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A COMPARATIVE STUDY OF THE INDIAN BANKING SYSTEM AND THE UNITED KINGDOM BANKING SYSTEM

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ABSTRACT

Banking plays a pivotal role in the development of any nation. It channelizes funds for the development and growth of a nation. The Indian Banking System is regulated by the Reserve Bank of India similar to the Bank of England's role in the United Kingdom. Indian Banking System consists of central, commercial, cooperative, and development banks. Public sector banks in India Contribute to about 75% of the total deposits and about 70% of the total advances of all commercial banks in India. The role of public sector banks in India is larger as compared to private sector banks because the state-run banks are better at financial inclusion, cost efficiency, and guaranteed support during a crisis, which is different in the case of the United Kingdom. Private banks in the country have strong, robust, systemic systems and offer specialized services to their customers than public banks. The UK is a capitalistic economy where private players are given considerably more freedom to operate, whereas India aims to move. The UK also enjoys more FDI because of the strong consumer purchasing power. Hence we see better private participation in this sector in the UK. UK banking consists of the central bank, private banks, and housing societies. There are 344 banks and 52 building societies in the UK compared to 27 public banks and 21 scheduled banks in India. The UK banking system is more e U.K. is globally systemic, open, and complex because of decentralized market share, global investment, and the size of the economy. Impressively India accounts for a greater amount of online transactions as compared to the UK, being a developed country. This is explained by wang's trifecta- cheap bandwidth, a smartphone in every pocket, and a frictionless payment system. However, housing societies stand to be a unique feature in the financial system of the UK. Housing societies first appeared in the second half of the nineteenth century as part of the growth in philanthropic and voluntary organizations brought about by the growth of the middle classes in the wake of the Industrial Revolution.

Keywords: *Indian Banking System, RBI, FDI, Industrial Revolution, Public Sector Banks.*

Introduction

A banking system consists of financial institutions, regulatory authorities, and payment systems that facilitate the transfer of money between individuals, businesses, and the government. It plays a crucial role in a country's economy by providing a variety of financial services such as savings, loans, mortgages, debit and credit cards, etc.

History

The Banking system of India evolved in the 18th century. One of the first banks to originate was the Bank of Hindustan, established in the year 1770; following that was The General Bank of India, established in 1786. Later in the 19th century, The Bank of Bengal, the Bank of Bombay, and the Bank of Madras were merged together to form The Imperial Bank of India in 1921 by the presidency government. After post-independence, the Imperial bank of India became The State Bank of India in 1955. The State Bank of India is the largest and oldest bank which is still existing as of now.

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During the period 1960-1980, the government of India nationalized more than 20 banks stating that banks will help in facilitating the development of the Indian economy and also the government wanted more control over credit delivery.

After the policy of liberalisation was introduced by the government of India in the year 1991. The government issued licenses to a small number of private banks. Later moved on relaxation of norms for Foreign Direct Investors (FDI), and Foreign Institutional Investors (FII). Due to this policy, the banking sector of India has seen rapid growth and it has contributed to all the sectors of banks namely government banks, private banks, and foreign banks.

The banking system in the United Kingdom started in the 17^{th} century. The Bank of England was established in 1694. The bank was founded by merchants and investors, who lent money to the government in exchange for the exclusive right to issue banknotes.

In the 18^{th} century, other banks were established, including the Royal Bank of Scotland in 1727 and the Bank of Ireland in 1783. These banks functioned in a similar way to the bank of England, issuing banknotes and providing loans to businesses and individuals.

During the 19^{th} century, the banking industry of the United Kingdom underwent significant changes due to the industrial revolution. There were many new changes and the growth of new industries. This led the banks to provide specialized services such as trade finance and mortgage lending.

Today, large private banks, including HSBC, Barclays, and Royal Bank of Scotland, are taking over the banking industry. These banks provide a wide range of products and services, including retail banking, Investment banking, and wealth management, etc.

Contribution to the Economy

Banks play a crucial part in the development and growth of a country's economy. Banks ensure the economy maintains its stability by taking up the responsibility of deploying and allocating in an effective manner.

One of the main methods banks use to contribute to the economy is by mobilizing savings and channeling them into investments. Banks also act as intermediaries between individuals and businesses who have adequate funds to deposit and those who require capital. These deposits are accepted from individuals and businesses and then utilized to supply credit facilities and loans. This constant flow of capital from savers to borrowers facilitates the growth of the economy.

