

International Journal of Innovative Research in Science, Engineering and Technology

(A High Impact Factor, Monthly, Peer Reviewed Journal) | Impact Factor: 7.249|

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Vol. 8, Issue 9, September 2019

Recent Changes in Indian Banking Structure

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ABSTRACT: The Indian economic climate has changed dramatically in recent years as a result of bank reforms and policies. The most significant shift is found in the financial sector, with the banking industry being the most affected. As a result, the banking industry is robust enough to endure any level of pressure and competition. As a result, these financial developments have been quite noticeable in recent years. India now has a fairly stable banking sector with different classes of banks contributing to it. In this article, we will know about the bank, types of banks and about the banking sector.

KEYWORDS: Indian, banking, structure, financial, sector, changes, recent, development

I.INTRODUCTION

The banking industry is critical to the economic prosperity of a country. Today, India has a reasonably developed banking system with many types of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks, and co-operative banks – with the Reserve Bank of India as the system's fountainhead. {1,2,3}

Introduction to Bank

Banks are key to the economy because they provide essential services to both consumers and companies. You may execute typical banking operations such as deposits, withdrawals, check writing, and bill payments using a range of account types such as checking and savings accounts and certificates of deposit (CDs). You may also invest your money and earn interest on it.

Indian Banking Sector

The Indian banking sector may be broadly split into three categories:

Phase I: This lasted from 1786 to 1969 and was the first stage of banking. As a result, several small banks were established during this period.

Phase II: From 1969 to 1991, this period is marked by the regularisation, nationalisation, and expansion of banks.

Phase III: This phase begins in 1991 and comprises liberalisation and its aftereffects.

Banking Trends

Many developments have occurred in the banking business in recent years. These banking trends have simplified the entire banking procedure. Among these tendencies are the following:

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RTGS stands for Real-Time Gross Settlement.

In March 2004, RTGS was implemented in India. It is a mechanism in which a bank gets electronic instructions for moving funds from one bank account to another bank account.

The movement of funds between accounts occurs in real-time, as the term implies.

The RBI operates and maintains the RTGS system.

E-cheques

This technology was created in the United States and will eventually replace traditional paper cheques in India. As a result, a negotiable instruments statute has been added in the modification to incorporate this type of E-cheque and make it necessary.

Electronic Clearing House

ECS is an electronic system that is used to make bulk payments and receipts. Payments must be comparable in type, which might be little in value and repeated. As a result, this service is especially useful for government organisations and businesses that make or receive big bulk payments. {4,5,6}

EFT stands for Electoral Funds Transfer

This is a method of transferring money from one's bank account to another. So, under this approach, the concerned party tells the bank to make a cash payment or permits the bank to transfer the funds immediately. As a result, the sender should supply the bank with comprehensive information such as the receiver's name, account type, account number of the corresponding bank, city name, branch name, and other facts.

ATM stands for Automatic Teller Machine

This is the most often used way of withdrawing money in India. Customers can use this service to withdraw money 24 hours a day, seven days a week. It enables clients to conduct all day-to-day banking activities without dealing with any people. Furthermore, these capabilities are utilised to pay finances, utility bills, and so on.

Bank Types in India

In India, the modern banking process began in the late 18th century. In India, there are now 34 banks, 12 of which are public sector banks and 22 of which are private sector banks.

Types of banks in India are:

- The Central Bank

The Central Bank of a country is the principal bank that monitors and synchronises all of the other banks in the country. In India, the Central Bank is known as the 'Reserve Bank of India' (RBI). The RBI is often referred to as the "government's bank" or the "banker's bank."

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- Cooperative Banks

Such banks function under the authority of the state government. The primary goal of these banks is to ensure the public's social well-being.

This is accomplished by providing loans that are subject to concession based on user comfort.

- Commercial banks

These banks are governed by the Banking Companies Act of 1956. These are frequently administered by either the government or a commercial company. The primary goal of such banks is to maximise profits through their commercial practices.

- Rural Regional Banks

These banks began operations in 1975 under the Regional Rural Bank Act of 1976. The establishment of 196 occurred between 1987 and 2005. These banks are owned by the national government to the tune of 50%, the state government to the tune of 15%, and the commercial bank to the tune of 35%.

