



INDIAN BANKING INDUSTRY – EMERGING SCENARIO AND GROWTH ASPECTS

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Abstract

The Indian Banking sector has witnessed tremendous transformation in the 21st century. Many practices initiated by RBI with the support of Government of India has contributed significant growth both in terms of financially and in terms of reachability in one of the largest populated countries. The banking sector has observed significant changes in the last one decade. Especially, the deposits have grown to over 9 percent CAGR and emerging practices in banking sector such as Digital banking, UPI payments, financial inclusion results favoured the banking sector to witness one of the fast growing services in India. In this paper, an attempt is made to understand the structure of Banking sector, factors contributing to the growth, challenges and current scenario of Indian Banking sector. The study is based on descriptive research design and mainly focuses on secondary sources of data.

Key words: *Credit, Digital Banking, Jan Dhan Yojana, RBI, UPI.*

1. Introduction

The banking industry is one of the most essential financial pillars of the financial sector, and it is critical to the economy's functioning. It is critical for a country's economic development that its trade, industrial, and farm funding needs are handled with greater commitment and responsibility. As a result, a country's progress is inextricably related to the development of banking. In today's economy, banks should be viewed as development leaders rather than money merchants. They play a crucial role in deposit mobilization and credit disbursement to many sectors of the economy.

Despite the fact that pandemic has created hurdles for each and every sector, the banking sector in India has also been suffered due to many reasons. With the onset of the pandemic, the economy underwent an intense disruption and is still recovering to achieve pre-pandemic growth levels. However, with the start of 2022, the Indian economy is gradually picking up momentum and is expected to grow at 6.5 per cent in fiscal 2022-23. While the third wave of the pandemic has emerged this year, economists continue to maintain a positive outlook on the economic recovery due to higher FDI flows and India's place among the top attractive destinations for international investors.

Additionally, with the Reserve Bank of India (RBI) emphasizing on financial inclusion and digital banking models, further regulations are being put in place requiring banks to be more regulatory-sensitive. Big Techs who previously entered the lending space have consolidated their position – either directly or in partnership with regulated financial entities, thereby posing a competition for banks and necessitating further protection for consumers. The RBI has been working towards implementing technical and compliance standards for banks and financial institutions to regulate banking and lending processes and thereby ensuring a quicker economic revival.

2. Banking Sector in India

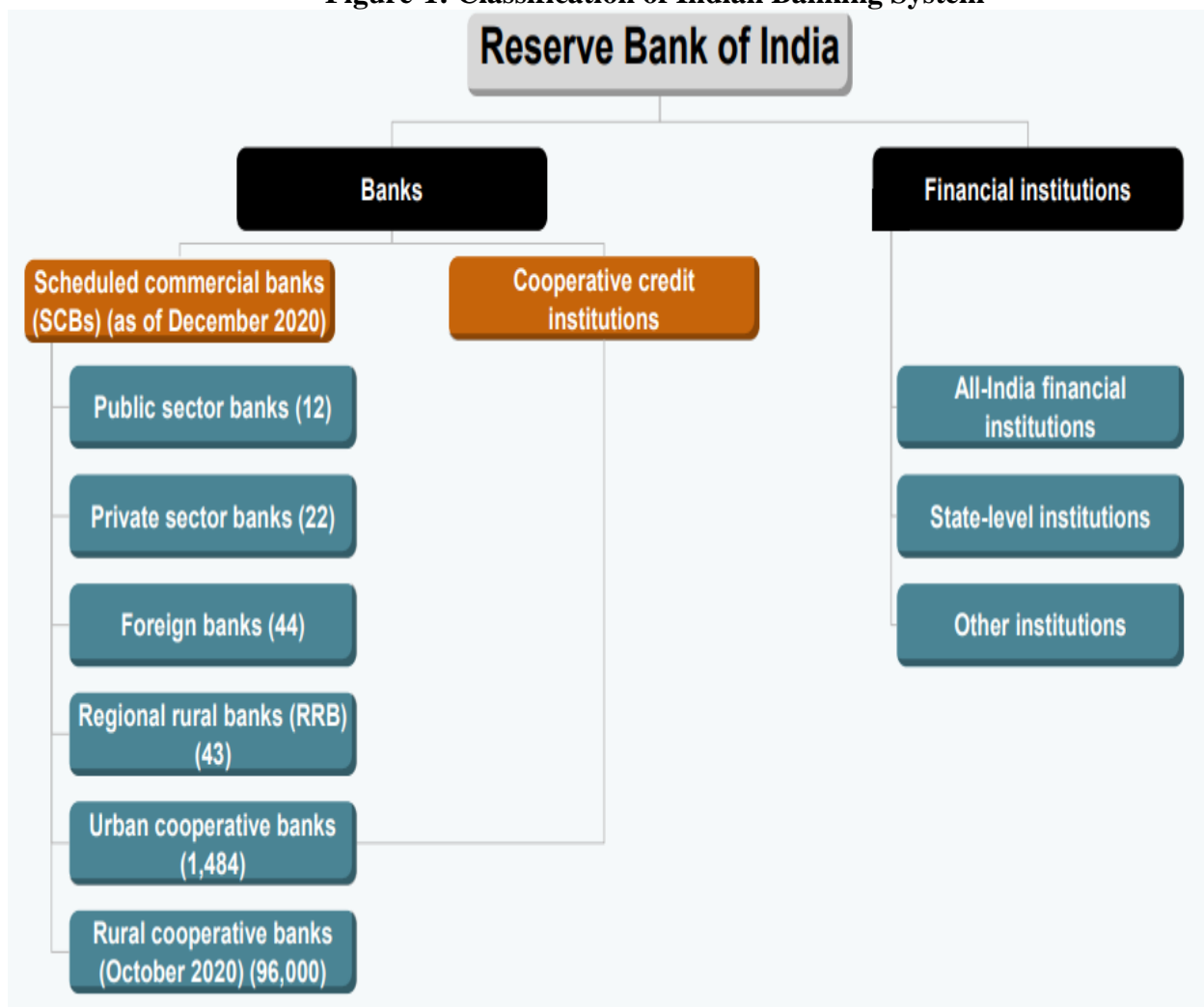
The Reserve Bank of India is regulating the banking sector in India. As per the statistics of RBI, 2022 and graphical information obtained from IBEF report on Indian Banking Industry, 2022 report, banking



