has sole authority over note issuance, the country's central bank creates currency. The resulting currency is known as 'High Powered Money.' Demand deposits, also known as 'Bank Money,' are created by commercial banks.

What are the methods used by commercial banks to create money? People put their money in commercial banks. The money in these deposits is used by banks to provide loans. When a bank gives someone a loan, it simply creates a bank deposit in the borrower's name equal to the loan amount. Because the borrower is free to utilise the money anyway, they like, the bank's new deposit becomes part of the money supply. This is how banks produce cash. The process of creation does not stop here. Banks create money, which leads to more money creation. Let's see how.

Let's assume that the borrower withdraws the full amount from his lending bank account and uses it to purchase the goods and services required for investment or consumption. This increases the earnings of those who sell these products and services. Assume that the vendor conducts all of his or her business through banks. They deposit all of their earnings in commercial banks' demand deposit accounts. These are fresh deposits for commercial banks. They use the funds in these accounts to make additional loans and to open new demand accounts in the names of new customers. This is the process by which banks create new money. Banks can continue to create money in this manner as long as they continue to get the new deposits.

Money Multiplier

We've seen that fresh bank deposits lead to the production of more bank deposits. The total amount of deposits produced is many times greater than the beginning amount. The 'money multiplier' also known as the 'deposit multiplier' is the factor by which deposits can grow as a result of an initial deposit. What will the deposit multiplier be worth? The Legal Reserve Ratio (LRR) (LRR is the fraction of deposits which is legally compulsory for commercial banks to keep with them in form of cash and liquid assets with them and central bank) determines it. The value is:

Deposit Multiplier= $1/LRR$

If suppose $LRR = 20\%$ i.e., 0.2, then Deposit Multiplier= $1/0.2 = 5$

The Working

Suppose a new deposit of ₹1,000 is made in bank, and LRR is 20%, which means that bank keeps ₹200 in bank and lends the rest ₹800. This is the first round of money creation and equal 80% of initial deposit. Now if the borrower withdraws entire loan money and spends on investment and consumption, it means the sellers receives the same and deposits it in bank account which in turn allows bank to get new deposits. They again keep 20% i.e., ₹160 as reserve and lends ₹ 640. This cycle continues and increase becomes smaller & smaller and ultimately becomes virtually zero. The sum of all deposits will ultimately be ₹5,000 i.e., 5 times the initial deposit.

Qualitative Instruments of Monetary Policy

Selective instruments of the RBI's monetary policy are also known as qualitative instruments. These instruments are used to distinguish between different types of credit, such as favouring export over import or essential credit supply over non-essential credit supply. Both borrowers and lenders are affected by this strategy.

The RBI employs the following selective credit control tools:

Rationing of Credit

The Reserve Bank of India sets a credit limit for commercial banks. The quantity of credit accessible to any commercial bank is limited. The higher credit limit might be set for certain objectives, and banks must adhere to it. This reduces the bank's credit exposure to unfavourable industries. This device also regulates bill rediscounting.

Regulation of Consumer Credit

Consumer credit supply is regulated by the instalment of sale and hire purchase of consumer goods under this instrument. Features like as instalment amount, down payment, loan period, and so on are all pre-determined, which aids in the control of credit and inflation in the country.

Moral Suasion

Moral suasion refers to the RBI's recommendations to commercial banks that aid in the restraint of credit during inflationary periods. The Reserve Bank of India (RBI) exerts pressure on the Indian banking system without taking any concrete steps to ensure compliance with the rules.

Change in Marginal Requirements

The term "margin" refers to the percentage of a loan that is not offered or financed by the bank. A change in the loan size can be caused by a change in the marginal. This device is used to boost credit supply for necessary sectors while discouraging it for non-essential ones. This can be accomplished by raising the marginal of unneeded sectors while lowering the marginal of other sectors in need.

Direct Action

The RBI takes this action against banks that fail to meet certain conditions and regulations. For credit required over a limit, the RBI may refuse to rediscount their papers, issue extra credits, or apply a penalty rate of interest over and above the Bank rate.

