

DEVELOPMENT OF BANKING SECTOR IN INDIA

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Abstract

From establishment of 1st bank i.e. Bank of Hindustan in 1770 to 2021 there is huge changes had been seen in the banking sector in India. In 1935 a central bank was established with name Reserve Bank of India. India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. The Indian banking system is well structured and divided into two parts namely banks and financial institutions. Very huge growth has been seen in banking deposits, credits, interest income, other income and banking assets in last 5 years from FY16 to FY22. Government Policies plays vital role in development of banking sector in India. Digitalization of banking transactions also increases through digital India. Different schemes like Pradhanmantri Jan Dhan Yojana, Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Capital Infusion scheme are well structured and very well famous among people of India. It gives boost up to banking sector in India.

Key words: RBI, banking deposits, banking credits, banking assets, Pradhanmantri Jan Dhan Yojana, Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana

INTRODUCTION

Modern banking in India originated in the mid 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 1791.¹

In India, the largest and the oldest bank which is still in existence is the State Bank of India (SBI). It originated and started working as the Bank of Calcutta in mid-June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks founded by a presidency government; the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were 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 had acted as quasi-central banks, as did their successors, until the Reserve Bank of India² was established in 1935, under the Reserve Bank of India Act, 1934.

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level five in the Faster Payments Innovation Index (FPPII).*

* according to an FIS report, Micro finances Institution Network

THE STRUCTURE OF INDIAN BANKING SECTOR

The Indian banking system is well structured under the Reserve Bank of India. It is mainly divided in two parts i.e. Banks and Financial Institutions. Banks are sub-divided into two parts i.e. Scheduled Commercial Banks and Cooperative Credit Institutions while Financial Institutions are sub-divided into three parts i.e. All India Financial Institutions, State level Institutions and other Institutions.

Classification of Banks

Bank	No. of Banks
Public Sector Banks	12
Private Sector Banks	22
Foreign Banks	46
Regional Rural Banks	56
Urban Cooperative Banks	1485
Rural Cooperative Banks	96000

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.

DEVELOPMENT OF INDIAN BANKING SECTOR

In India, there is a huge development has been seen in bank deposits, bank credits, interest income and other income as well as in banking assets in last decade.

A. Growth in Bank Deposits:



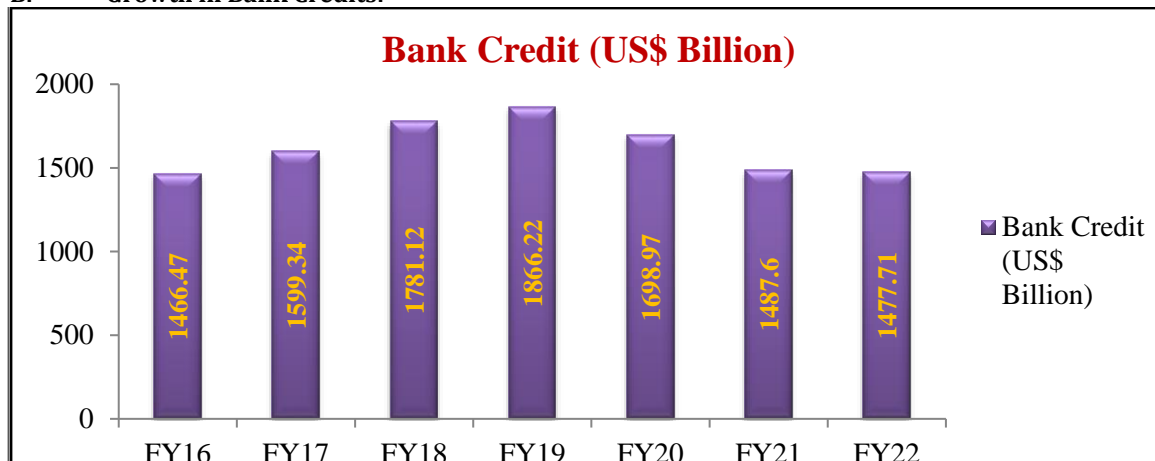
Source: Reserve Bank of India (RBI)

From the above graphical presentation we can sort out the following important points.

- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Access to banking system has also improved over the years due to persistent effort from Government to promote banking technology and promote expansion in unbanked and non-metropolitan regions.
- At the same time, India's banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years.
- According to RBI, the performance of Indian banking sector improved in FY20, as lenders reported a profit on an aggregate basis after two years of losses.
- According to the RBI, bank deposits stood at Rs. 157.12 trillion (US\$ 2.10 trillion) as of October 22, 2021.
- CAGR until October 22, 2021 is 12.38%.
- Opportunity:

Significant growth possible in private sector lending as credit disbursement by private sector banks is expected to increase.

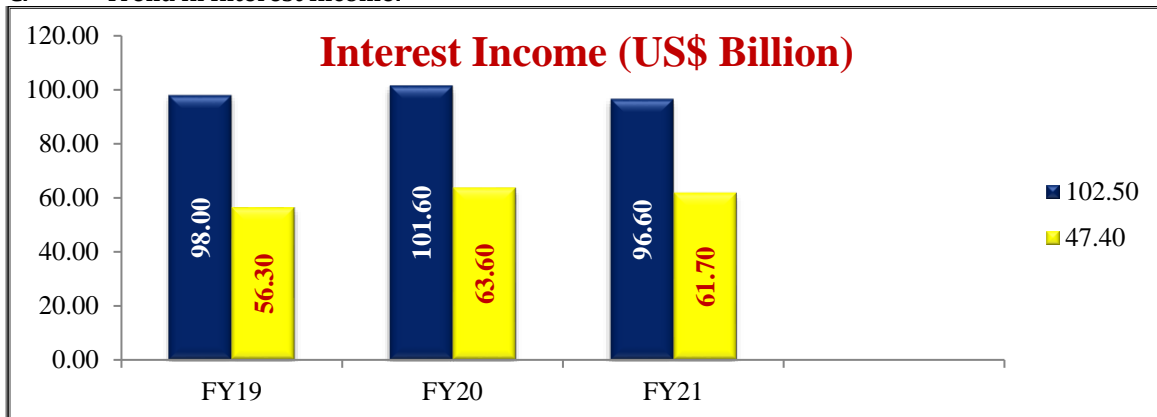
B. Growth in Bank Credits:



Source: Reserve Bank of India (RBI)

- Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit.
- During FY16-FY21, bank credit increased at a CAGR of 0.29%. As of FY21, total credit extended surged to US\$ 1,487.60 billion.
- Demand has grown for both corporate and retail loans. Services, real estate, consumer durables and agriculture allied sectors have led the growth in credit.
- In August 2021, Barclays announced investment of Rs. 30 billion (US\$ 403.99 million) in India to expand its operations.
- In August 2021, RBI developed Financial Inclusion Index (FI-Index) to measure the level of financial inclusion across the country. The FI-Index increased from 43.4 in FY17 to 53.9 in FY21.
- In FY21, bank credit grew 5.56% and deposits by 11.4%.
- According to the RBI, bank credit stood at Rs. 110.46 trillion (US\$ 1.47 trillion) as of October 22, 2021.
- As of October 22, 2021, credit to non-food industries stood at Rs. 109.82 trillion (US\$ 1.46 trillion).
- CAGR until October 22, 2021 is 0.29%.

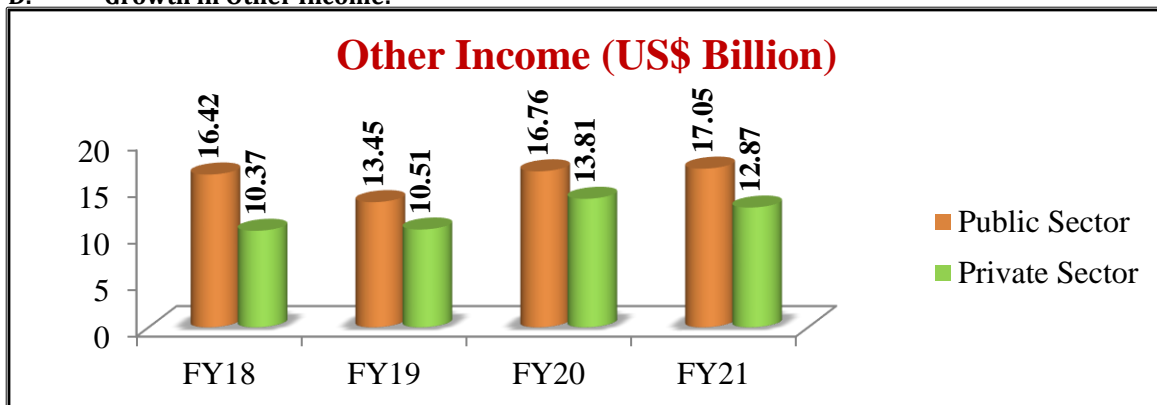
C. Trend in Interest Income:



