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Banking Sector Reforms in India – A Critical Analysis

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Abstract:

Finance is interlinked with growth; the Indian banking and financial system should evolve in pari passu in a way that stimulates growth and competition with growing developments around the world. More than a decade of changes in the financial sector India has undergone, major restructuring and liberalization of the financial sector. The cycle of banking reform is crucial for transforming the sector in line with changing needs of the time. This paper briefly highlights Indian banking reforms and identifies the notable trends in this digitized era.

***Keywords:** Banking, Financial, Reforms, Transforming.*

I. INTRODUCTION

Any banking and other financial services which are provided to its clients by a financial company is termed as a “bank”.Banks play a major role in the country's economic growth. It provides security for consumer deposits and regulates cash & credits supply. It also helps to promote public trust to speedily and effectively raise their savings. Recently, Indian banking sector has observed and experienced rolling out revolutionary banking models such as transfers and small size finance banks. The payments industry has been facing a steady rate of progress, growth and innovation. This study aims to examine how the reform process has changed over time the Indian banking system and provides insights of key trends in Indian banking sector.

II. REVIEW OF LITERATURE

Sumon Kumar Bhaumik, Ali M Kutan & Sudipa Majumdar (2018) Their inferential statistics show that, during tougher policy systems, private firms are more sensitive to monetary policy.

Sapna Gupta, Mini Agrawal & K.S. Thakur (2018) Their study examined that, in the current scenario, introducing the required structural reforms to restore a stable banking sector is of paramount importance, further the government’s focus is turning to specify policy measures aimed at improving employment opportunities and growth numbers.

Harsh Nandal (2017) Explained in his paper that a vibrant and innovative sector has been established by the reform process in the Indian banking system. But the sector still lacks enough infrastructure and technology and it is facing the issue of increasing NPAs. His study says that a robust banking system is needed with enhanced regulation, effective debt recovery processes, increased credit expansion and lower entry barriers that can promote competition.

Neha Chadha (2017) Found in her study, the essence of banking industry reforms and their effect on bank’s functioning in India.

Dr. Nalla Bala Kalyan (2017) His study explained the effects of Indian banking reforms

TEST Engineering & Management
January - February 2020
ISSN: 0193 - 4120 Page No. 6314 - 6320

and studied the performance of banking industry in India.

Dr. Sadaf Khan (2017) Discussed that "technology", as the differentiator has become the engine of the Indian banking business since the last decade with the reforms of the financial sector providing a firm foundation. The study ended with the conclusion that in the current competitive business world, without innovation, the banking industry to think about development and expansion or further growth strategies.

G. Shivagami and T. Rajendra Prasad (2016) Explained that given the remarkable quantifiable attainments in resource deployment and credit scope expansion, many distortions have crept into the financial systems, particularly in terms of financial resource allocation, productivity and process performance, eroding its competitiveness and deteriorating its reliability.

Malyadri P and Sirisha S (2015) Their study is primarily concerned with analyzing the summaries of both Public and Private sector banks and also Foreign Banks in India during the period 2006 to 2013, reflecting the impact of the cutthroat situation on the performance of the bank in terms of the various parameters selected. And they have noticed the strong support of the Private banks surpassing the other bank classes and leading the rank in all metrics, while Government sector banks and Foreign Banks are struggling for second and third ranks.

Dr.A.Arumugam and Dr.G.Selvalakshmi (2014) In their study, they found that India's banking reforms had an effective and positive impact on economic performance.

Dr. Shurveer S. Bhanawat and Shilpi Kothari (2013) Their research is effective in permitting the policymakers to recognize the policy initiative's ups & downs and instead, to highlight various strategies that banking firms pursue that lead to their success.

Dr. Virender Koundal (2012) They found out that because of intense competition, increased consumer demands and increasing banking reforms, productivity and effectiveness of the Indian banking industry has presumed primary significance.

Sahila Chaudhry and Sultan Singh (2012) Their research indicates that there is a considerable difference in the categorization of asset quality of Indian banks. However, reforms have made Indian banks solid, healthy and prosperous.