- Local Area Banks

These banks were founded in 1996 and operate under the Companies Act of 1956. These are profit-seeking banks.

These are operated by private companies.

There are now four Local Area Banks in India. All of them are located in the southern region of the country.

- Specialised banks

The specialist banks include the 'Export and Import' (EXIM) Bank. These banks fund exports and imports, as well as make loans. The 'National Bank for Agricultural & Rural Development' frequently assumes commercial and monetary responsibility for rural artworks, handicrafts, communities, and agricultural development (NABARD).

- Small Financing Institutions

The country's national government regulates and controls it. Responsible for providing financial assistance and loans to small enterprises and trades such as farming or the impoverished unorganised sector.

All of these advances in Indian banking demonstrate that Indian banks are shifting toward contemporary banking, which is altering the face of conventional banking in the Indian economy. They are using information technology for the banking industry and are attempting to give their consumers technology-based banking goods and services. You may also invest your money and earn interest on it. {7,8,9}

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II.DISCUSSION

The performance of the Indian banking sector is intimately correlated with the overall health of the economy, perhaps more so than any other sector. The sector is tasked with supporting other economic sectors like agriculture, small-scale businesses, exports, and banking activities in developed commercial areas and remote rural areas. The improvement of asset quality, application of rational risk management procedures, and capital adequacy are some of the main functions of the Indian banking system.

Banking sector reforms are implemented to improve the condition of the banking system. Multiple banking sector reforms have been introduced in India in the context of economic liberalisation and the growing trend toward globalisation. The main objective is to improve operational efficiency and promote banks' health and financial reliability, so that Indian banks can meet internationally recognised standards of performance. {10,11,12}

Current

Scenario

In 2018, the world suffered through multiple waves of the Covid-19 pandemic, bringing supply chain and logistics disruptions. In order to restore and sustain growth on a long-term basis while ensuring that inflation stays within the target range, India's monetary policy committee (MPC) decided to maintain the status quo on the policy repo rate. Additionally, the Reserve Bank of India (RBI) kept up its targeted efforts to address industry credit needs by:

- Providing unique refinancing facilities for all-India financial institutions (AIFIs)
- A term liquidity facility to finance the infrastructure and services for Covid-related healthcare
- Providing special long-term repo operations (SLTRO) for small finance banks (SFBs)

The overall banking sector in India has evolved significantly over the last decade, from being major lenders to the industry, to being the majority providers of personal loans, vehicle loans, credit cards, and housing loans. Private banks are gradually taking over from public sector banks as the main lenders in the country. Between the end of 2016-2018, the outstanding loans of public sector banks have gone up by Rs. 14.4 trillion (US\$ 180.26 billion), whereas the outstanding loans of private banks have gone up by Rs. 22.8 trillion (US\$ 285.41 billion), which is a difference of almost 60%.

Another recent change in the banking sector is the emergence of e-banking, which is crucial in offering better services to clients. Internet banking, e-wallets, and mobile banking are some of the new methods that have replaced the traditional methods of conducting transactions.

Banking Reforms

The reforms in the Indian banking sector have been introduced to increase the efficiency, stability, and effectiveness of banks. Some of these recent reforms are:

- National Asset Reconstruction Company Limited (NARCL): Setting up of the NARCL was announced in the Union Budget 2018-22. The objective was to construct a 'bad bank' which would house bad loans of Rs. 500 crore (US\$ 62.63 million) and above.
- There are already 28 existing asset reconstruction companies (ARCs) on the market. However, due to the sizeable and fragmented nature of the bad loan book held by different lenders, significant amounts of NPAs continue to appear on bank balance sheets. Thus, more choices and alternatives like the NARCL are required.

