

## A STEP TOWARDS DETAILING THE TRENDS AND GROWTH TRAJECTORY OF THE BANKING INDUSTRY IN INDIA

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### ABSTRACT

*Along with the basic necessities of life, there is something more important. It is almost impossible to throw light on all those important facts at once. That's why, in this research paper, only one source has been described out of various sources that support the basis of human life. In today's time, the light pillar through which light is spreading in the life of human beings, the name of that light pillar is-Bank. Today banks are an integral part of our lives. Whether the country is developed or developing, the role of banks is important for everyone in every field. Today we have separate commercial banks for urban areas and banks for development in rural areas have been designated separately as Regional Rural Banks. The classification of banks in the country as public and private sector is confirmed. Today we have a well-developed banking system in the form of NABARD and RBI, which is continuously working to take the country forward on the path of development. Our economy is growing at a sufficient pace. It has become the fifth largest economy in the world and is contributing about 15% to global growth.*

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**Keywords:** RRB, NABARD, RBI, Global Growth, Public and Private Sector.

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### Introduction

The definition of bank under the Indian Banking Companies Act, 1949 is given in the following words:

Giving loans and depositing money from the general public for investment and paying that amount on demand through cheques, drafts and orders is called banking business and the institution doing this business is called bank.

When people collect their money and deposit it in an institution for security purposes and get benefits in the form of interest on their deposited money, we call that institution a bank. Bank not only protects our money but also provides us loan when we need money. We can deposit money in the bank as per our capacity and can also receive money from the bank as per requirement. Banks earn profit in the form of interest by providing money as loan to the needy from the entire deposited amount.

All business and professional classes take help of banks. The Bank is also continuously committed to provide financial assistance to all sections of the society equally without any discrimination. In today's era, it is almost impossible to organize agriculture, industry and trade smoothly without banking system.

Apart from providing deposits and loans, banks also help us in other ways. Banks provide the public with the provision of a locker in the bank itself to provide security to their valuables. Apart from this, the bank also deals with credit. Banks also collect information about the financial status of people.

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The deposited capital of the people of the country is used for the development works of the country through banks. Be it development work related to trade, industry, commerce and agriculture etc. It is a different matter that a bank is already designated for each sector. The Central Bank exists to run all these types of banks smoothly in the country and to establish mutual coordination among all these banks. The central bank operates all the banks in the entire country. With time other new financial activities are being associated with banks. For example, banks provide financial services like investment funds in the financial markets.

#### **Objective of the Study**

- To study the changes in the banking system in today's environment.
- To study the technological advancements in banking system.
- To study new dimensions of banking opportunities in the changing banking system.

#### **Review of Literature**

**Priyanka K. (2020)**, in her paper titled “**Emerging Trends in Banking Sector in India (With Special Reference to Banking Technology)**”, she conclude that, an up gradation of technology banks are playing vital role in economic development. Banking sector in India is resulting with increased growth in customers by providing innovative facilities of banks. The changes made by banks are mostly focused on financial inclusion for expansion into rural areas and bringing stability by boosting credit growth making banking services near to the customer directly and reducing customer valuable time. The current trends in banking are building blocks of the “Cashless Economy”. Though there are few challenges, technology will keep evolving and with collaborative efforts of Banks, Government and end users, overcoming these challenges will certainly be possible. The initiative of Government of India will very soon achieve its mission and rural India too would be “digitally literate”. Banks will have to develop a strategy to bridge the gap of technology in rural banks and urban banks. Today, Indian banking industry is on the threshold of “next generation banking”. ICT innovation clubbed with dream of “cashless economy” will certainly bring about metamorphosis in the banking sector.

