A STUDY ON RECENT TRENDS IN BANKING SECTOR IN INDIA

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ABSTRACT

Banks are essential to a nation's economic growth; their success drives or establishes the rate of economic expansion. They primarily deal in financial transactions, including taking consumer deposits and lending them to those in need in the form of loans. The Indian banking industry has undergone numerous good changes during the past 20 years, particularly after the entry of private banks. Certain banks have a distinguished history of innovation, expansion, and value creation. There are ground-breaking reforms being implemented in the Indian economic landscape. The banking industry is the major actor in the financial sector, which has also undergone metamorphosis. The banking sector is now more resilient and able to resist the pressures of the market. The Indian banking industry is steadily moving towards adopting the best practices in accounting, corporate governance, and risk management thanks to the adoption of prudential standards and increased disclosures and transparency. While interest rates are now unregulated, the strictness of directed lending is being gradually eased. The Reserve Bank of India serves as the system's central bank and oversees a variety of banking institutions, including public sector banks, foreign banks, private sector banks of both the old and new generations, regional rural banks, and co-operative banks. The banking business has undergone enormous development in the last 50 years since 1969. In order to meet the changing needs of their consumers, banks have abandoned their conventional roles and instead have been experimenting with new service models. Massive branch expansion in rural and underdeveloped areas, the mobilisation of savings, and the diversification of credit facilities to either neglected areas like the small-scale industrial sector, agricultural, and other preferred areas like the export sector, among others, have led to the widening and deepening of the financial infrastructure and transformed the fundamental character of class banking into mass banking. The business of big commercial banks has undergone a lot of innovation and diversification.

KEY WORDS: Technology, Banking industry, Growth, Economic development, Reserve Bank of India, Government, Initiatives.

INTRODUCTION

The history of the Indian banking sector is extensive, including everything from nationalization to bank privatisation to the current presence of multinational banks in the country. As a result, banking in India has travelled a long road. With the passing of time, the banking business in India has also reached a new level. The way banks operate has undergone a transformation thanks to the usage of technology. Yet, the banking industry has introduced a new type of risk exposure due to the shifting dynamics. The majority of banks are effective in maintaining the trust of their clients and other stakeholders, but not all of them are able to meet those expectations. To develop and advance the faith of stakeholders, organizations should try to improve the long-term financial performance and create wealth for the stakeholders. We are currently experiencing a period of "Digital Darwinism," in which both society and technology are changing. The explosion of digital forces like Social Media, Mobile, Analytics, Cloud, and Internet of Things (IOT) is causing a more direct and economically efficient flow of corporate information. This "Digital Darwinism" era has not escaped India. Future payment processing methods are projected to undergo major modifications as a result of new technological developments like cloud computing, artificial intelligence, biometrics, etc. The Indian banking industry has already made significant investments in building digital infrastructure to provide a range of services including mobile banking, e-wallets, virtual cards, etc. By introducing new financial technology-driven instruments with customer satisfaction and risk mitigation strategies, payment systems have prepared the road for new banking paradigms. Innovative technology is dynamic and challenging to forecast precisely because it may be used to build new goods and services. Doing transactions with just a few touches would not have occurred to most people, but technology has made it possible. Today, banks are constantly advancing with new technologies since mobility and client convenience are seen as the fundamental components of success. Banks' markets are entirely customer-driven, thus technology must be user-friendly and secure in all transactions. Hence, technology facilitates the provision of a tool that benefits both banks and their clients.

REVIEW OF LITERATURE

Kohli (2001) emphasized on the importance of technology. According to him, technology is emerging as a key-driver of business in the financial services industry. The advancement in computing and telecommunications has revolutionized the financial industry and banking on the net is fast catching on. As e-commerce gets transformed into e-commerce with the increasing use of technologies like WAP, banking business is in for a major overhaul.

Anuradha (2001) stated that "the need for the change of Indian banks and the forces behind the change like globalization, liberalization, international trade, technology revolution etc., The study also highlights various consequences that are to be faced by the Indian banks if they remain unchanged".

Chowdary Prasad (2002) compared the 1991 economic reforms of India with that of China that took place in 1998. He has stated "Reforms in India have just been a decade old but there have been numerous changes in political set up, industrialization policies, legal reforms, privatization, etc.,"

Aloka Majumdar (2003) stated that, "Emerging trends have got a lot to do with the changes in the structure of the banking system. The second and equally important area, where banks are banking on other of their skill, is on the retail side".