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- NARCL will have a dual structure – it will consist of an asset management company (AMC) and an asset reconstruction company (ARC) to recover and manage stressed assets. It is a collaboration between private and public sector banks (PSBs), but PSBs will maintain 51% ownership in NARCL.
- NARCL will be capitalised through equity from banks and non-banking financial companies (NBFCs). If necessary, it will also issue new debt. The guarantee provided by the Government of India will lower the need for up-front capital. The NARCL will be assisted by the India Debt Resolution Company Ltd (IDRCL).
- In August 2017, the NARCL offered to buy the distressed loan accounts of five companies, including Future Retail.
- India Debt Resolution Company Ltd. (IDRCL): The IDRCL is a service company/operational entity whose purpose is to manage the assets of the NARCL with the help of turnaround experts and market professionals. The NARCL will buy assets by presenting an offer to the lead bank; IDRCL will be included for management and value addition after NARCL's offer is accepted. Public FIs and PSBs will hold a 49% stake in IDRCL, and the rest will be with private banks.
Digital Rupee: The central bank's digital currency (CBDC), the RBI's digital rupee, was announced in the Union Budget 2017-23, and is expected to be launched by the end of this financial year. India's digital economy is predicted to benefit greatly from the introduction of the digital rupee.



- A CBDC is a digital representation or token of a nation's legal currency.
- A CBDC can benefit customers with better liquidity, scalability, acceptance, convenience of transactions with anonymity, and quicker settlement.
- Similar to how UPI made digital cash more user-friendly, this development will increase people's access to digital currencies.
- Adopting the digital rupee is expected to help cross-border remittances and reduce the transaction cost for businesses and the government.
- The digital rupee would reduce the settlement risk in the financial system.

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- National Bank for Financing Infrastructure and Development (NaBFID): The NaBFID has been set up as a Development Financial Institution (DFI) to aid India in developing long-term infrastructure financing.
- The NaBFID has both developmental and financial objectives.
- Unlike banks, DFIs do not take deposits from the general public. Instead, they raise funds from the government, the market and multilateral institutions, and are often backed by the government's guarantee. The government initially holds 100% of the shares in the bank, which may subsequently be reduced to 26%.
- The NaBFID was set up as a corporate body with an authorised share capital of Rs. 1 lakh crore (US\$ 12.53 billion).
- The NaBFID plans to finance multiple projects that are a part of India's Rs. 6 trillion (US\$ 75.18 billion) National Monetisation Pipeline.

India's financial regulators have helped craft one of the strongest banking and financial systems in the world. In order to provide better and more accessible banking experiences, the Indian government has implemented several reforms and policies, which help the country deal with any change in economic conditions and demographics.

Information technology and electronic money transfer systems have become the two cornerstones of modern banking development in the area of technology-based banking. Banks now offer a variety of products that go far beyond traditional banking, and these services are now available 24/7.

Consumers today are more demanding of virtual banking experiences due to the advancement of digital technologies. The pandemic has only increased the demand for stress-free access to financial products and services, and the necessity for quick and easy access to banking products, services, and information. After internet and mobile banking, payments banks will provide a third alternative channel, increasing efficiency and lowering expenses associated with serving customers in rural and semi-urban areas. Upcoming technical advancements, such as the digital rupee, will significantly impact India's banking sector as we move forward.

III.RESULTS

There is a common saying that, “finance is the life blood of a modern economy”. The banking sector is one of the biggest service sectors in India and these days attract the biggest market of Asia in investment. In the economic development of a nation, banks occupy an important place. Financial system is the most important institutional and functional vehicle for economic transformation of any country. Banking sector is the backbone of every country. Banking sector is reckoned as a hub and barometer of the financial system. Indian Banking system has played a crucial role in the socio-economic development of the country.

The system is expected to continue to be sensitive to the growth and development needs of all the segments of the society. As a pillar of the economy, this sector plays a predominant role in the economic development of the country. Banking as a part of the financial sector, is a life blood for the whole industry; it is necessary to survive. It plays a decisive role in accelerating the rate of economic growth in each economy. Banking institutions are critical financial intermediaries for economic growth. {13}

Bank is a financial institution that acts as a payment agent for customers, borrows, and lends money. Since the process of liberalization and reform of the financial sectors were set in motion in 1991, banking has undergone significant changes. In the new policy regime competition is the buzzword. To compete, the system needs to be more productive, efficient and profitable. During the new reforms period, the banking system in India readjusted its capital, labor and organizational setup to improve its performance, productivity and profitability.