**Dr. Goud K. L. (2021)**, in his paper titled “**An Analytical Study on Trends and Progress of Indian Banking Industry**”, he write in the conclusion that, It is in this overall scenario, the policy relating to the financial services, and in particular banking, must be considered. It is interesting to note that WTO negotiations on financial services have been cautious and the commitments of many larger economies in the banking sector are rather particularly limited. Furthermore, there are special conditions governing the extent of ownership, the nature of ownership and control, and transfers of such ownership or control through statutory backing. These are justified since the banks are admittedly special. The discussions in WTO on Commitments relating to opening of domestic banking sector to foreign banks/ownership reflect these concerns in most of the major economies.

**Dr. Singh R. (2023)**, in his paper titled “**An Analytical Study on the Growth and Development of the Indian Banking System**”, he conclude that, The present study concludes that the India's banking sector is sufficiently capitalized and well regulated. The Indian financial industry has taken on different creative financial models like payments and small finance banks. Lately India has additionally centered on expanding its financial area reach, through different plans like the Pradhan Mantri Jan Dhan Yojana and Post Payment Banks. The digital payments framework in India has advanced the most with India's Immediate Payment Service (IMPS) being the only framework at level five in the Faster Payments Innovation Index (FPII). India's Unified Payments Interface (UPI) has additionally altered constant payments and strived to build its worldwide arrive at lately. The present study finds out that the State Bank of India and the HDFC Bank are having the highest market capitalization among the public and private sector banks respectively. It can be concluded that with the fast mechanical headways in the computerized installments scene and development of new participants across the FinTech ecosystem, banks need to focus on updating their IT framework and further developing client administrations, along with fortifying their digital protection.

**Parmar D. K. (2023)**, in his paper titled “**Recent Trends of Banking Industry in India**”, he conclude that, The banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. The economic growth of the country is an indicator for the growth of the banking sector. The big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as their Government dominated ownership

structure has reduced the conflicts of interest that private banks would face in modern era. Large banks will focus on offering value added services to their commercial customers and creating new revenue streams through better integration with ERP systems, embedding finance, payments and information services.

### **Methodology of Study**

This study is based on the secondary sources of data.

- **Secondary Data:** The secondary sources of data are banking books, annual reports of RBI, various websites and different research papers etc.

### **Emerging Trends in Banking Sector**

This is a period of change. Whatever be the industry, it is not untouched by this period of change. Because consistent will not progress. This change itself brings with it new tricks. Some trends related to new approaches in the banking industry have been selected here, which are as follows:-

- **Composable Architecture – Preparing for the Future**

There is an old saying that arrogance is the identity of a dead person. That is, flexibility is essential in the banking industry also. If banks want to survive, they should adopt composable solution design. Banks will have to move away from the uniform monolithic system and do something different.

- **Recomposing Business Model – Looking to the Future**

To survive in this race of change, the banking industry will need to make a lot of changes in its old business model, only then will the future of the banking industry be ensured. Only then will we be able to ensure our participation in the “new dimension of banking”.

For this, the banking industry will first have to become completely digital. Along with this, embedded finance, marketplace banking and BaaS etc. should also be operated.

- **Banking Big on Cloud – To Scale Digital Success**

To be successful moving forward, banks should make a strategy that in the year 2024 and beyond, they should adopt the medium of Cloud, AI and Machine Learning in the digital world.

A few years ago these things seemed simply and completely false. It seemed how could all this happen? But these latest technologies have left no stone unturned in making dreams come true today.

- **Reimagining Customer Engagement – Leveraging a Holistic Model**

It is not so easy to provide the ancient structure of banking with a latest personalized platform with all the features of the banking industry. Because, it will provide the customer with all the banking facilities he needs all the time on one personalized platform, which is an important effort to empower the banking industry.

- **Composing with APIs and Events – The Big Opportunity**

Through embedded finance, every customer will be able to give shape to their imagination in 2024. For this, offering services like BaaS should be ensured. Today we have been able to avail banking services without any transaction. There is a greater need for a well-organized technology in further expansion of these services.