Margin Requirements

It refers to the discount fixed by the central bank on the assets mortgaged as security by the borrowers to the commercial banks. If margin requirements are higher, then, lower would be the amount one can borrow from commercial banks and vice-versa.

Quantitative Instruments of Monetary Policy

Also known as the RBI's general tools (Reserve Bank of India). These instruments are linked to the quantity and volume of money, as the name implies. These devices are used to regulate the total amount of money and volume of bank credit in the economy. These are indirect devices that are used to alter the amount of credit available in the economy.

Bank Rate

The bank rate is the lowest rate at which the central bank loans money to commercial banks and rediscounts first-class bills of exchange and securities. When the RBI detects a rise in inflation, it raises bank interest rates, causing commercial banks to borrow less money and keeping inflation under control.

Legal Reserve Ratio

Commercial banks are required to hold a specific amount of reserve assets in reserve cash. Some of these cash reserves are cash equivalents of their total assets.

The RBI holds a fixed level of cash reserves to maintain liquidity and control credit in the economy. SLR (Statutory Liquidity Ratio) and CRR (Current Reserve Ratio) are two reserve ratios (Cash Reserve Ratio). CRR is a proportion of a commercial bank's net demand and time obligation that the bank must keep on hand at all times with the RBI. The CRR in India is regulated to be between 3 and 15%. SLR refers to the requirement for a particular percentage of reserves to be held in gold and foreign securities. SLR is restricted to 25-40% in India by law. Any changes in the SLR and CRR cause commercial banks' positions to shift.

Repo Rate

A repo rate is a rate at which commercial banks can borrow money by selling their assets to the Reserve Bank of India (RBI) in order to maintain liquidity. In the event of a cash crisis or owing to statutory requirements, commercial banks sell their securities. It is one of the RBI's primary tools for keeping inflation under control.

Reverse Repo Rate

When there is excess liquidity in the market, the RBI borrows money from commercial banks. Commercial banks benefit in this instance because they receive interest on their RBI assets. When the country's inflation rises, the RBI raises the reverse repo rate, which encourages banks to park more funds with the central bank, allowing it to earn larger rates on excess funds.

Open Market Operations

Open market operations are the sale and acquisition of securities by the RBI in the money market on a long/short term basis. The RBI employs OMO to affect the term and structure of interest rates, as well as to stabilize the market for government securities and other government securities, and to eliminate money shortages in the money market.

Nationalisation of Banks

The Indian banking system has successfully completed 51 years of Bank Nationalization, and if it has contributed anything to the economy, it must be food grain self-sufficiency and a significant increase in financial inclusion. It has aided India's rise to become one of the world's most powerful economies, with its potential recognised around the world.

It can be defined as a process by which the national government or a state gains the authority to take over private industries, organisations, or even assets into their ownership, i.e. public ownership, via legislation, ordinances, or orders. Many socialist governments have gone through this process just to transition from capitalism to socialism. The nationalized banks are those banks that were ones owned by the private players but due to the financial or socio-economic exigencies, the ownership was acquired by the government. In more technical terms Nationalized Banks have such an ownership structure where the government is the majority shareholder i.e. greater than 50%.

The need to nationalize banks was felt due to many reasons as they were a huge help to the big businesses and massive industries functioning in the country. Then in addition to that, the agriculture sector which is the most important contributor to economy, then the exports sector, the small scale industries also needed financial guidance in order to pace up.

- The RBI (Transfer of Public Ownership) Act was passed in India in order to nationalise the Reserve Bank of India, which happened on January 1, 1949.
- Similarly, the Imperial Bank of India was nationalised in 1955 and renamed the State Bank of India, which is now the largest public sector bank.
- The State Bank of India Act of 1955 founded it, and it also serves as the RBI's chief agent, managing bank transactions across the country.
- Banks all around the country were forced to undergo drastic reforms as a result of the unexpected nationalisation, which ultimately resulted in economic development.
- 14 of the most important commercial banks in India were nationalised on July 19, 1969, and another 6 banks were nationalised in 1980, resulting in a significant increase in the number of banks in India.