Moreover, banks facilitate international trade through the act of issuing financial instruments such as letters of credit, guarantees, trade finance facilities, etc. With the emergence and unfolding of the Indian economy, these services are particularly critical for driving the growth of the economy since India relies extensively on export to achieve the same. Facilitating financial trade holds a place in the UK's banking system as well with respect its global financial reach.

In conclusion, banking systems play a pivotal role in the economy of any country. The banking systems of India and the UK, given their differences, each supply their own contributions significantly to further maximize the growth and expansion of their countries respectively. By mobilizing savings, facilitating international trade, and providing a range of financial services, banks help to drive economic growth and improve the overall financial health of the economy.

Statement of Problem

The banking systems of India and the UK are vastly different in terms of their historical development, regulatory framework, types of banks, and services offered. Comparing these two banking systems can highlight the challenges and opportunities for improvement in each system. It is important to access and understand the strengths and weaknesses of both countries' banking systems. Therefore, a rigorous comparative analysis of the banking systems of India and the UK is needed to identify the similarities and differences, assess the performance, and explore the implications for the future of banking in these two important economies.

Objective of the Study

- A comparative study of the Indian Banking System and the UK Banking System
- To understand the banking sector and digitalisation of banks in both Indian and the UK.

Research Methodology

The intention of the preparation of this research paper is to compare the banking systems of India and the United Kingdom. This research relies on secondary data analysis which utilizes previously collected and published information to draw conclusions. This section will highlight the procedures used to accumulate and examine the secondary data collected.

The secondary data sources used in this research paper comprise academic literature, published reports, statistical figures, and industry reports. The data will be collected from numerous sources, including online databases such as IMF, and FCA, as well as government forums such as the RBI (Reserve Bank of India) and the Bank of England. The data has been collected from the previous decade to ensure the information is relevant to the objectives of this research paper.

The data analysis provided in this research study will involve a comparative analysis of the banking systems of India and the UK. The comparative analysis has been achieved by utilizing a qualitative approach to identify resemblances and contrasts between the two banking systems. The data will be analysed by investigating the regulatory frameworks, market structures, financial performance, and customer satisfaction in the two countries. The analysis will be supported by graphs to further assist the visualization and interpretation of the data collected.

- **Regulatory Framework**

The regulatory frameworks of both India and the UK have been closely examined to recognize any similarities and/or differences in terms of the regulatory bodies, laws, rules, and regulations governing the banking sector. The analysis will review various factors such as the roles and responsibilities of the central banks, the regulations related to capital requirements, and the methods and strategies towards banking supervision.

- **Market Structure**

The market structure of the banking systems in India and the UK will be compared to identify the likeness and contrasts in terms of the number of banks, the concentration of the market, and the competition level. The types of banks in operation in each market are also considered in this analysis such as public and private sector banks.

- **Financial Performance**

Another aspect taken into consideration in this report is the financial performance of the banking systems of both India and the UK to draw out an analysis so that similarities and differences in terms of key financial indicators such as profitability, asset quality, liquidity, and solvency can be identified and assessed. The analysis will also consider the contribution and impact of macroeconomic factors such as GDP growth, inflation, and interest rates on the financial performance of the banking systems.

Analysis and Interpretation

- **Regulators**

Banking regulators play a crucial role in maintaining the safety and stability of the financial systems in a country. It also protects the interests of consumers and promotes healthy competition in the banking sector.

In India, the banking sector is regulated by The Reserve Bank of India. The Reserve Bank of India was established on April 1, 1935. It is responsible for overseeing the functioning of the banks and other financial institutions in India. Also, the RBI formulates and implements monetary policies.

The basic function of the Reserve bank of India is.

"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth.

In the United Kingdom, there are two main regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). They are responsible for supervising and regulating banks and financial institutions. Also, look after the safety and stability in the banking sector.

The PRA and FCA were established in 2013 after Financial Service Authority (FSA) was disbanded. The Prudential Regulation Authority (PRA) was established after the financial crisis in 2007. Their main function is to regulate financial services, and products and create policies. The PRA supervises over 1500 institutions including banks and insurance companies. The Financial Conduct Authority (FCA) was established along with PRA in 2013. The Financial Conduct Authority (FCA) regulates financial services firms and the financial markets in the UK. FCA’s main function is to protect the consumers, enhance market integrity, and promote healthy competition in the interest of the consumers.

- **Products Offered by the Banks**

Both India and UK offer a variety but distinct sets of products and services to fulfil the requirements of their customers.

In India, the banks provide a diversified set of traditional products, including fixed deposits, loans, credit cards, savings accounts, current accounts, etc. With the expansion of digital banking in recent years, many banks offer banking apps and digital mobile apps to facilitate easy transactions. Take RBI as a prime example, it being the regulatory body of the Indian banking sector, has introduced a wide range of initiatives and services to promote the encouragement of offering products and services to the underserved parts of the population and to promote the spread and development of digital banking.