- **Recomposing Operations**

If we are talking about the new banking era, then we should not forget that there will be new competitors in this new era. Banks will have to put more emphasis on their cost management. In this new era of banking, every bank should pay more attention to its management to strengthen its foundation.

- **Harnessing the Power of AI – Trending use cases and innovations**

AI and its management are improving. However, we need to make the protective measures more stringent and stronger. To make the future of banking golden in 2024 and beyond, we will have to make some applications in it through analytics.

- **Re-envisioning Security – Leveraging ESG to Secure Enterprises**

We can move forward on the path of development only when we are safe in every way. Therefore, even in the banking industry, security is paramount. It is also the responsibility of banks to provide a personal feeling of security to every customer. For this, strictest protective technical and non-technical action should be taken by the banking industry.

- **ESG-led Banking Comes of Age**

If we are able to create a positive perception of customers on ESG standards in 2024, only then we will be able to take the banking industry to new heights.

To understand ESG impacts, banks need an approach that integrates environment, society and governance. It has become essential for financial institutions to understand and analyze the opportunities and risks associated with ESG.

- **Re conceiving Money – Digital is the New Paper**

The digital currency landscape has expanded over the years. In this context, to establish new dimensions in financial inclusion in 2024, we should keep digital currency forward and also benefit from the benefits it provides.

- **Immersive Experiences – Banking in the Metaverse**

Nowadays, every change is becoming a common change in the eyes of customers. For the rise up of all the components of Virtual Banking, capital investment is firstly required. But it is also certain that this capital investment is essential for the latest development in the year 2024. Only then will we be able to benefit from the maximum benefits of this sector.

### **Present Banking Scenario**

#### **Industry Scenario**

After a long time off period i.e. 7 years, the consolidated balance sheet of Scheduled Commercial Banks registered double digit growth in Financial Year 2022,

- The credit growth to the Micro, Small, and Medium Enterprises (MSME) sector has been remarkably increase, over 30.6% (on average during Jan-Nov, 2022) supported by the extended Emergency Credit Linked Guarantee Scheme (ECLGS) of the Union Government.
- At the end of Financial Year 2023, the credit-deposit ratio was the highest in the last three years, which is 75.8%, because, the banking sector reported deposits of ~\$2.2 TN and loans of ~\$1.67 TN.
- As of January 2020, the share of MSMEs in the gross output of the industry was 17.7%, which increased to 23.7% by November 2022.
- New various branches opened by SCBs grew by 4.6% as on FY 2022, led by a niche channel.
- Scheduled commercial banks (SCBs) reported a vigorous credit growth of 15.4% in Financial Year 2023 (which was the highest score in 11 years) compared to 9.7% in Financial Year 2022, which was conducted through personal investment for development work, investment in service sector and agriculture and related activities. There was a growth of 20.6% in personal loan as per financial year 2023, whereas the same growth was 12.6% a year earlier i.e. in financial year 2022 which was mainly driven by housing loan.