Nationalization may be traced all the way back to 1947, often known as the pre-independence period. It was at this period that India's financial system was founded. It all started in 1770 with the establishment of the Bank of Hindustan. Many banks, including as Allahabad Bank and Punjab National Bank, began operations in those days and are still operational today. This was a time of bank mergers, with the majority of banks merging with one another. One of the most notable examples is the Imperial Bank, which was formed by the merging of the Bank of Madras, the Bank of Bombay, and the Bank of Bengal, and eventually became the Reserve Bank of India.

The second phase began in 1947 and lasted until 1991, during which time India's banks were mostly nationalised. The second stage of nationalisation began in 1980, with the nationalisation of six more commercial banks: Punjab and Sind Bank, Oriental Bank of Commerce, Corporation Bank, Andhra Bank, New Bank of India, and Vijaya Bank.

The third phase began in 1991 and continues to this day. During this time, the liberalisation policy was faithfully followed, and a small number of these banks were licenced as a result. They were dubbed "New generation tech-savvy banks" and ultimately amalgamated with the Oriental Bank of Commerce, IndusInd Bank, UTI Bank, ICICI Bank, and HDFC Bank. Government, private, and foreign banks all made significant contributions to the economy's overall growth. A large number of private banks arose as a result of the liberalisation of banking policies.

Recent trends in the Banking System

- **Electronic Payment Services (e-Cheques):** In the recent days we are aware of e-governance, e-mail, e-commerce, e-tail etc. In the same manner, a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque (a substitute electronic form for paper cheque) and E-cheque instruments.
- **Real Time Gross Settlement (RTGS):** Real Time Gross Settlement system, introduced in India since March 2004, is a system through which with the help of internet instructions can be given by banks to transfer of funds from one bank account to the another bank account. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantly and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.
- **Electronic Funds Transfer (EFT):** It is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider of EFT.
- **Electronic Clearing Service (ECS):** It is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals.
- **Automatic Teller Machine (ATM):** It is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a devise that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.
- **Point of Sale Terminal:** It is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.
- **Tele-Banking:** It facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.
- **Electronic Data Interchange (EDI):** It is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form.
- **Net Banking:** It is done through internet by individuals and firms for transfer of funds, booking rail tickets, shopping, purchasing cinema tickets, purchasing shares etc.
- **Mobile Banking:** Mobile Banking is a service provided by a bank or other financial institution that allows its customers to conduct a range of financial transactions remotely using a mobile device such as a mobile phone or tablet, and using software, usually called an app, provided by the financial institution for the purpose.
- **Amalgamation of Banks:** The consolidation of banks is known as amalgamation of banks. Recently the Union Cabinet on 15-02-2017 approved the merger of State Bank of India with five of its associate banks for efficient enhanced operational efficiency and reduced cost of funds.

Growth and Profitability in Banking Sectors over the Years

According to the RBI, the Indian banking sector is "sufficiently capitalized and well-regulated." Indian Banking Industry, instead of taking a hit, has emerged out of the pandemic with a new strength that surely will go a long way. With new and creative innovations and freshly brewed ideas, Indian banking sector is sure to reach the heights it never have before.

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 November 2020, the total number of ATMs in India increased to 209,282. Asset of public sector banks stood at Rs. 107.83 lakh crore (US\$ 1.52 trillion) in FY20

During FY16-FY20, bank credit grew at a CAGR of 3.57%. As of FY20, total credit extended surged to US\$ 1,698.97 billion. During FY16-FY20, deposits grew at a CAGR of 13.93% and reached US\$ 1.93 trillion by FY20.

According to the RBI, bank credit stood at 108.79 trillion (US\$ 1.46 trillion) and bank deposits stood at Rs. 155.14 trillion (US\$ 2.08 trillion), as of July 16, 2021.