Aditya Pun (2003) said, "Technology has enabled banks to target customers, and provide customized products and services to match their individual requirements. The winners will be those banks that make optimum utilization of available technology to innovate, offer customized products and services, and make the most of the resources at their disposal".

Pramod Guptha (2003) said, "Both public and private banks are spending large amounts of money on technology to provide innovative products and services to their customers with more convenience and satisfaction. Technology is reducing the cost of transaction and helping to increase customer base and enable wider reach".

OBJECTIVES OF THE STUDY

The major objectives of the study are:

To understand the nature and growth of Indian Banking Sector.

To assess the influence of technology on the operational efficiency of banks in India.

To assess the reform measures which results on the efficiency, profitability andoverall performance of Indian banks.

To study the recent developments in Indian Financial System

To understand the major trends that are expected to influence the Indian banking sector.

SCOPE OF THE STUDY

The main scope of this study is confined to **“**A Study on Recent Trends in Banking Sector in India’’

RESEARCH METHODOLOGY

The data used for this study is secondary data comprising of various websites, articles and magazines. Since the data used is secondary it is more efficient and reliable.

INDIAN BANKING SECTOR

Indian Banking sector is one of the oldest and most popular sector in stock market point of view. It is also one of the largest in terms of market capitalization in Indian stock market. Banking sector is such a sector which is either liked by investors or disliked by investors but there is no middle ground. There are many investors whose portfolio is heavily loaded with banking and finance stocks and at the same time there are some big investors they don't touch banking stocks.

The Indian banking system consists of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control more than 70 per

cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers. As per the Reserve Bank of India (RBI), India's banking sector has sufficient capital and well-regulated. The financial and economic conditions in the country are far superior to any othercountry 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.

Investments/developments

Key investments and developments in India's banking industry include:

The bank re capitalisation plan by Government of India is expected to push credit growth in the country to 15 per cent and as a result help the GDP grow by 7 per cent in FY19.

Public sector banks are lining up to raise funds via qualified institutional placements (QIP), backed by better investor sentiment after the Government of India's bank recapitalization plan and an upgrade in India's sovereign rating by Moody's Investor Service.

The RBI amends statutes thereby allowing lenders to invest in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) not exceeding 10 per cent of the unit capital of such instruments.

Government Initiatives

The Government of India is planning to introduce a two percentage point discount in the Goods and Services Tax (GST) on business-to-consumer (B2C) transactions made via digital payments.

A new portal named 'Udyami Mitra' has been launched by the Small Industries Development Bank of India (SIDBI) with the aim of improving credit availability to Micro, Small and Medium Enterprises' (MSMEs) in the country. The government and theregulator have undertaken several measures to strengthen the Indian banking sector.

Government of India has unveiled a two-year plan to strengthen the public sector banks through reforms and capital infusion of Rs 2.11 lakh crore (US$ 32.5 billion). That will enable these banks to play a much larger role in the financial system and give a boost to the MSME sector. In this regard, the Lok Sabha has approved recapitalisation bonds

worth Rs 80,000 crore (US$ 12.62 billion) for public sector banks, which will be accompanied by a series of reforms, according to Mr Arun Jaitley, Minister of Finance, Government of India. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 will strengthen the banking sector.

Banking sector performance in FY17

FY17 (refers to period from April 01 to March 31) was yet another challenging year for Indian banks with decline in credit growth, continued stress on asset quality, high provisioning costs resulting in declining profits and high requirement of capital for growth and compliance with stringent regulatory requirements. The performance of the banks was also impacted by the subdued economic backdrop as well as dynamic regulatory environment. As per the revised estimates of CSO, the GDP growth during FY17 is expected to be 7.1% which was lower than 8.0% during FY16.

Business Growth

Credit growth was at record low due to decline in demand and asset quality pressures. Credit growth in India has seen a declining trend over the last three years due to declinein economic activity leading to moderation in industrial output, leveraged corporate balance sheets and low capital expenditure (capex) plans resulting in decline in credit demand and asset quality overhang making banks cautious in lending. During FY17, credit growth was at 4.7% which was lowest in growth rate in over a decade.

Asset Quality

Deterioration in asset quality continued but pace of stressed assets addition declined. The asset quality of the Indian banks saw a sharp deterioration in the last three years withsharp increase in NPAs in the last two years. Public Sector Banks (PSBs) have witnesseda higher deterioration in asset quality as compared to the private sector players. However, the private sector banks also witnessed deterioration in asset quality. Gross NPA ratioof private sector banks near doubling from 2.11% as on March 31, 2015 to 4.19% as on March 31, 2017. As compared to PSBs, the private sector banks continued to have strong net worth coverage to Net NPA with Net NPA to Net worth ratio of 13.03% as on March 31, 2017 as compared to high 77.52% for PSBs.