On the other hand, the UK has also been observed to provide an array of banking products but in a substantially more competitive market than India. Customers here have access to a wider collection of services and they have the option to obtain numerous unique commodities for customers differentiated by segments i.e student accounts, business accounts, ethical banking products, etc.

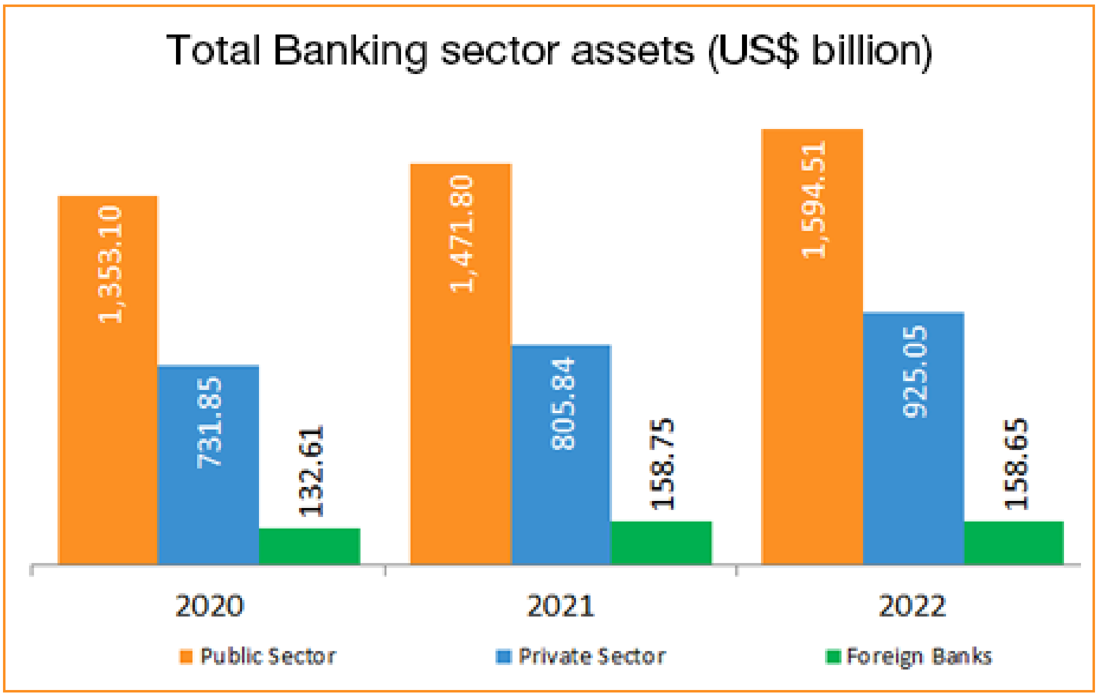
- **Services Offered**

Both Indian and UK banks offer a wide range of services to their customers. However, the services offered by banks in India are more focused on savings accounts, loans, and investments, while in the UK, banks offer a wide range of services such as insurance, pensions, and investment management. Online banking and mobile banking are popular in both countries.

- **Banking Sector**

The banking sector in India is classified into two, scheduled banks and non-scheduled banks. The banking sector in India is regulated by the Reserve Bank of India (RBI). It consists of 12 public banks, 21 private banks, 12 small finance banks, 4 payment banks, 43 Regional Rural banks, and 45 foreign banks. The total assets across the banking sector increased to US $2.71 Trillion in 2022. In recent years India has increased its focus on the banking sector with many new reforms like digital banking, neo-banking, and a rise in India's NFBC and Fintech.

The digital payment system in India has evolved the most among many other countries. Digital payments such as Immediate Payment Services (IMPS) which is at level 5 in Faster Payments Innovation Index (FPII). Also, the Unified Payment Interface (UPI) has made digital payments faster, cheaper, and more convenient for users. In November 2022, Unified Payment Interface (UPI) recorded 7.30 billion transactions worth US $148.63 Billion. The digital Payment Index as of September stands at 377.46.