sector in India is broadly classified into Banks and Financial Institutions. Financial Institutions support the financial services through its various categories such as All India Financial Institutions, State level institutions and other institutions. These include Chit fund companies and other financial services agencies.

The banks in India are categorized into Scheduled Commercial banks and Cooperative Credit Institutions. The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalized banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. Scheduled Commercial Banks are categorized into Public sector, private sector, foreign banks, RRBs, Urban Cooperative banks and Rural cooperative banks.

Figure-1: Classification of Indian Banking System



Source: IBEF report on Indian Banking Industry

As of December, 2022 statistics, there are 12 Public sector banks are operating in India. In the private sector, 22 banks are operating in India. The foreign banks are large in number and a total of 44 foreign



banks, 43 Regional Rural banks, 1484 district level urban cooperative banks and 96000 Rural cooperative banks are functioning in India under Scheduled Commercial Banks Category.

3. Emerging Scenario of Indian Banking Sector

According to the Invest India Report, the Banking industry in India has historically been one of the most stable systems globally, despite global upheavals. The health of the Indian banking system is robust, fortified by a multi-year low non-performing loans and adequate level of capital and liquidity buffers.

The population covered with bank accounts increased from 53% in FY 16 to 78% in FY 21. For the first time, the Gross Non-Performing Asset (GNPA) of SCBs has decreased to a 7-year low of 5% in Sep'22, and the Net NPA has declined to a 10-year low of 1.3%. SCBs' GNPA ratio continued its downtrend and fell to a 10-year low of 3.9% in March 2023.

There are more than 1.6 lakh bank branches translating to approximately 15 branches per 1 lakh of population. This is further complemented by a network of 2.17 lakh ATMs, out of which 47% are in rural and semi-urban areas. Banking services have been made accessible to every village within a 5 km radius in 25 states and 7 Union Territories covering 99.94% of villages

According to the Economic Survey 2022-23, Over the last few years, the number of neo banking platforms and global investments in the neo-banking segment has also risen consistently. Neo-banks operate under mainstream finance's umbrella but empower specific services long associated with traditional institutions such as banks, payment providers, etc. In the Union budget of 2022-23 India has announced plans for a central bank digital currency (CBDC) which will be possibly known as Digital Rupee.

The emerging achievements in Indian Banking sector has made the banks to increase its capacity to reach in the public are Financial inclusion initiatives, encouragement of government about Digital Payments and rise in the Neo Banking. 300 million individuals opened a bank account for the first time since the government initiative to provide accessible and affordable financial services to the masses, called the Pradhan Mantri Jan Dhan Yojana, in 2014. Since 2011, the unbanked population has been cut down to half. In addition, 55% of Jan Dhan account holders are women, and 67% of the account holders reside in rural and semi-urban areas.