Earnings and Profitability

Profitability of the banks saw declining trend due to worsening of asset quality Slow credit growth. Deterioration in asset quality impacted the income growth of banks as well

as profitability during FY17. The 35 banks studied by CARE Ratings showed moderate growth of 6% due to interest reversals on NPA accounts as well as a low credit growth.

RECENT DEVELOPMENTS IN INDIAN FINANCIAL SYSTEM

The constitutional Validity of the Aadhaar Scheme upheld by Supreme Court

From now onwards, Aadhaar will not be mandatory for opening bank accounts, getting a phone connection or school admissions as per the constitutional validity of the Aadhaar scheme upheld by Supreme Court. Also, Aadhaar holder's data will not be disclosed on the grounds of national security.

RBI to form regulatory sandbox for FinTech and to set up data science lab

The Reserve Bank of India (RBI) has decided to form a regulatory sandbox for financial technology (FinTech) and setting up of data science labs in order to keep pace with innovation in the digital lending space.

IRDAI to Migrate To Risk-Based Capital Regime

Apex Insurance regulator IRDAI has decided to move towards the risk-based capital (RBC) regime in order to improve protection for policyholders. This shift in regime was done because of the reason that current Solvency Based Rules were not helpful in assessing whether the capital held is adequate enough for the risks inherent in the insurance business. But, if risk-based capital system is there, then additional capital will not remain idle.

Liquidity Boost: RBI Increased Slr Under The Basel-III Calculations

RBI has increased the amount of statutory liquidity ratio (SLR) with a further 2 per cent increase in the treasury holdings of banks as high-quality liquid assets (HQLAs) under the Basel-III calculations, potentially releasing up to Rs 2 lakh crore. Now, banks can consider as HQLAs to 15 per cent of their total deposits from 13 per cent earlier. Also, Banks have to mandatorily invest 19.5 per cent of their total deposits in government securities. It is important to note that, under the Basel-III rules, banks have to invest a part of their funds into liquid securities which make up a liquidity coverage ratio (LCR). Earlier in June 2018, RBI had allowed banks to consider 13 per cent of total deposits as HQLAs, up from 11 per cent.

Government to Set Up Independent Payments Regulatory Board (PRB) In RBI Finance Minister has proposed to create a six-member independent Payments RegulatoryBoard (PRB) in the RBI, in order to bring about structural reforms in the payment andsettlement system. For the purpose, necessary amendments have been proposed in theFinance Bill 2017 to create a Payments Regulatory Board in the Reserve Bank of India byreplacing the existing Board for Regulation and Supervision of Payment and SettlementSystems (BPSS). As per the Finance Bill, the Reserve Bank of India will be the designated authority for the regulation and supervision of payment systems. Also, The RBI Governor will be the Chairperson, ex officio.

20 Lakh People Join Modified Jandhan Scheme, totalling Account Holders to 32.61 Crores

As per the latest data released by the Finance Ministry, 20 lakh people have joined the modified Pradhan Mantri Jan Dhan Yojna (PMJDY), taking the total number of account holders in this flagship financial inclusion programme to 32.61 crore. The government earlierthis month relaunched PMJDY as an open-ended scheme with higher insurance cover and doubles the overdraft (OD) facility. Under the revamped scheme, accidental insurance cover for new RuPay card holders has been revised and raised from Rs 1 lakh to Rs 2 lakh. Also,the existing Overdraft limit of Rs 5,000 has been increased to Rs 10,000 where no conditions will be attached for overdraft up to Rs 2,000.

PMJDY was launched in August 2014, the first phase of which focussed on opening basic bank accounts and RuPay debit card with in-built accident insurance cover of Rs 1 lakh. Phase II begins in August 15, 2018 to provide micro-insurance to the people and pension schemes to unorganised sector workers through Business Correspondents. It is important to note that about 53 per cent of PMJDY account holders are women, while 83 per cent of the total accounts are seeded with Aadhaar.