Source: Indian Bank's Association

- Interest Income of Public Sector banks reached US\$ 96.60 billion in FY21 which shows decrease in interest income in comparison of FY18, FY19 and FY20 which is 102.50, 98.00 and 101.60 US\$ billion respectively.
- Interest Income of Private Sector banks reached 61.70 US\$ billion in FY21 which is decrease in comparison of 63.60 US\$ billion in FY20 while increase in comparison of FY18 and FY19 47.40 and 56.30 US\$ billion respectively.

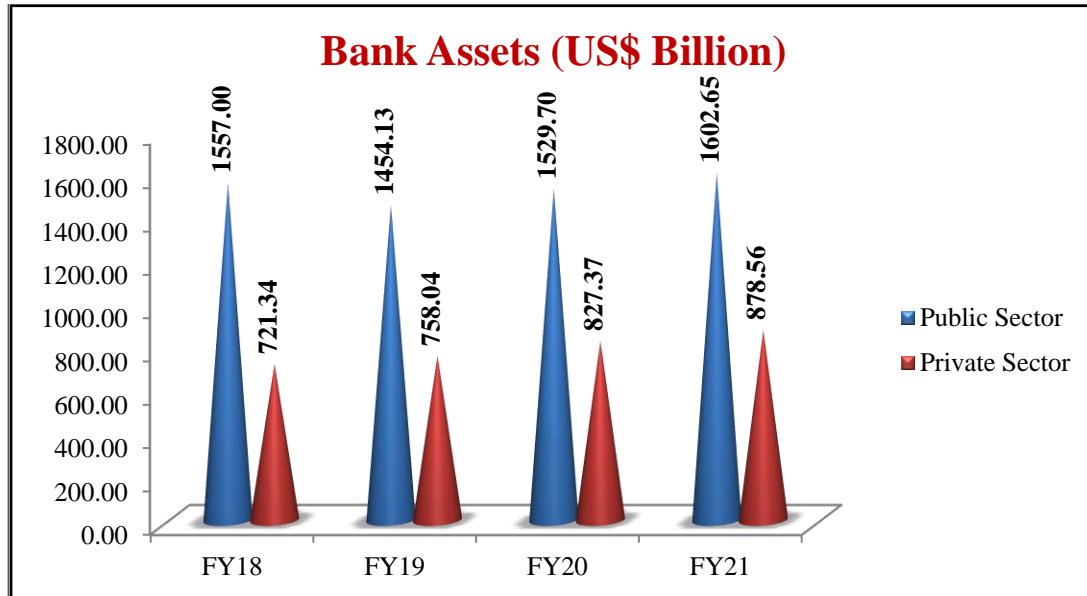
D. Growth in Other Income:



Source: Indian Bank's Association

- Other Income of Public Sector banks stood at US\$ 17.05 billion in FY21 which shows increase in other income in comparison of FY18, FY19 and FY20 which is 16.42, 13.45 and 16.76 US\$ billion respectively.
- Other Income of Private Sector banks reached 12.87 US\$ billion in FY21 which is decrease in comparison of 13.81 US\$ billion in FY20 while increase in comparison of FY18 and FY19 10.37 and 10.51 US\$ billion respectively.

E. Growth in Bank Assets:



Source: Indian Bank's Association

- In FY18-FY21, bank assets across sectors increase. Total assets across the banking sector increased to US\$ 2.48 trillion in FY21.
- In FY21, total assets in the public and private banking sectors were US\$ 1602.65 billion and US\$ 878.56 billion respectively which is increase in comparison to FY18 it was US\$ 1557.00 billion and US\$ 721.34 billion respectively.
- In FY21, assets of public sector banks accounted for 64.59% of the total banking assets.

• **Growth Drivers of Indian Banking Sector:**

1. Economic and Demographic drivers:

- It is favourable demographics and rising Income levels.
- India ranks among top 7 economies with a GDP of US\$ 2.73 trillion in 2018.
- The sector will benefit from structural economic stability and continued credibility of Monetary Policy.

