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REFORMS IN BANKING SECTOR IN INDIA

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ABSTRACT

Banking sector plays a crucial role in ensuring sustained economic development of a nation. A sound, efficient and stable banking system stimulates economic growth by mobilizing savings and allocating resources for capital formation as well as for consumption purpose. Indian banking system has undergone remarkable transformation since the baking reforms introduced in early 1990s. There has been increasing focus towards making the whole system more robust, efficient and profitable by introducing advance technology, better regulatory measures, reducing NPAs through risk management initiatives and increasing the customer base by financial inclusion measures.

***KEYWORDS**: CAGR, NPAs, Banking Sector, Economic Growth, Baking Reforms, Risk Management.*

Introduction

Indian Banking sector plays a pivotal role in determining India's future growth story. It supports the world's fastest growing economy and is primarily dominated by public sector banks that control more than 70% of the whole banking system's asset. Credit off-take has been increasing consistently over the last one decade at a CAGR of 11.08%. Deposits have also grown at a CAGR of 11.71% during FY06-17. Assets base continued to expand at a CAGR 8.83% during FY13-17; interest income has seen robust growth of CAGR 8.46% during FY9-17 and returns-on-asset and loans-to-deposit ratios are showing uptrend over the last decade. These positive developments have happened in Indian Banking system due to increasing working population, rising disposable incomes, growing consumerism and economic growth. Demand for loans from both corporate as well as retail side has surged; mainly in sectors like services, real estate, consumer durables & agriculture allied sectors. Consumers have increasingly adapted to the use of Mobile, Internet banking & extension of facilities at ATM stations that have improved operational efficiency of the banks. There has been wide policy support from the government side in the form of private sector participation and liquidity infusion into the banking system. Further, regulatory norms have been stringent and monetary policy has been credible in our country to give support and stability to our banking system. Post banking liberalization, there has been significant inflow of foreign banks in India and the competition levels have grown up tremendously due to this. There is compelling need for recapitalization of public sector banks due to swelling bad debts, increasing capital requirements to meet Basel-III norms and growing need for capital in Indian economy. Apart from infusion of capital through budget allocations and devaluation of PSUs, there are also efforts for consolidation of banks to bring in more efficiency into the banking system. Some of the notable reforms that have happened in the recent years in our banking system are mentioned as below:

- **Improved Risk Management Practices:** RBI has made it mandatory for banks to follow the international banking supervision accord of Basel-II. Most of the banks have already made the capital requirements of Basel-III, which has a deadline of 31st March 2019. Banks are also taking pro-active interventions to minimize risks by implementing robust frameworks for asset-liability match, credit and derivate risk management. There is extensive use of data based intelligence for decision making across different key processes of operations.RBI has mandated "Know Your Customer" (KYC) policy for all the

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banks in order to open an account or making any investment such as mutual funds, thereby reducing money laundering activities.

- **Adoption of Technology:** Banking penetration has significantly been boosted in India due to wide availability of ATMs, which has surged up to 206,694 and is further expected to reach up to 407,000 by 2021. Digital penetration has further gone up in India in recent years Demonetization policy followed by the current government acted as a catalyst to the adoption of digital payments and today India has one of the most evolved digital payment system.
- **Focus on Inclusive Banking**: RBI has consistently emphasized the need for spreading the reach of banking services to un-banked population of India. As per RBI's report, under the 2nd phase of Financial Inclusion Plan (2013-16), there have been 4.5L villages with population less than 2000 people that are covered as of June 30, 2016. Increasing mobile density and support of regulators have further aided the rural reach of banks.
- **Policy Support from Government:** To take care of short term stability of banks, current government has planned to infuse nearly $14 billion into 20 public sector banks in return for them implementing a series of reforms by March 2018.Earlier the government had passed the Banking Regulation (Amendment) Bill 2017, which has empowered RBI to deal with NPAs in the banking sector.The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed by Rajya Sabha and is expected to strengthen the banking sector. Government has also put in place different schemes to ensure maximum financial inclusion of the unbanked population through initiatives like Pradhan Mantri Jan DhanYojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana & Atal Pension Yojana.
- **Consolidation of Banks:** After banking sector liberalization in India, lots of foreign banks have entered into the Indian market, due to which the competition level has intensified. Indian banking industry consists of 21 public sector banks, 26 private sector banks, 43 foreign banks and 56 regional rural banks. There is an increasing need for bank consolidation that can drive enhanced synergy, reduce cost, increase organizational efficiency and diversify risks. In order to recapitalize the existing 21 PSBs, there Finance Ministry has planned to consolidate them into 10-15 PSBs. While deciding on the consolidation, the ministry would keep in mind factors like regional balance, geographical reach, financial burden and smooth human resource transition.
- **Recapitalization of PSBs:** Recapitalization has become essential for the PSBs as they have rising NPAs and higher capital requirements to meet as per Basel-III norms. In the years 2017-18, PSBs account for 90% of Gross Non-Performing Assets (GNPAs) of the entire Indian banking sector. Further there is an increasing credit requirement in a fast growing country like ours. All these factors necessitate capital infusion into the PSBs has become a big priority for the government. Government has been making recapitalization by infusing funds into PSBs over the years. As per Comptroller and Auditor General's Report (2017), the government has infused Rs 1,18,724 crore in PSBs between 2008-09 to 2016-17. Current government has planned to infuse nearly $14 billion into 20 public sector banks in return for them implementing a series of reforms by March 2018.

Conclusion

Indian banking sector is in a continuous mode of evolution and transformation to meet the financial requirements of 1.3 billion Indian population and fuel India's growth story. Since PSUs are the major banking players, it is critical to bring in more structural, regulatory, technical and managerial reforms in these banks. There have been lot of government led and market driven initiatives towards this and we are definitely going to see more in future.

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