Source: India Brand Equity Foundation Bank report Nov, 2022

The UK banking sector is one of the world's largest and most advanced banking sectors. It is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Both PRA and FCA come under the Bank of England, they oversee the smooth functioning of financial institutions and protect the interest of the consumers. There are 43 housing societies, 7 credit unions, and over 300 banks. Banks provide a wide range of products and services like credit cards, current accounts, saving accounts, mortgages, personal loans, insurance, etc. In 2021, the total asset value of the banking sector was around US $16.7 Trillion. Recently the UK has announced new reforms in the banking sector unlocking better investment opportunities that will help in accelerating the growth of the banking sector. The UK wants the status of the most open and competitive financial hub in the world. Also, the Bank of England is working on the digit pound which would be a new type of money for everyone to use for their day-to-day transactions. This type of currency is known as Central Bank Digital Currency. According to the Central Bank of England, the digital pound can bring financial stability and increase payment options for people. It will allow private companies to innovate and make payment systems more efficient with more payment options for consumers.

- **Problems Faced by the Banks**

Banks in both India and the UK face a wide range of obstacles and difficulties in their daily operations. These problems can be broadly divided into two categories: internal problems and external problems.

Internal challenges are those challenges that arise from within the banking system, while external challenges are those that arise from other external factors, such as the macroeconomic environment, government regulations, and market competition. Following are the problems faced by banks in India and the UK.

- **Internal Challenges**

Maintaining Capital Adequacy: One of the crucial challenges faced by banks in India and the UK is maintaining ample levels of capital to meet regulatory needs and requirements. Capital adequacy is important to guarantee that banks have adequate buffers to combat losses and maintain liquidity in case of financial stress. Asset Quality: Maintaining high asset standards is crucial for the long-term longevity of banks. In both India and the UK, banks face difficulties in managing non-performing assets (NPAs) and impaired loans.

- **External Challenges**

Regulatory Compliance: Banks in India and the UK must act in accordance with an array of regulations, including capital requirements, liquidity rules, and consumer protection regulations. Compliance with these laws can be pricy and time-consuming, and failure to comply can result in hefty repercussions.

  - **Competition:** Banks in both India and the UK face harsh competition from traditional banks, fintech companies, and other non-banking financial institutions. To remain competitive and hold their ground, banks must continuously aim to provide superior and innovative services to their customers.

Findings Based on Analysis

- **Regulators**

In India, there is only one banking regulator the Reserve bank of India (RBI). Wherein the UK there are two regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The RBI looks after banks, financial institutions, and the financial system of the country. The PRA AND FCA only regulate the bank and financial institutions.

- **Products and Services**

Comparing the two banking systems, we observed that both countries render a great variety of products to their customers with the UK achieving this in a much more competitive market. Additionally, the progress of digital banking is also different in these two countries. With the UK digital banking sector being more advanced, it is able to offer more innovative products and services to its customers. However, in India, digital banking continues to proliferate mainly across urban areas.

- **Banking Sector**

The banking system in the UK is more competitive than the Indian banking also the banking system in the UK is more advanced and larger than the Indian banking system. The market cap between the UK and Indian Banking has a huge gap between them. Both countries are working towards digitalization to make the payment system more efficient which will also give consumers more payment options. Also, the UK banking industry is more competitive than India.

- **Problems Faced by Banks**

The Indian banks have a lot of non-performing assets and outstanding loans which are the major hurdles faced by the banking industry in India. In the UK the regulations are very complex because of a lot of guidelines that are formulated to protect the interest of the consumers. The exit of the United Kingdom from the European Union has brought instability to the sector.

Suggestions

- **Suggestion for India**
  - **Increase financial inclusion:** There is still a large population in India that is still unbanked. Banks should focus on expanding their reach to rural areas of the country.
  - **Strengthen risk management:** The Indian banking sector has faced several high-profile frauds and scams in recent years. Banks need to strengthen their risk management practices by implementing better fraud detection and prevention mechanisms, improving due diligence procedures, and enhancing internal controls.
  - **Enhance customer service:** Banks should focus on improving their customer service by offering personalized services, quick grievance redressal, and efficient complaint resolution mechanisms. This will help build trust and loyalty among customers.
- **Suggestion for UK**
  - **Increase competition:** The UK banking sector is dominated by a few large players. To increase competition and promote innovation, regulators should encourage new entrants and remove barriers to entry for smaller players.
  - **Invest in digital transformation:** UK banks need to invest heavily in digital transformation to keep pace with changing customer expectations and compete with fintech startups. This includes improving their mobile and online banking platforms and using data analytics to personalize services.

Conclusion

Banks in India and in the UK should focus on risk management, as they directly deal with public money and should ensure that their money is safe. They also should focus on digitalization of the banking activities as they are more convenient and easy. They should focus on improving their consumer experience and work to make transactions more faster and efficient. Both countries have advantages and disadvantages in their banking systems and they are excellent in their own way.

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