In 2016, the Government of India launched the UPI (Unified Payment Interface) System and BHIM, along with the National Payments Corporation of India (NPCI). This has improved mobile banking and online payments, creating a digital revolution. In 2021, the Niti Ayog proposed to set up 'digital banks,' which rely on the internet to offer their services instead of physical branches. This will revolutionize how banking as a service is provided to customers and create new opportunities for rural and urban sectors.

4. Factors influencing the growth of Indian Banking Sector

1. As per the IBEF Report, 2022, the banking sector in India is expected to grow at a faster rate in Asian continent due to the favourable support of the following factors.
2. Increase in working population and growing disposable incomes will raise demand for banking & related services.
3. Individual financial growth and Housing sector are expected to remain key demand drivers.



4. Indian Fintech industry is estimated to be at US\$ 150 billion by 2025.
5. The RBI's 'Payment Systems Vision 2025' document expects India's digital transaction to increase 3 times.
6. Rising fee incomes improving the revenue mix of banks.
7. High net interest margins along with low NPA levels ensure healthy business fundamentals.
8. Mobile, internet banking and extension of facilities at ATM stations to improve operational efficiency.
9. RBI announced the launch of its first global hackathon 'HARBINGER 2021 – Innovation for Transformation' with the theme 'Smarter Digital Payments'.
10. In the Union budget of 2022-23 India has announced plans for a central bank digital currency (CBDC) which will be possibly know as Digital Rupee.
11. Wide policy support in the form of private sector participation and liquidity infusion.
12. Healthy regulatory oversight and credible monetary policy by the Reserve Bank of India (RBI) have lent strength and stability to the country's banking sector.
13. RBI launched the 'RBI Retail Direct Scheme' for retail investors to increase retail participation in government securities.

5. Analysis on Growth in Bank Credit and Deposits

The following table represents the statistical figures pertaining to growth in deposits and growth in credit in between 2016-17 to 2022-23 which are collected from RBI reports.

As per the available data till 2022-2023 financial year, the growth in the deposits have increased from US\$1149.19 billion to US\$2139.85 billion with a compound annual growth rate of 9.29 percent. The growth in the credit has increased from 1466.47billion US\$ to 1532.31 billion US\$.

Table-1: Growth in Indian Banks' Performance

Year	Growth in Deposits (in billion US Dollars)	Growth in Credit(in billion US Dollars)
2016-17	1149.19	1466.47
2017-18	1180.19	1669.34
2018-19	1347.18	1781.12
2019-20	1400.03	1866.22
2020-21	1936.29	1698.97
2021-22	2060.31	1487.60
2022-23	2139.85	1532.31
CAGR	9.29	0.63

Source: RBI Reports, 2016-17 to 2022-23

The rise in the dposit has shown 9.29 percent compound annual growth rate in a period of 7 years and whereas the rise in the growth in the credit has shown only about 0.63 percent compound annual growth rate between 2016-17 to 2022-23. Overall, it is statistically evident that the deposits have been raising consistently with higher compound annual growth rate than the credits in the select period of study.

6. Government interventions in Indian Banking Sector

Apart from RBI, the Government of India has taken number of measures to growth the banking sector and providing banking benefits to people who were unable to access the services of banks. Due to strong support from Government the access to banking services has significantly increased. The following are



some of the important initiatives taken by the Government and these important highlights are accessed from IBEF reports, 2022.