Credit to non-food industries stood at Rs. 107.93 trillion (US\$ 1.45 trillion), as of July 16, 2021.

The growth of banking sector has been a collective effort of every being and every industry. Certain salient investments and developments that took place are:

- In July 2021, Google Pay for Business has enabled small merchants to access credit through tie-up with the digital lending platform for MSMEs—Flexi Loans.
- In December 2020, in response to the RBI's cautionary message, the Digital Lenders' Association issued a revised code of conduct for digital lending.
- As of June 23, 2021, the number of bank accounts—opened under the government's flagship financial inclusion drive 'Pradhan Mantri Jan Dhan Yojana (PMJDY)'—reached 42.55 crore and deposits in Jan Dhan bank accounts totalled >Rs. 1.44 lakh crore (US\$ 19.31 billion).
- On November 6, 2020, WhatsApp started UPI payments service in India on receiving the National Payments Corporation of India (NPCI) approval to 'Go Live' on UPI in a graded manner.
- In October 2020, HDFC Bank and Apollo Hospitals partnered to launch the 'Healthy Life Programme', a holistic healthcare solution that makes healthy living accessible and affordable on Apollo's digital platform.
- In 2019, banking and financial services witnessed 32 M&A (merger and acquisition) activities worth US\$ 1.72 billion.
- In March 2020, State Bank of India (SBI), India's largest lender, raised US\$ 100 million in green bonds through private placement.
- In February 2020, the Cabinet Committee on Economic Affairs gave its approval for continuation of the process of recapitalization of Regional Rural Banks (RRBs) by providing minimum regulatory capital to RRBs for another year beyond 2019-20 - till 2020-21 to those RRBs which are unable to maintain minimum Capital to Risk weighted Assets Ratio (CRAR) of 9% as per the regulatory norms prescribed by RBI.
- The NPAs (Non-Performing Assets) of commercial banks recorded a recovery of Rs. 400,000 crore (US\$ 57.23 billion) in the last four years including record recovery of Rs. 156,746 crore (US\$ 22.42 billion) in FY19.