2. Policy Support:

- The Government of India passed the Banking Regulation (Amendment) Bill 2017 to empower RBI to deal with NPAs in the banking sector.
- The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill was passed by the Rajya Sabha to give strength to the banking sector (as of Jan 2018).

3. Infrastructure Financing:

- India currently spends 6% of GDP on infrastructure. NITI Aayog expects this percentage to grow going ahead.
- As per the Union Budget 2019-20, Investment-driven growth requires access to low-cost capital, which requires an investment of Rs. 20 lakh crores (US\$ 300 billion) every year.

4. Open banking Eco-system:

- The open banking eco-system in India has now grown to include Non-Banking Financial Company (NBFC) and other fintech players that have created partnerships within the banking system.
- In 2003 Kotak Mahindra Finance Ltd. received a banking license from RBI and became the first NBFC to be converted into a bank.

5. Cross-border Payments:

- Visa Inc. has sought RBI's permission to offer a new cross-border payments system to process trade flows to and from India. It will be offering a potentially cheaper, quicker and block chain based solution now on trial.

6. Government Initiatives:

- The Government has smoothly carried out consolidation, reducing the number of public sector banks by eight.
- The Government of India will invest Rs. 48,239 crore (US\$ 6.78 billion) in 12 public sector banks in FY20 to help maintain regulatory capital requirements and financial growth in India.
- The Government of India will invest Rs.5,042 crore (US\$ 0.731 billion) in Bank of Baroda post its merger with two other public sector lenders, Dena Bank and Vijaya Bank.

- In November 2021, RBI launched the 'RBI Retail Direct Scheme' for retail investors to increase retail participation in government securities.
- 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.
- 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.
- 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.
- As per Union Budget 2021-22, the government will disinvest IDBI Bank and privatise two public sector banks.
- The following schemes are implemented by Government:
 - A. Pradhan Mantri Suraksha Bima Yojana:**
 - ❖ This scheme is mainly for accidental death Insurance cover for up to Rs. 2 lakh. (US\$ 2,983.29)
 - ❖ The premium amount is only Rs.12 (US\$ 0.18) per annum.
 - ❖ Risk coverage for accidental death and full disability is Rs. 2 lakh and for partial disability is Rs. 1 lakh.
 - ❖ Gross enrolment under the scheme reached 154 million in FY19.
 - B. Pradhan Mantri Jeevan Jyoti Bima Yojana:**
 - ❖ This scheme aims to provide life insurance cover.
 - ❖ The premium amount is only Rs. 330 (US\$ 4.92) per annum. It will be auto debited in one installment.
 - ❖ Risk coverage is Rs. 2 lakh (US\$ 2,983.29) in case of death for any reason.
 - ❖ Gross enrolment under the scheme reached 59 million in FY19.
 - C. Atal Pension Yojana:**
 - ❖ Under the scheme, subscriber would receive fixed pension up to Rs. 5,000 (US\$ 74.58) at the age of 60 years (depending on their contribution)
 - ❖ During FY21 more than 79 lakh new subscribers joined the Atal Pension Yojana.
 - ❖ Totalling more than 3.02 crore enrolments as of March 31, 2021.
 - D. Pradhan Mantri Jan Dhan Yojana:**
 - ❖ AS of November 03, 2021 the number of bank accounts opened under the government's flagship financial inclusion drive 'Pradhan Mantri Jan Dhan Yojana (PMJDY) reached 43.81 crores.
 - ❖ Total deposits reached to more than Rs. 1.48 trillion (US\$ 19.89 billion) in Jan Dhan accounts.
 - ❖ Under the scheme, each & every citizen will be enrolled in a bank for opening a Zero balance account.
 - ❖ Each person getting into this scheme will get Rs. 30,000 (US\$ 447.49) life cover while opening the account.
 - ❖ Overdraft limit under such account is Rs. 5,000 (US\$ 74.58).
 - E. Capital Infusion Scheme:**
 - ❖ The Finance Ministry announced its plan to infuse Rs. 14,500 crore (US\$) as capital infusion in public sector banks in the fourth quarter of FY21.

ROAD AHEAD

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 a robust growth as rapidly growing businesses will turn to banks for their credit needs.

Also, 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. 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 the digital disbursements. By 2025, India's fintech market is expected to reach Rs. 6.2 trillion (US\$ 83.48 billion).

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[8] *Note: Conversion rate used in November 2021, Rs. 1 = US\$ 0.01336*