#### **NBFCs**

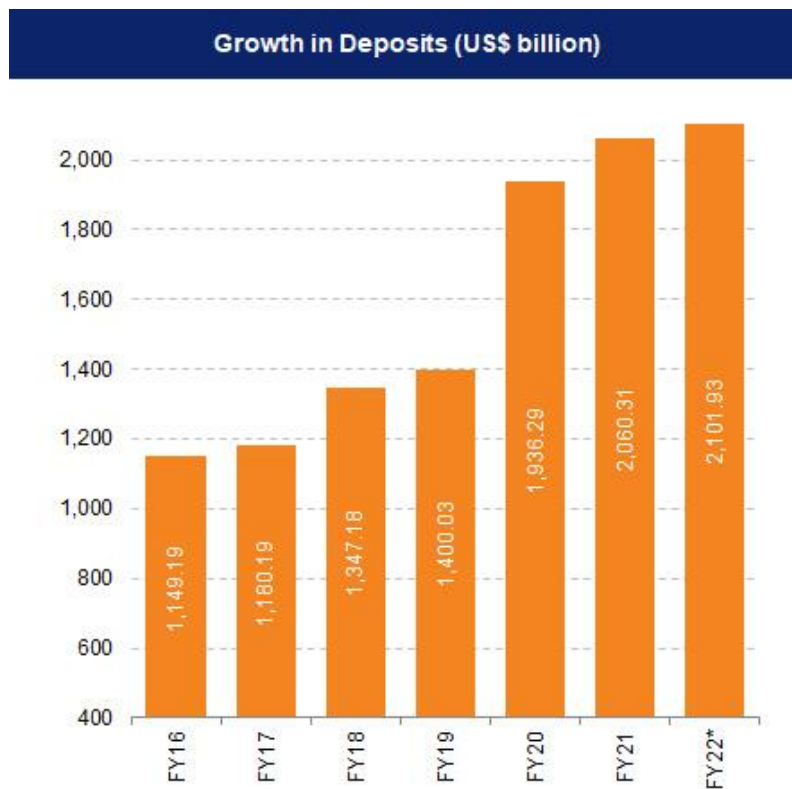
- According to the data of the last two years, micro finance institutions (NBFCs- MFIs) have set a new dimension by strengthening their growth in CAGR by 27.6% till March 2023.
- The reason for the continuous increase in the share of NBFCs is its adjustment as a proportion of Gross Domestic Product. This is providing a new opportunity to the Indian financial system.
- As of June 2021, the GNPA ratio of NBFCs was 7.2% which increased to 5.9% in September 2022. This is an indication of continued improvement in asset quality. The personal loan portfolio of NBFCs has registered the highest growth in the last four years. As a result of compound annual growth rate (CAGR) exceeding 30%, its share in the total portfolio had reached 31.2% by March 2023.
- If we talk about the balance sheet of NBFCs, the industrial sector comes first, followed by retail, service and agriculture sectors.

#### **Key Government & Regulatory Initiatives**

- Scheme for Setting up of Wholly Owned Subsidiaries (WOS) by foreign banks in India: In 2013, India invited foreign investment through RBI for Wholly Owned Subsidiaries (WOS) from all over the world and at the same time presented a new thinking with some guidelines to the whole world.

- Pradhan Mantri Jan Dhan Yojana: The world's largest ever financial inclusion initiative, with approximately 486 million beneficiaries enrolled in banking, of which approximately 265 million were women.
- Aadhaar e-KYC authentication for NBFC/Non-Banking entities: Now it has become easier to get Aadhaar Authentication License (KVA / Sub-KVA). Due to which all NBFCs payment system providers and participants are now happy.
- Kisan Credit Card (KCC): A new revolution has started in the agricultural world through Kisan Credit Card (KCC).
- Establishment of Digital Banking units: It has been 77 years since India's independence. In the year 2022, when it was the 75th anniversary of independence, 75 DBUs were announced in 75 districts of the country. Due to which an atmosphere of new freedom has been created in the financial sector of the country.

### Market Size



Although the Indian banking system has now taken a very large form, yet a new challenge is being provided in the form of opportunity every day, as a result of which the Indian banking system is likely to expand even more. Along with cooperative credit institutions, 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 rural regional banks, 1485 urban cooperative banks and 96000 rural cooperative banks are accommodated in it.

As of March 2023, the total number of ATMs across India has reached 1474548. Apart from this, 121894 on-site ATMs and Cash Recycling Machines (CRMs) are also included. There are also 96243 off-site ATMs and CRMs.

The number of ATMs is continuously increasing in the banking industry. If we talk about the financial year 2011, 2815 new ATMs were added in that year, then in the financial year 2012 the number increased to 1486 new ATMs. Subsequently, in the last four months of the financial year 2013, the number of ATMs increased by 2796. Now in rural India, most of the new bank accounts (almost 100%) are being opened digitally.

