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AN EVALUATION OF RECENT TRENDS AND GOVERNMENT SCHEMES IN INDIAN BANKING INDUSTRY

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ABSTRACT

Finance and banking give the life to economy of a country. Banks receive deposits from public and also borrow money from other organizations for increasing their working capital funds. Now-a-days banking sector works like the backbone of the economy. Nowadays plastic money, net-banking and E-wallets are becoming increasingly popular in urban and semi-urban areas in India. The present paper sprays the light on history of Indian banking industry. It evaluates the notable trends in Indian baking sector like improved risk management practices, technological innovations, financial inclusion, consolidation, digital payment system etc. The present study also evaluates the schemes introduced by the Indian government to enhance the Indian banking sector; India's banking industry is adequately capitalized and well regulated as stated by the Reserve Bank of India (RBI). India's economic and financial conditions are far better to any other developing countries in the world. Study of market, credit and liquidity risk indicates that Indian banks are generally springy and have withstood the global downswing well. Innovative banking models like small finance banks and digital payments have recently emerged in Indian banking sector. Restructuring of domestic banking industry may go a long way with the help of new measures of RBI.

Keywords: *Banking Sector, Indian Economy, Financial Inclusion, Cashless Economy, Banking Trends.*

INTRODUCTION

The banking system is the base of the economy and economic development of the country. Banking sector is the most leading part of the country's financial sector because more than 70 percent of the funds are flowing through this sector. Now a day, Indian banking sector is one of the most thriving prospering sector. Banking industry of any country needs to be dynamic and efficient because it plays the effective role in the country's economic development. In a country, the banking system performs three primary functions- operations of Payment system, Accept deposits and protect of people's savings and Issue loans to individuals and organizations. In the context of Indian Banking History, in 1935 Reserve Bank of India (RBI) was established as the Central Bank of the country. At the Independence time, the entire banking sector was under private ownership. The rural people of the country were quietly dependent on Sahukars for their economic needs. In 1949 the RBI was nationalized and the Banking regulation Act enacted by the Indian government to solve the issues of monetary

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needs of rural population and better development of the rural economy. In 1955 State Bank of India was originated by nationalizing the Imperial Bank of India.

In 1969, 14 major commercial banks whose national deposits were more than Rs. 50 crores, were nationalized by the Indian government. The Banking system of India immensely developed after nationalization but the rural and weaker section of the economy was still dependent on Sahukars. In 1974, the Narasimham Committee recommended that Regional Rural Banks (RRB) to be established to cover the rural and weaker section under the banking system. To extend the credit facility to the rural part of the country, RRBs were established on 2nd October, 1975. In 1980 another 6 more banks were nationalized. During the Liberalization phase 10 private players got a license from the RBI to take entry in the banking sector. These were ICICI Bank, HDFC Bank, Axis Bank, IDBI Bank etc. Foreign Banks were also allowed to open offices in India either as branches or as subsidiaries. The Indian banking industry comprises the following types and number of banks:- (i) Public Sector Banks-27, (ii) Private Sector Banks-21, (iii) Foreign Banks-49, (iv) Regional Rural Banks-56, (v) Urban Cooperative Banks-1562 and (vi) Rural Cooperative Banks-94384.

REVIEW OF LITERATURE

The reviews of some of the important studies are presented below:

Antil, Pooja, Antil, Prerna, Aggarwal, Kamal (2017)[i] in their research paper "A Study of Indian Banking Sector" focused on history of Banking Industry and Banking structure in India. The basic objectives of the paper were to study the Indian Banking Sector and performance of Indian Banks and to understand the significance of banks in India. They also mentioned that the role of banks is not only directly important but also it is very needful in the precise conduct of the programs projected by government.

Bhosale, Minakshi Dattatraya (2015)[ii] in her research paper "Indian Banking Sector - At A Glance" discussed the banking structure in India and focused on Bank profiles of various sector banks in India.

Koundal, Virender (2012)[iii] in his research paper "Performance of Indian Banks in Indian Financial System" analyzed the comparative performance of various sector banks and studied the threats and opportunities particularly faced by the public sector banks.

OBJECTIVE OF THE STUDY

Objective of the present study are as follows:

- To evaluate the trends in Indian banking industry.
- To evaluate the schemes launched by the Indian Government in banking industry.

RESEARCH METHODOLOGY

The present paper is descriptive in nature. Secondary data have been used to carry out the present study. Secondary data have been collected from various sources such as journals, newspapers, periodicals and websites, etc. The study covers the period from FY 2007 to FY 2018.

FACTS & FINDINGS

- **Remarkable Trends in the Banking Industry**
  - **Improved risk management practices:** Indian banks are progressively concentrating on adopting integrated approach to risk management. Most of the

banks have set up the framework for matching asset-liability and managing credit & derivatives risk. According of Basel II, Banks have already encompassed the international banking supervision; as per the RBI, majority of the banks already fulfill capital requirements of Basel III.