NPCI: Economic Times Awards 2018 for Change Agent of the Year

National Payment Corporation of India has been honoured with Economic Times Awards 2018 for Change agent of the year. Ranging from creating the National Financial Switch for all ATM transactions and a centralised cheque clearance mechanism to the IMPS instant bank-to-bank fund transfer and smartphone-based Unified Payments Interface (UPI), NPCI is an umbrella organization to cater to the varied payment needs of the Indian public. Dilip Asbe is the current CEO of NPCI.

PM Launched the India Post Payments Bank (IPPB) In New Delhi

Prime Minister Narendra Modi has launched the long awaited India Post Payments Bank (IPPB) in order to ensure financial inclusion for the masses. The event was held at Talkatora Stadium in New Delhi. IPPBs will have 650 branches in the country to provide an accessible, affordable and trusted bank for the common man. The Government owns 100 per cent equity in IPPBs and also all the 1.55 lakh post offices in the country will be linked to the IPPB system by December 31, 2018. IPPB will offer a wide variety of products including savings and current accounts, money transfer, direct benefit transfers, bill and utility payments, and enterprise and merchant payments. Also, Cabinet has approved the 80 per cent increase in spending for IPPB to compete aggressively with existing players like Airtel Payments Bank and Paytm Payments Bank.

India to become one of World's Block chain Leaders by 2023 s

With the right amount of industry and government participation, India could be in leadership ranks in adoption of block chain technology in the next five years, a survey by global consultancy firm PwC. A block chain is an open distributed ledger technology that stores information across multiple systems securely to enable peer-to-peer transactions by creating a trustworthy source. Banks and other financial institutions are investing in blockchain technology as it cuts down their costs and makes their operations faster and more transparent.

RBI to Conduct OMO to Infuse Liquidity

Based on the assessment of prevailing liquidity conditions in the economy, the Reserve Bank has decided to conduct purchase of government securities under Open Market Operations for an aggregate amount of Rs 100 billion (Rs 10,000 crore). Open Market Operation is a monetary policy tool used by central bank to either inject or drain liquidity from the economy. If there is excess liquidity, the RBI resorts to sale securities and sucks out the rupee liquidity. Similarly, when the liquidity conditions are tight, it starts purchasing securities from the market, thereby releasing money into the market.

Government Develops National Logistics Portal

Union Ministry of Commerce and Industry has developed National Logistics Portal to ensure ease of trading in international and domestic markets. It will be implemented in phases with the objective to fulfil Central Government's commitment to enhance trade competitiveness, create jobs, and boost India's performance. Also, in 2018-19 budget speech, Union Finance Minister had announced that Department of Commerce will create portal which will be single window online market place for trade.

RBI Liberalizes External Commercial Borrowings (ECBs) To Check Rupee Depreciation

The Reserve Bank of India (RBI) liberalises some aspects of the external commercial borrowings (ECBs) policy including those related to rupee-denominated bonds to help check rupee depreciation. Presently, domestic banks can act as arranger and underwriter for rupee denominated bonds (RDBs), also known as masala bonds, issued overseas, and their holding cannot be more than five per cent of the issue size after six months of issue as an underwriter. Now Indian banks have been permitted to participate as arrangers/underwriters/market makers/traders in RDBs issued overseas subject to applicable prudential norms. Government also exempted tax on interest payable by Indian companies to non-residents, including foreign companies, on borrowings through off-shore rupee denominated bonds issued till March 31, 2019. Till now, interest payable on these Bonds Issued Before July 1, were subject to concessional rate of tax of 5%.

Reserve Bank Approves Licence for Pay U to Open NBFC Arm

Pay U India has Received a licence from the Reserve Bank of India to operate its own non-growing its consumer credit business. Pay U India, which processes monthly payments of about Rs 8,000 crore, derives only about 2% of its overall revenue from its credit businesses currently. Also, Flipkart-owned PhonePe has also partnered with Pay U to get enlisted as a payment mode for all merchants using the payment gateway for online transactions.

Finance Ministry Moves to Declutter DRTS to ease Debt Recovery

The government decided to double pecuniary limit to Rs 20 lakh for filing applications with Debt Recovery Tribunal (DRTs), following the amendment to rules of Recovery of Debts dueto Banks and Financial Institutions Act, 1993. As a result, any bank or financial cannot approach DRTs if the amount due is less than Rs 20 lakh. To make the tribunals more effective and to facilitate fast disposal of debt recovery cases, the government has made several amendments in different laws, including the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.