If we talk about the significant increase in the assets of the bank, then after the financial year 2020, this increase has been continuous in all areas. As of 2022-23, the total wealth in the public sector was 1553.57 billion US dollars and the total wealth in the private sector was 901.3 billion US dollars, which was about 59.24% of the assets of foreign banks.

If we talk about the last decade, India's digital lending market has seen a CAGR growth of 39.5%. According to RBI, based on the statements of scheduled banks, a total increase of 10.2% has been seen in deposits till May 5, 2023. Which in total is equal to approximately Rs 1.98 lakh crore i.e. approximately 24.32 billion US dollars.

According to BCG Banking Sector Roundup Report, credit growth is forecast. As earlier also there was an estimate of 18.1% growth in 2022-23 as per 9M FY23 which proved to be almost correct. According to RBI, the demand for loans is increasing strongly every year in services, industries, personal and agriculture related activities. In 2021 it was 7.1% and later in November 2022 it increased to 17.6%.

### Technological Advancements

There have been a number of trends in banking in recent years that have been driven by technological advances and changes in consumer behavior. Following are some of the technical trends:

- **Cyber Security:** In this era of increasing cyber crime, most of the investments of banks are being made to prevent this crime. Banks are using artificial intelligence and machine learning to protect against these threats. Due to which there is hope of improvement in the level of cyber crime.
- **Artificial Intelligence (AI) and machine learning:** The changes that have taken place in banking technology due to the use of AI have given a new energy to various financial institutions. As a result, customer problems are being resolved rapidly. Chat bots improve customer service, reduce call center costs, and allow banks to provide 24/7 service. If a customer has any problem related to his account, then the customer can get the solution to all those problems in his personal language through chat bots.
- **Digital Transformation / Digital Banking:** Nowadays, most of the banks are using technology to provide a new experience to all their customers. Today all the procedures of the bank have become automated through technology. Today the conversation between the bank and the customer has completely changed. Taking the help of technology, all the banks have provided their respective apps to the customers. Now it has become very convenient for the customers through online banking portal and virtual assistant. Today, due to technology, the time of customers and banks is not being wasted. Banks and customers are able to perform maximum activities in less time.
- **Cloud Computing:** The solution provided by cloud computing is making banks more flexible in today's era. Due to which the scalability and cost-efficiency of those banks is also continuously improving.
- **Internet of Things (IoT):** Now banks have been able to maintain all their branches and ATMs through IOT. Now because of IOT, all the bank branches and their ATMs will be in touch with each other all the time. This will help banks in keeping an eye on all the activities. IOT will provide such sensors that will provide great convenience to banks.
- **Big Data and Analytics:** Now banks have easy access to all the details of their account holders. Banks have been able to implement new plans by analyzing that information.
- **Robotics Process Automation (RPA):** It is because of RPA that banks have been able to automate their activities. With the help of software ROBOT, banks have been able to complete this task. In old times, the entire staff of the bank used to be engaged in this work, now this work is done through software. Data entry and document processing have now become easier.
- **Mobile Payments:** Today almost every person has a smart phone in his hands. In which there are other App Stores like Google pay, Phone pay and PayTM. Through which it has become easy for customers to make payment or receive payment for anyone, anywhere.
- **The Rise of Fin Tech:** If some companies are capable of providing financial facilities more strongly than banks, then they are financial technologies (Fintech) companies. These companies are emerging in the banking industry. And these companies are doing the work of disruption in a way. But banking operations have become more convenient from the customers' point of view.

- **Open Banking:** It is only through Open Banking that Fin-tech companies have been able to achieve harmony between banks and customers. It is only because of Open Banking that Fin-tech companies have been able to provide their facilities to the customers. Fin-tech companies act as third parties.
- **Sustainable Finance:** Now every bank is trying to follow the path of ESG (Environmental, Social and Governance) principles. To support this change, banks are busy offering new services every day. The concept of low carbon economy is emerging.