- **Diversification of revenue stream:** Total lending of banks has increased at 10.94% CAGR (Compound Annual Growth Rate) during FY 2007-2018 and total deposits of banks has increased at 11.66% CAGR during FY 2007-2018 and are further ready for growth, supported by demand for housing and personal finance.
- **Technological innovations:** Number of ATMs in India was 210,312 on May, 2018 and it is expected to increase to 4.07 lakh in 2021. The Government of India is enforcing to adopt digital payment system and Indian payment system has emerged the most among 25 leading countries of the world.
- **Focus on financial inclusion:** RBI has emphasized that banks should cover the un-banked population of India by spreading the access of banking services. To achieve this target as well as to capture the new business opportunities, Indian banks are opening new branches and expanding existing branches in those areas. 5.98 lakh banking outlets were established under Financial Inclusion Plan in the rural areas as on March, 2017 (as per RBI).
- **Derivatives and risk management products:** The requirement of customized exotic financial products has been increased due to progressively energetic business scenario and financial specialization. Innovative financial products and advanced risk management methods are being developed by banks to capture the market share. Bank of Maharashtra tied up with Cigna TTK, to market their insurance products across India.
- **Consolidation:** Foreign banks are getting entry into Indian banking industry so competition in this industry has escalated. In this condition, banks are adopting consolidation technique. Banks are using this technique to derive more benefits like improved synergy, benefits from economy of scale, organizational efficiency and diversification of risks.
- **Demonetization:** Demonetization effects can be seen in the following manner- defaulters had paid US$ 9.85 billion into the banks between the period of 8th November, 2016 to 25th November, 2016 which was responsible to plunge the bank credit. According to RBI, a total amount of US$ 237.17 billion was deposited into banks till 30th August, 2017. After demonetization public have been preferred debit cards in place of credit cards, as a mode of payment. 86.79% share of the total card spending was garnered by debit cards on May, 2018.
- **Wide usability of RTGS, NEFT and IMPS:** Indian banks are implementing the RTGS, NEFT and IMPS for transferring the funds. NEFT and RTGS payment systems have been included in the existing payment methods by the SEBI, by which a company can pay dividend or other cash benefits to their shareholders and investors. Transferred funds through IMPS was Rs. 1.74 lakh crore between

the second quarter of year 2017 and it increased to Rs. 3.23 lakh crore between the same quarter of year 2018.

- **Know Your Client:** RBI mandated the KYC Standards, in which all banks are needed to set up an extensive policy framework in order to avoid money laundering activities. In order to compliance these Standards, banks are adhering KYC policy for opening an account or making any investment such as mutual funds**.**
- **India's Digital Lending Forecast:** Digital shape in the Indian banking industry has been flourishing quicker because of demonetization. Digital lending of India was US$ 75 billion in the FY 2017-18and it is expected to increase to US$ 1 trillion by FY 2022-23.

- **Initiatives taken by Government in Indian Banking Industry**

The Government of India has introduced the following schemes to nurture the Indian banking sector and to boost the public banking habits:

- **Pradhan Mantri Jeevan Jyoti Bima Yojana**: This scheme was launched with an objective to provide a life insurance cover with annual Premium of Rs. 330. It will be auto-debited in one installment from insured account. The insured will get a Risk Coverage of Rs. 2 lakh in case his death. Gross enrolment under this scheme reached 53.3 million.
- **Atal Pension Yojana**: This scheme was introduced to provide a fixed amount of pension of up to Rs. 5000 to subscribers at the attaining age of 60 years (depending on their contributions). Rs. 1000 p.a. or 50 percent of the subscriber's contribution, whichever is lower, will also be contributed by the Central Government to every eligible subscriber's account, for a period of five years. In May 2018, total number of enrolments under this scheme was 11 million.
- **Pradhan Mantri Jan Dhan Yojana**: PMJDY was launched with a main objective to increase the availability of financial services like bank accounts, insurance benefit, pension benefit and credit facilities etc. mostly to the low income families. Under this scheme Zero balance account is opened in a bank and each person gets life cover of Rs. 30,000. Overdraft facility of Rs. 5000 is also given and 'Rupay' debit card is also issued to the accountholder. 31.67 crores Zero balance accounts were opened and Rs. 80,674.82 crore was deposited. 24.77 crores 'Rupay' debis cards were issued to the accountholders. In September 2018, this scheme has been converted into an open ended scheme.
- **Pradhan Mantri Suraksha Bima Yojana**: Key objective of this scheme is to provide accidental death insurance cover. It covers the risk up to Rs. 2 lakh with an annual premium of Rs. 12. Under this scheme 13.48 crores people were enrolled.
- **Pradhan Mantri Vaya Vandana Yojana**: This scheme was launched on March 28, 2018 to provide social security to elderly people by providing pension of Rs 10,000

per month. Investment limit under this scheme is Rs. 15 lakh and subscription limit till March 31, 2020.

- **Capital Infusion Scheme**: This scheme was launched for public sector banks to infuse their "need-based" capital so that they can maintain capital adequacy. Approved extension of Rs 343 crore to be infused to Regional Rural Banks (RRBs) for three years till FY 2020 which will strengthen their lending capacity. As part of government's capital infusion plan of Rs 65,000 crore in 21 public sector banks during FY 2019, Rs 11,336 crore will be infused in Punjab National Bank, Andhra Bank, Allahabad Bank, Corporation Bank and Indian Overseas Bank.

CONCLUSION

To provide further impetus to growth of Indian economy, spending on upgraded infrastructure, rapid enforcement of projects and continuance of reforms are expected. All the above mentioned factors suggest that Indian banking sector is also self contained for rich growth. Mobile and internet banking services have been introduced to bring upgradation in technology. In order to extend the client's overall experience as well as give banks a competitive edge, the banking sector is keeping more focus on providing improved services to their customers and also elevating their technology infrastructure. India's retail credit market is the fourth largest in the emerging countries. It was US$ 181 billion on December 2014 which was increased to US$ 281 billion on December 2017. RBI is going to set up an extensive database of credit information (Public Credit Registry) which can be accessed to all stakeholders. To improve rural banking penetration, KYC norms to be simplified, no-frills accounts to be introduced and Kisan Credit Cards to be increased.

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