1. In October 2022, Prime Minister Mr. Narendra Modi inaugurated 75 Digital Banking Units (DBUs) across 75 districts in India.
2. In Union Budget 2023, a national financial information registry would be constructed to serve as the central repository for financial and ancillary data.
3. In Union Budget 2023, the KYC process will be streamlined by using a 'risk-based' strategy rather than a 'one size fits all' approach.
4. Number of Jan Dhan Yojana Bank accounts are over 486 million. Jan Dhan Deposits grew by 20% YoY. There are deposits of over ~US\$ 24.2 billion in beneficiary accounts.
5. National Asset reconstruction company (NARCL) will take over, 15 non-performing loans (NPLs) worth Rs. 50,000 crore (US\$ 6.70 billion) from the banks.
6. National payments corporation India (NPCI) has plans to launch UPI lite which will provide offline UPI services for digital payments. Payments of up to Rs. 200 (US\$ 2.67) can be made using this.
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8. In November 2021, RBI launched the 'RBI Retail Direct Scheme' for retail investors to increase retail participation in government securities.
9. The RBI introduced new auto debit rules with a mandatory additional factor of authentication (AFA), effective from October 01, 2021, to improve the safety and security of card transactions, as part of its risk mitigation measures.
10. In September 2021, Central Banks of India and Singapore announced to link their digital payment systems by July 2022 to initiate instant and low-cost fund transfers.
11. In August 2021, Prime Minister Mr. Narendra Modi launched e-RUPI, a person and purpose-specific digital payment solution. e-RUPI is a QR code or SMS string-based e-voucher that is sent to the beneficiary's cell phone. Users of this one-time payment mechanism will be able to redeem the voucher at the service provider without the usage of a card, digital payments app, or internet banking access.
12. As per Union Budget 2021-22, the government will disinvest IDBI Bank and privatise two public sector banks.
13. Government smoothly carried out consolidation, reducing the number of Public Sector Banks by eight.
14. In May 2022, Unified Payments Interface (UPI) recorded 5.95 billion transactions worth Rs. 10.41 trillion (US\$ 133.46 billion).
15. According to the RBI, India's foreign exchange reserves reached US\$ 630.19 billion as of February 18, 2022.
16. The number of transactions through immediate payment service (IMPS) reached 430.67 million and amounted to Rs. 3.70 trillion (US\$ 49.75 billion) in October 2021.
17. The RBI has launched a pilot to digitalize KCC lending in a bid for efficiency, higher cost savings, and reduction of TAT. This is expected to transform the flow of credit in the rural economy.
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19. As per the Union Budget 2023-24, the RBI has launched a pilot to digitalize Kisan Credit Card (KCC) lending in a bid for efficiency, higher cost savings, and reduction of TAT. This is expected to transform the flow of credit in the rural economy.
20. As per the Union Budget 2023-24, digital banking, digital payments and fintech innovations have grown at a rapid pace in the country. Taking forward this agenda, and to mark 75 years of our independence, it is proposed to set up 75 Digital Banking Units in 75 districts of the country by Scheduled Commercial Banks.
21. Additionally, the government proposed to introduce a digital rupee or a Central Bank Digital Currency (CBDC) which would be issued by the RBI using blockchain and other technologies.
22. The government also proposed to bring all the 150,000 post offices under the digital banking core business to enable financial inclusion.
23. As per the economic survey 2022-23, the permission by RBI to lending institutions to grant a total moratorium of 6 (3+3) months in case of payment failure due between 1st March 2020 to 31st August 2020, infusion of US\$ 9.1 billion (Rs. 75,000 crore) for Non-Banking Financial Corporations (NBFCs), Housing Finance Companies (HFCs) and Micro Finance Institutions (MFIs), among others, have also contributed to the revival of the real estate sector.
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7. Challenges for Indian Banking Industry

As per the Hero Vired Report(2021), Although India's financial system has seen great heights and has a reliable stable approach given the current global economic outlook, this is not to say that the banking system in India hasn't faced issues.

Some of the most recent challenges that continue to have a heavy influence on India's financial system include the following:

- a. The rise of Non-Performing Assets (NPAs), including bad loans or problems in the agricultural and corporate sectors. Currently, the country's NPAs have crossed ₹10 lakh crores, with more than 70% being from the corporate sector.
- b. The increasing number of frauds, including accounting fraud, demand draft fraud, uninsured deposits, fraudulent loans, and others. The RBI in 2022 reported total fraud cases of around 9103, the biggest being the PNB scam of ₹11,000 crores, Vijay Mallya defaulting lenders for Rs. 9000 crores, and several others that we have witnessed recently.
- c. Lack of banking for the underserved and rural population, which is approximately 69% of India's total population. Around 1.4 billion Indians do not have access to formal banking, as per the World Bank report.
- d. Lack of reach in rural areas, where technical enablement and use of financial services remain a big challenge.

8. Conclusion

The banking industry has been facing higher levels of competition in hiring and are required to pay more to recruit and keep talent. To ensure seamless transition to the new working models, banks and financial institutions understood the importance of leveraging emerging technologies such as automation to not only



retain existing talent but also ensure attracting the right talent. India's banking systems are experiencing significant disruption and change and have invested majorly to bank on technology transformations. Since 2010, the banking sector has witnessed tremendous improvements in terms of access to banking services, development of new initiatives, increased access of public through UPI and digital payments. All these resulted into increase in the deposits and rising access of financial services through Indian Banks.

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