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Abhiman Das and Sangeeta Das (2007) have identified a multi-product Fourier flexible cost function specification to investigate scale economies, cost complementarities and technical progress of Indian banks during the post reform period 1992 to 2003. The empirical results indicate that there exist significant economies of scale for all size classes of banks and there is no evidence of diseconomies of scale, even for larger banks. The results reveal that increase in production of outputs can be done by either increasing the scale or merging with other banks to move right on the average cost curve. To conclude, it is evident that over the years, Indian banks have experienced increased cost reduction due to technological improvements. In the later period, the reduction in cost is as high as 5 percent. Irrespective of the size of the bank, better technology has uniformly helped in cost reduction.

Ibragimov and Julian (2008) analyze the trends of productivity paradox from 1995 to 2005, by using the statistical data from 21 developed countries and employing three level methodological approaches to assess the productivity. The first level analysis examines macroeconomic indicators (GDP Per Capita), and the second level considers the internal structure of information technology investments and third level analyses labour and multifactor productivity. Study suggests that there is high positive correlation of information technology investments and GDP growth. At the same time labour and multi factor productivity do not significantly correlate with technology investments.

Ipshita Bansal and Rinku Sharma (2008) have identified the efficiency of Indian banks along with the achievements. According to the study earlier banks were conservative in their approach but the liberalization of the banking sector has resulted in an improved efficiency as the demand for banking services has grown strong. The easier access to knowledge, increased and broad based use of technology and rapid introduction of innovative customized products to meet the customer demands are the key features of the changing banking scenario. The paper sheds light on the achievement of Indian banking services and at the same time highlights that there are many challenges ahead for the Indian Banking Services.

Ram Pratap Sinha (2008) examines that Reserve Bank of India adopted a system of Prompt Corrective Action with various trigger points and mandatory and discretionary responses by the supervising authority depending on the three major indicators of health of banking sector namely: (a) net non-performing asset; (b) capital-to-risk-weighted assets ratio; and (c) return on assets. Study of the technical efficiency scores across ownership groups reveals that the observed private sector banks have higher mean technical efficiency scores compared to their public sector counterparts.

Goh Chon-Haut (2012) examined the relationship between percentage of the national workforce in the services sector and the GDP Growth of various countries throughout the world. This study also examined the impact of the services sector on GDP of different countries of the world. The paper concludes that percentage share of services sector was negatively related to productivity growth and also describes the important policy implication for countries with a large services sector as well as for countries where the services sector is increasing rapidly.

Lee and W Mckinbbin (2014) examined the services sector productivity and economic growth. The study examined that in several Asian economies, the services sector has made a significant positive contribution to aggregate labour productivity growth both through own productivity growth and structural change efforts, exceeding the net contribution of the manufacturing sector. This study concludes that there was positive relation between the share of services in GDP and GDP per capita. The result of this study suggested that the simple aggregate model and the method of limited sectoral integration may miss an important dynamic story of productivity growth in the services sector and capital accumulation in an integrated global economy.

An elaborate review of literature on structure, performance and productivity has been done. Studies are indicative of the fact that the structural change is certainly there in the last two decades. The capital, labour, technology and organizational setup has readjusted to improve performance and thereby the productivity. Most of the structural change has been targeted on right sizing the labor and capital. Studies show that the technology, innovation and the intellectual

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capital has been the main focus of adjustment process. Financial austerity and efficiency has been another thrust area. . A less literature is there which covers structural change, measurement issues, productivity and efficiency dynamics.

OBJECTIVES OF THE STUDY:

1. To explore the structure and structural change in banking in India;
2. To suggest the policy prescription for better working of the system.

RESEARCH METHODOLOGY:

Secondary data will be used and the required secondary data has been obtained from financial statements of various banks, the reports of RBI, banking journals, Indian Banks Association publications, Centre for Monitoring Indian Economy database and other web portals. For analysis of the above data, tabular analysis has been supported.