Meenakshi Rajeev & Mahesh (2010) Examined Indian NPA swings from different points of view and clarifies how it has been greatly reduced by sheer realization of the issue and observation. Their study reveals that Indian public sector banks, which work with welfare motives to some extent have an excellent record of decreasing NPAs comparably with private rivalries.

Kuldeep Kaur and Maneet Gill (2009) Their study analyses the influence of banking sector reforms on banks under different sectors. In addition to this, it examines the effect of ownership on efficiency and profitability after the liberalization and banking sector reforms.

III. RESEARCH METHODOLOGY

The data was collected from secondary sources like published research works of various eminent scholars in the field, published data of banks and websites.

IV. OBJECTIVES OF THE STUDY

1. To assess the need for banking sector reforms.

2. To understand the brief overview of the Indian banking sector reforms-initiated post 1991.

3. To identify the notable trends in Indian banking sector.

V. LIMITATIONS OF THE STUDY

The work is primarily built on secondary data and it concentrates on the evaluation of qualitative data.

VI. INDIAN BANKING

A. *Progress of Banking in India:*

Indian banking system had several excellent successes in its history over the past three decades. It is not limited to the metropolis or cosmopolis anymore, indeed, our country's banking system has even gone into the country's distant corners. For the development and growth of Indian banking system, this is one of the key reasons.

B. *Need for the Indian Banking Sector Reforms:*

✓To increase the proficient mobilization of funds and generate higher growth rates.

✓Much needed for macro-economic stability.

✓To bring about a change in the banking system's structure, performance and sustainability, as well as alignment with international markets.

✓To keep Indian banks universally competitive and empowering them to play compelling part in speeding up the development cycle.

✓To speed up the transactions.

✓To attain greater operational efficiency.

✓To provide better quality services and security to the investors.

✓To enable the corporate sector to raise capital directly from the open market on a large scale to meet their financial needs.

C. *Journey of Indian Banking System:*

The Indian Banking system progress can be separated in three stages. These are:

Early stage: Establishment of major banks i.e. period from 1770 to 1969.

Middle stage: Nationalization of Indian Banks till 1991 before the restructuring of Indian banking.

New stage: Banking system with post-1991 reforms in the Indian financial and banking sector.

Table-I Early Stage of Indian Banking System:

1770	The first bank of India - The Bank of Hindustan was set up in the year 1770.
1786	The General Bank of India was established.
1806	Bank of Calcutta was established. Then, it was reformed as Bank of Bengal
1809	Bank of Bengal was established.
1840	Bank of Bombay was established.
1843	Bank of Madras was established.
1865	Allahabad Bank was established.
1906-1913	5 major Banks were established;namely: Bank of India, Bank of Baroda, Canara Bank, Indian Bank & Bank of Mysore.
1920	Presidency Bank included 3 banks namely: Bank of Bengal, Bank of Bombay and Bank of Madras. These 3 merged and formed as Imperial Bank of India.
1935	Establishment of RBI.

Source:D. MuraleedharanModern Banking: Theory and Practice, Second Edition ISBN – 978-81-203-5032-8

Table- II Middle Stage of Indian Banking System:

1949	Banking Regulation Act was approved.
1955	State bank of India was nationalized.
1959	SBI subsidiaries were nationalized.
1961	Deposits were covered with insurance.
1969	Nationalization of 14 major Banks. • Syndicate Bank • Canara Bank

TEST Engineering & Management

January - February 2020
ISSN: 0193 - 4120 Page No. 6314 - 6320

	• Dena Bank • Bank of Baroda • Central Bank of India • Indian Overseas Bank • United Commercial Bank (now as UCO Bank) • Allahabad Bank • United Bank of India • Indian Bank • Bank of India • Punjab National Bank • Union Bank of India • Bank of Maharashtra
1971	Corporation of Credit Guarantee was formed.
1975	Regional Rural Banks were established.
1980	6 more Banks were nationalized in this middle stage. • Andhra Bank • Corporation Bank • New Bank of India • Oriental Bank of Commerce • Punjab & Sindh Bank • Vijaya Bank

Source: The Evolution of the State Bank of India (The Era of the Imperial Bank of India, 1921–1955) (Volume III)

Reforms after 1991- which led to the formation of new stage of banking system in our country.As part of the reform process this stage has pioneered with numerous products and bundle of amenities in the domain of banking. Various committees gave their recommendations, and these are the some of the major implemented recommendations.