It is estimated that new technologies like: AI, Block Chain & Internet of things (IOT) and other technologies will have established their empire in the country and abroad by 2025. Then in future there will be new improvements in them every day, which will provide a new experience of the banking system to the customers.

#### **Latest Banking Trends updates up to 02.10.2023**

Now greater openness in the financial system is possible only because of these third parties. Now customers have more options. Open Banking System is paving a new path.

- **Valyuz Account:** A Valyuz (AKA internet-only bank, online bank, digital bank or virtual bank) is able to provide banking facilities to the customers without any interruption.
- **Financial Wellness Tools:** All banks are making every possible effort to provide financial wellness tools to their customers. In which the present as well as the future of the customers can be improved.
- **Data Analytics and Personalization:** The use of Data Analytics has become a complement to customer satisfaction.
- **Collaborative Ecosystems:** It is because of the Collaborative Ecosystem that banks have been able to provide all the facilities provided by third-parties to their customers.
- **Cyber Security:** As the online banking system is gaining momentum. However, the responsibility of cyber security is continuously increasing. Making security important, all banks are investing maximum in cyber security.
- **Banking-as-a-Service (BaaS):** Banks and Fin-tech companies are providing financial services to customers in collaboration with each other.
- **Hybrid Banking Models:** Now hybrid banking models are being prepared. Due to which new strategies are expected to be made and old strategies are improved.
- **Biometric Verification:** From security point of view, banks are now taking the help of other new technologies like face recognition, voice recognition and biometrics.
- **Crypto Currencies and Block Chain:** Now blockchain is becoming a fast and well-known option. Some banks are also discussing including Bitcoin.
- **Decentralized Finance (DeFi):** Now the demand for DiFi Platform is continuously increasing. Because, there is no need of any middleman while, providing financial facilities.

The above points show that times have changed in the banking system now and will change further in the future for development.

**The last decade has given customers a new experience of online banking. Now, the coming decade will meet customer expectations.**

Now banking facility is available every moment and every time. Customers should also be well aware of all these new technologies. In the year 2023, the changes that have taken place in the banking system due to special technologies like AI and Machine learning, it is expected that these changes will definitely bring a new revolution in the lives of customers. Due to which the coming time will bring a new golden dawn in the banking system.

#### **Expected Trends for Financial Service Providers in 2024**

We expect that the interest of all participants in the banking industry will definitely increase due to the improvement in technologies in the year 2024. Recently, emphasis has been laid on strengthening the banking system through technological innovations. Now all banks are busy focusing on increasing ROI. We know that, recession always shakes the economy. If all banks are successful in improving ROI through technical support, it will be a great achievement. Now we have to develop full cross platform features and super powerful applications with the help of advanced digital technologies.

### Expected Trends for Customer Demands from Financial Service Providers in 2024

Chat bots and humanoid robots are likely to enter the banking industry in 2024. In the coming time, there are plans to completely automate the conversation between the bank and the customers, which will facilitate quick transactions. The shape of the banking industry in the future will definitely set a new dimension.

### Conclusion

There is no doubt that banking has an important role in our daily life. If someone considers self a responsible citizen of the country, then he should respect the banking system of the country and at the same time should follow the rules of the banking system. We should always remember that the banking system is the basis of the financial system as well as the entire economic system of the country.

The banking system provides impetus to all types of markets and industries in the country. Due to the reforms in the banking system in India, we have been able to pave the way for our economic conditions in a better way. Various committees constituted by the government in the country present suggestions for these reforms. Whatever reforms take place in the banking system; all those reforms continuously help in strengthening the economic structure of the country and in taking the country forward on the path of development and competing with the global markets.

Banking sector reforms in India over the years have transformed all industries, resulting in India becoming more strong, competitive and inclusive. Every person in the country has directly or indirectly benefited from these reforms. However, challenges still remain at every step. The government and regulatory authorities in India have always been and will continue to be committed to ensuring the continued growth and stability of the banking sector.

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