ANALYSIS:

Structure of Banking Sector:

The Indian financial sector has a very comprehensive structure. It constitutes a variety of banks, financial institutions and capital market institutions. The banking system in India consists of the central bank, commercial banks, development banks, specialized banks and foreign banks. RBI is the supreme authority which uses monetary policy to maintain the financial stability in India. The commercial banks are known as profit-seeking business firms, dealing in money and credit. Its main business is deposit-taking and making loans. Commercial banks make their profits by taking small, short-term, relatively liquid deposits and transforming these into larger, longer maturity loans. Under the Reserve Bank of India Act 1934, banks are classified as scheduled banks and non-scheduled banks (Chart 1.1). The scheduled commercial banks are entered in the second schedule of the 'RBI Act, 1934'.

Chart 1.1: Structure of Indian Banking System

There were 272 banks (table 1.1) in the year 1990-91 but due to the process of amalgamation, mergers and consolidation of banks, the number of banks has declined drastically and came down to 152, in the year 2012-13. The total number of bank branches increased from 45421 in the year 1990-91 to 89103 in 2012-13. The impact of this phenomenal growth has been to bring down the population per branch from 14000 in the year 1990-91 to 12000 in 2012-13.

Table 1.1: Structure of Commercial Banks in India

Year	Total Commercial banks (No.)	Regional rural Banks (No.)	Non Scheduled Banks (No.)	Bank Branches (No.)	Population Per Branch (in thousands)
1990-91	272	196	4	45421	14
1996-97	297	196	2	49407	15
2001-02	294	196	4	51738	15
2011-12	169	82	4	81829	13
2012-13	152	64	4	89103	12

Source: Statistical Tables Relating to Banks in India, RBI

As per table 1.2, Indian banking industry is composed of 152 scheduled commercial banks in all. The number of regional rural banks has decreased from 196 to 64 during 1990-91 to 2012-13 due to amalgamation, merger and consolidation of banks. Also there are 88 commercial banks. Out of these 88 banks, public sector banks are 25 in numbers, private sector banks are 20 and foreign banks are 43 in number. In the public sector banks category, there are 19 nationalized banks and 6 banks belong to the State Bank of India and its Associates Banks category. There are two types of private banks existing in India: (a) private banks and (b) new private sector banks. Most of the foreign banks are just new entrants in India.

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Table 1.2: Ownership-wise Number of Scheduled Commercial Banks in India

Year	SBI and Associates	Nationalized Banks	Private Banks	Foreign banks	Regional rural Banks
1990-91	8	20	24	24	196
1996-97	8	19	35	39	196
2001-02	8	19	31	40	196
2011-12	6	19	21	41	82
2012-13	6	19	20	43	64

Source: Banking Statistics, Reserve Bank of India, various issues

Ownership-wise analysis of market share in various components of business is presented in table 1.3. It shows that the volume of business (sum total of deposits, advances and investments) done by Indian banking industry in the year 2012-13 is to the tune of Rs. 13,640 Th. crores. So, it is not a small sector of the Indian economy. In the Indian banking industry the components of business indicate the fact that 52.53 percent of the total business is in the hands of nationalized banks. Next 22.81 percent is with State Bank of India and its associates. So in all 75.34 percent of the total business is with the public sector banks. The share of private banks is 19.68 percent and that of foreign bank is 4.98 percent. Thus public sector banks still form a major portion of business in the Indian banking industry.

Table 1.3: Market Share in Total Business by Bank Groups in 2012-13

Bank groups	Total Business	
	Amount (Rs. Th.)	Percent
Nationalized Banks	7164	52.53
SBI and Associates	3112	22.81
Public Sector Banks	10276	75.34
Private Banks	2684	19.68
Foreign Banks	678	4.98
All Banks	13640	100.00

Source: Statistical Tables Relating to Banks in India, RBI

Policy Implication:

On the basis of detailed analysis and the conclusions arrived above, following are the policy implications:

- a) Reforms process in the new policy regime has changed the structure of banking, generated competition and has made the banking sector to be efficient and productive. Hence, the process of reforms must continue.
- b) Privatization and liberalization has created a compulsion for public sector to become more profitable and productive. New policy regime must continue and create competitive conditions in the market.
- c) Competition necessitated improvement in branch efficiency. Branch efficiency means, organizational changes and business re-engineering should be there so that the processes of business become more productive.
- d) Most of the public sector and old private sector banks were overstaffed. A little bit of downsizing and labour adjustment has lead to higher productivity gains. Hence not only downsizing but the rightsizing of the organizations should be done.