✓The effective and efficient service of banks
✓Reduction in the proportion of Statutory Liquidity and Cash Reserves.
✓Clear guiding principles or standards for walk-in and walk-out of banks in the private sector.
✓Direct access of Public sector banks to capital markets
✓Interest rate de-regulation
✓Liberalization of licensing policies of the branches.
✓Establishment of Tribunals for debt recovery.
✓Grouping and deploying assets
✓Income recognition and Asset Reconstruction Fund
✓Modernization & technology up gradation
✓Priority sector lending
✓Speedy process of e-banking
✓Momentum and speed in- serving the customers, mobilizing the resources, managing the credit, managing the assets & liabilities, investments, developing the human resource, and managing the forex activities.
✓Branchless banking- anywhere anytime banking
✓New product development
✓Mergers and Amalgamation
✓Anti-Money Laundering guidelines
✓Aadhaar - the leading driver in the number of bank accounts to expand rapidly.
✓Differentiated licensing for banks which established new categories of banks like Payment banks.

D. Notable trends in Indian banking sector:

1. Better standards for managing risks: Indian banks are emphasizing much more on incorporating robust strategies for managing risks. Majority of the banks are prioritizing the conditions and structure for aligning the assets and

January - February 2020
ISSN: 0193 - 4120 Page No. 6314 - 6320

liabilities, liquidity & managing the risks associated with securities.

2**.** Diversifying the income stream: During FY07-18 total lending and total deposits has grown at a CAGR of 10.94% and 11.66% respectively, and are further prepared for growth,supported by housing and personal finance demand.

3. Technological innovations: By 2022, it is expected that digital assistants, social media and third-party networks will serve as primary banking platforms.

4**.** Focus on financial inclusion: The Financial Inclusion Index is introduced by the Finance Ministry of Indian Government. This index will measure financial services access, use and performance. As part of the financial inclusion program, Jan Dhan Darshak was launched by the Department of Financial Services, Finance Ministry and the National Informatics Center. It's a smartphone app that helps people in finding financial services in India.

5**.** Products related to risk assessment, mitigation and derivatives: Progressive competitive market situation and refinement of finance have strengthened the necessity for personalized alluring banking commodities and services. Now-a-days banks are promoting novel financial products & modern mechanisms for managing risks.

6**.** Mergers and Acquisitions: Because of the International banks participation, increased competitiveness is found in our country's banking sector. Banking organizations are constantly pursuing restructuring in order to reap bigger gains such as improved collaboration, cost-taking from economies of scale, operational performance and risk diversification.

7**.** Demonetization: Since demonetization, debit cards have drastically substituted credit cards as India's desired (most opted) payment method.

8**.** Prioritizing Pradhan Mantri Jan Dhan Yojana: This yojana's key goal is to improve and enhance the usability of various services of banking and finance such as account opening and maintenance related operations, risk coverages in the form of different insurance products, granting of pension, other funding services, etc. especially to the poor households whose income is very low.

9**.** Extensive RTGS, NEFT and IMPS functionality: For safer, easier & quicker remittance of funds majority of the Indian banks are using these remittance facilities to remit the funds to different places.

10**.**Know Your Customer: Central Bank of our country i.e., Reserve Bank of India has mandated theguidelines related to "Know Your Customer", requiring each and every bank to set up an extensive structure to prevent money laundering. Now-a-days KYC is mandatorily required to open an account and make investments such as mutual funds.

VII. CONCLUSION

Despite recent financial market volatility, the banking industry's economic outlook remains optimistic. Regulatory powers encourage innovation and new digital technologies offer opportunities for enhancing customer experiences. By 2020 the banking system will integrate Transformed Banking models with emerging technologies like IT revolution, Robotics, Artificial Intelligence and FINTECH solutions in order to make banking accessible and affordable. It is imperative to reform the banking sector in order to accomplish quicker and more comprehensive expansion and to successfully implement the major Government initiatives such as Make in India, Financial Inclusion, etc. for the remarkable growth-related aspects.

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January - February 2020
ISSN: 0193 - 4120 Page No. 6314 - 6320

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