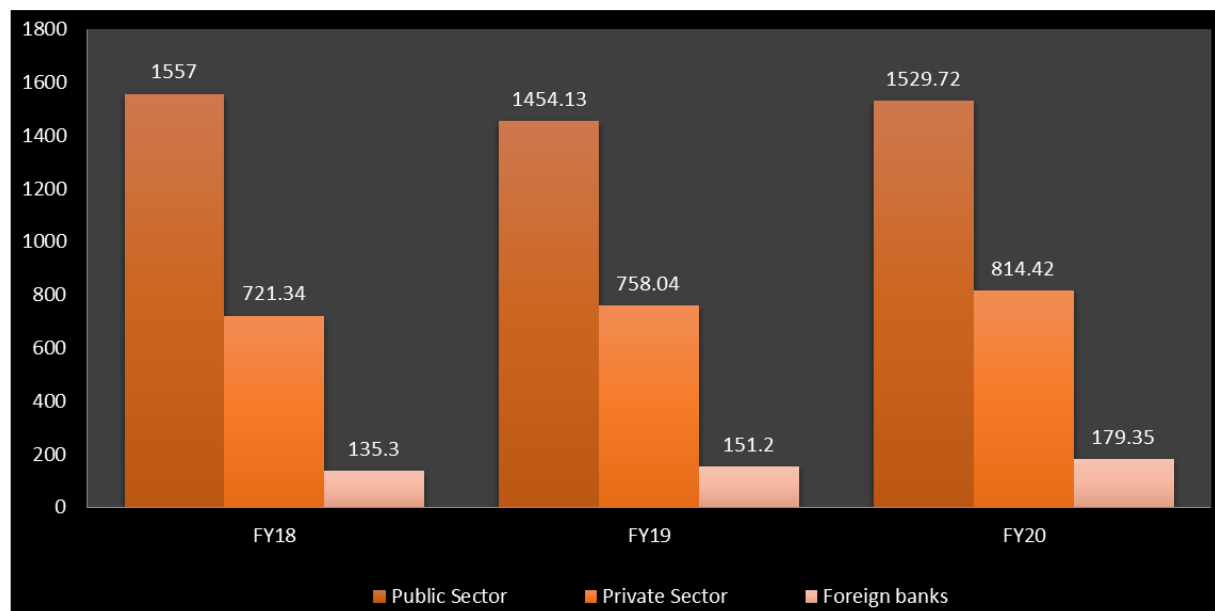


Fig 2

Impact of COVID-19 on Banking Sector

As the global economy recovers from the ravages of the COVID-19 pandemic, economic activity has been gaining momentum, but unevenly. Rising crude oil prices, emerging inflationary pressures and global policy uncertainty are the key risks. Domestically, high frequency indicators of activity are ticking up as the second wave abates. While banks and other financial institutions have resilient capital and liquidity buffers, and balance sheet stress remains moderate in spite of the pandemic, close monitoring of MSME and retail credit portfolios is warranted alongside the need for banks to reinforce buffers, improve governance and remain vigilant in the context of global spillovers.

COVID-19 has emerged as the century's black swan event, having far-reaching macroeconomic implications both internationally and in India.

COVID-19's exponential spread has caused a large drop in major indexes, suggesting its influence and ability to have a big impact on GDP growth. While COVID-19 is predicted to have a negative overall impact on credit growth in most sectors, the degree and form of the impact will likely vary depending on the duration and scope of the disruption. Banks certainly have their hands full in light of the novel coronavirus outbreak COVID-19. Borrowers and businesses face job losses, slowed sales, and declining profits as the virus continues to spread around the world.

- Short-term disruptions are likely to cause accessibility issues and SME/corporate customers to scale back.
- In addition to SMEs/corporate defaults, a longer extended crisis is anticipated to enhance customer preference for digital channels and products such as insurance.
- A full-fledged pandemic is likely to result in a large drop in demand from SMEs and corporations, structural changes in customer behaviour, and changes in personnel responsibilities and the entire operating model.
- While the government and RBI have already leapt into action with specific measures, continued disruption could lead to more actions encouraging sector structural changes.

With the onset of the pandemic and its evolution, policy authorities across the world have sought to sustain the flow of credit to the private sector to alleviate liquidity strains among firms and households and mitigate economic scarring. A wide variety of measures have been implemented, as the country experience shows. Policy makers have sought to increase banks' capacity to lend by either conserving or freeing up capital through measures such as restrictions on dividends, share buybacks and bonus payments; access to low cost financing from central banks; flexibility in provisioning standards; reducing regulatory capital buffer requirements; allowing temporary breaches of the liquidity coverage ratio. They have also endeavoured to increase the willingness of banks to lend by addressing the risk-adjusted return on loans (flexibility in asset classification; incentivizing restructuring; direct fiscal transfers to borrowers to help reduce their credit risk; moratoriums on loan payments; prohibitions on foreclosures; loan guarantees; funding-for-lending schemes; and moral suasion).

Future of Indian Banking – the Road Ahead

The future state of the Indian Banking lies in the modernization of the core banking system. Introduction of new, better and agile technologies is carving out new paths of growth and optimization. The increased competition, unprecedented situation and the new normal arising out of the pandemic, will prompt the banking system to stay relevant and banking as we know might undergo a revolutionary change with a paradigm shift.

Banking will be more lifestyle oriented and banks will look to extend their core systems to kick-start growth by launching new products, build digital experiences, and augment operational efficiency by leveraging the likes of AI, machine learning and cloud technologies. These would include themes like digital on boarding and quick loan disbursals.