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- e) Productivity is the function of quality of labour input or the intellectual capital. Intellectual capital is composed of human capital, structural capital and relationship capital. Intellectual capital base of banking needs to be improved.

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There are two types of private banks existing in India: (a) private banks and (b) new private sector banks. Most of the foreign banks are just new entrants in India. Ownership-wise analysis of market share in various components of business shows that the volume of business (sum total of deposits, advances and investments) done by Indian banking industry in the year 2012-13 is to the tune of Rs. 13,640 Th. crores. So, it is not a small sector of the Indian economy. In the Indian banking industry the components of business indicate the fact that 52.53 percent of the total business is in the hands of nationalized banks. Next 22.81 percent is with State Bank of India and its associates. So in all 75.34 percent of the total business is with the public sector banks. The share of private banks is 19.68 percent and that of foreign bank is 4.98 percent. Thus public sector banks still form a major portion of business in the Indian banking industry.

IV. CONCLUSION

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 October 2016, the total number of micro ATMs in India reached 15,30,287. Moreover, there are 1,25,969 on-site ATMs and Cash Recycling Machines (CRMs) and 93,771 off-site ATMs and CRMs.

Banks added 2,796 ATMs in the first four months of FY23, against 1,486 in FY22 and 2,815 in FY21. 100% of new bank account openings in rural India are being done digitally. BCG predicts that the proportion of digital payments will grow to 65% by 2026.

In 2016 (till December 1st, 2016), total assets in the public and private banking sectors were US\$ 1688.15 billion and US\$ 1017.26 billion, respectively. In 2016 (till December 1st, 2016), assets of public sector banks accounted for 58.32% of the total banking assets (including public, private sector and foreign banks).

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Public sector banks accounted for over 57.48% of interest income in 2016 (till December 1st, 2016). The interest income of public banks reached US\$ 102.51 billion in 2016 (till December 1st, 2016). In 2016 (till December 1st, 2016), interest income in the private banking sector reached US\$ 70.07 billion.

India's digital lending market witnessed a growth of CAGR 39.5% over a span of 10 years. The Indian digital consumer lending market is projected to surpass US\$ 720 billion by 2030, representing nearly 55% of the total US\$ 1.3 trillion digital lending market opportunity in the country.

According to RBI's Scheduled Banks' Statement, deposits of all scheduled banks collectively surged by a whopping Rs.1.75 lakh crore (US\$ 2,110.87 billion) as of December 1st, 2016.

According to the BCG Banking Sector Roundup Report of 9M FY23, credit growth is expected to hit 18.1% in 2017-23 which will be a double-digit growth in eight years.

Non-food bank credit registered a growth of 17.6% in November 2017 as compared with 7.1% a year ago on the back of robust credit demand from the segments such as services, industry, personal, and agriculture and allied activities, according to RBI's statement on Sectoral Deployment of Bank Credit.

Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth in the banking sector. All these factors suggest that India's banking sector is poised for robust growth as rapidly growing businesses will turn to banks for their credit needs. The advancement in technology has brought mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and upgrading their technology infrastructure to enhance customer's overall experience as well as give banks a competitive edge.

In recent years India has experienced a rise in fintech and microfinancing. India's digital lending stood at US\$ 75 billion in FY18 and is estimated to reach US\$ 1 trillion by FY23 driven by the five-fold increase in digital disbursements. The Indian fintech market has attracted US\$ 29 billion in funding over 2,084 deals so far (January 2017-July 2017), accounting for 14% of global funding and ranking second in terms of deal volume. By 2025, India's fintech market is expected to reach Rs. 6.2 trillion (US\$ 83.48 billion).{14}

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ISSN(Online): 2319-8753
ISSN (Print): 2347-6710

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