The way ahead for the banking industry to achieve a robust and sustainable development is certainly challenging. Only a comprehensive and holistic approach with well-conceived strategies and effective implementation at the ground level can bring about the desired changes. Banks may need to revisit their basket of products being offered and a focus on the core-areas of 'Deposit Taking' and 'Efficient Lending' may be the need of the hour. With payment banks and fin-techs forming a part of the ecosystem, the ancillary business of payments, remittances etc. may be no longer a core banking activity. Competition / collaboration with fin-techs and innovative partnering with neo banks may evolve. Customer centricity and innovative products to compete with emerging avenues of savings and investment like mutual funds/equity market etc. will be the hallmark.

Use of Data Mining, Artificial Intelligence (AI), Machine learning and other evolving technological tools will help in not only retaining the customers but also to widen the client base.

On the credit front, a lot is expected to be done for improving the Credit Appraisal Standards, Monitoring Mechanism and Risk Management Strategies. Here also the new technologies and learnings from past mistakes may be required. The strategy of focusing on "Net Interest Margin" as a tool of gauging efficiency is important. This will entail an effective business orientation with an eye on profitability through efficient resource management and strong monitoring and recovery mechanisms. Financial institutions are starting to respond to some of the more pressing business continuity needs. However, for long-term profitable growth, a concentrated approach involving a combination of tactical actions to solve current challenges and strategic interventions to recalibrate business models and drive growth would be crucial.

Banking's future will be shaped by huge technological advancements and will shift dramatically. 'Digital' is the way of the future in banking. The COVID-19 pandemic has changed the way we buy, work, and even bank, and this has resulted in a significant shift in customer behaviour.

The digitization of the banking sector, on the other hand, is not happening overnight. When the Automated Teller Machine (ATM) and Electronic Fund Transfers (EFT) were introduced in the early 1990s, the financial sector began to digitise. As a result, online banking was made legal in India, along with the National Electronic Fund Transfer (NEFT), Immediate Payment System (IMPS), Real-Time Gross Settlement (RTGS), and other payment systems. India has recently become increasingly reliant on the UPI, or digital wallet payment system. In order to digitise the economy, the government implemented demonetization in 2016, followed by GST in 2017. The Government of India has made its purpose plain with such bold initiatives: to make the banking and financial services sector entirely digital. Furthermore, these actions have yielded extraordinary effects. Due to

the pandemic, transactions using debit and credit cards, as well as UPI systems, have increased significantly compared to previous year.

Conclusion

Our banking sector has steadily evolved and moved in tandem with the growing requirements of the economy. The sector has developed manifold according to the aspirations of the customers with the use of new tools and technologies which have emerged over a period of time.

After the careful study and after considering all the facts; numeric, objective and subjective; we've come to an inference, Indian banking sector is pretty well off if bigger picture is taken into view. The overall NPAs are low; the CRAR ratios are adequate, even the banks not performing so well are working above average. So all in all, covid-19 failed to bring down the banking sector. The sector saw an opportunity and worked its way up to where it is now. It is still a long way to go, but with the steady growth and more innovation, growth perspective of the Indian Banking Sector is shining bright like a star. Just the right reforms and policies and the star won't go supernova for long.

Indian banking system will further grow in size and complexity while acting as an important agent of economic growth and intermingling different segments of the financial sector. It automatically follows that the future of Indian banking depends not only in internal dynamics unleashed by ongoing returns but also on global trends in the financial sectors.

Recommendations

New India, digital India, while is still working its magic up, the adoption is taking its sweet time. With all the promotion that has been done, the *promotion* still lags behind. The security should be air tight as the fraudulent activities might bring and shut down the system of trust that has been invested for so long.

While the digitalization might've deleted the human touch, the customers still go after human resolution in case of distress; the focus should be on training the people of the bank to support in whichever way possible with less lethargy and more energy. Speedy solutions to the grievances shall be provided.

This particular sector, all in all, is doing quite well, no major changes as of now are required. Tracking the business environment and formulating the policies in accordance to that has been a strong suit since the covid-19 situation till now, this shall not discontinue.

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