BOB, Vijaya Bank and Dena Bank Merger: Proposal to Create Second Largest PSU Lender

Government has decided to merge the three PSBs namely, BOB, Vijaya and Dena Bank to pursue banking sector reforms. The government announced the merger of Bank of Baroda, Vijaya Bank and Dena Bank to create the country's second-largest public sector bank by assets and branches and the third largest lender in the country. As on April 2017, State Bank had merged with five of its subsidiary banks and took over Bharatiya Mahila Bank. It is important to note that after the merger of BOB, Vijaya Bank and Dena Bank, the number of public sector banks will come down to 19.

The major trends that are expected to influence the Indian banking sector in present scenario are:

Digital-only/Virtual Banking: Digital-only banks are paperless, branchless and signature- less. In India, these banks are running on the Aadhar' s infrastructure and providing end-to- end services through digital platforms like mobile, tablets and internet.

Biometric Technology: Linking of Aadhaar number to accounts has enabled banks to recognise their customer by evaluating one or more distinguishing biological traits like face, hand, retina, voice and ear features in wake of an issue. The growth of such technology is far more reliable and will continue to spread across in the times to come, since it can eliminate the requirement of multiple passwords and PINs.

Artificial Intelligence: Artificial Intelligence has provided personalised services by dealing with each customer and focusing on his or her specific requirements. It will be used to collect information and automatically build models based on that information. Large banks have already introduced this in their services, others are likely to follow.

Block chain Technology: NITI Aayog is creating 'India Chain'- India's largest block chain network, to reduce fraud, speed up contract enforcement and increase transparency in India. As Block chain is virtually un-hackable due to time stamps that mark a data entry in a distributed ledger, banks will explore options to leverage the power of block chain to transform backend operations.

Bitcoin: In India, the RBI hasn't yet authorised the use of bitcoins cautioning the users, holders and traders of bitcoins about the potential financial, operational, legal, customer protection and security related risks. Despite this, bitcoin exchange platforms like BTCX India, Coin secure, Uno coin and Zebpay are operating in India.

Augmented Reality: Today, AR mobile app has been launched by banks listing all dining destinations, property lists, shopping centres, bank ATMs and branches etc. with pictures along with distance and directions. It is majorly prevalent in the private banking sector as of now. Going forward, installation of Bluetooth beacons at bank branches will allow banks to integrate physical and mobile channels to provide effective communication.

Cloud and IOT Technology: It is the only technology that supports many other disruptive technologies such as big data, artificial intelligence (AI), and block chain. Banks have begun to realise the degree of agility it brings into business, a fact that has already been evident through the success of FinTech companies. As a result, business models for banks in the future are expected to give much greater emphasis to cloud computing. Banking innovations driven by technology, government regulations and private players are leading to greater financial inclusion, as everyone will get access to advanced banking services and a wide range of financial offerings. The aforementioned trends are sure to play a key role in banking transitions.

Highly technology dependent solutions also necessitate adoption of safety and security measures, which are best in class, on a continuous basis. In order to ensure better monitoring, it is important to have unfettered supervisory access to data stored with these system providers as also with their service providers/intermediaries/ third party vendors and other entities in the payment ecosystem. It has, therefore, been decided by the Reserve Bank of India that all system providers shall ensure that the entire data relating to payment systems operated by them are stored in a system only in India. Competition, technology, increased customer demand for comfort and convenience and regulatory initiatives have resulted in the introduction of several payment products and channels over the time and shall continue to do so.

SUGGESTIONS

The financial performance of banking sector always puts an impact on the performance of the economy. Hence, the stability of banking sector is vital for the growth of any economy. The growth of banks mainly depends on its conventional business services like deposits and loans. In order to grow and gain the faith of stakeholders, organizations should try to improve the long-term financial performance and create wealth for the customers and shareholders. Wealth creation is considered as imperative. The key to creating wealth is adding value. All financial success, especially business success, is based on adding value. Adding value by means of improved technology is the way that all fortunes are made.

CONCLUSION

Due to the nation's distinct geographic, social, and economic qualities, the Indian banking system is unique compared to its international counterparts. Despite the support of a strong financial system, it will be challenging to predict that the Indian banking system will remain relatively unaffected by the conditions of the global economy in the long run as well. Slow growth in the US and European economies is of great worry to the rest of the globe, particularly India. In addition, the Indian government's increased borrowing may cause the private credit market to dry up. As a result of tighter economic conditions, where borrowing costs are high and government support is constrained, banks will need to be very effective in operations in order to provide high returns to shareholders. Indian banks are currently faced with a number of difficulties, including the need to increase capital adequacy requirements, manage non-performing assets, improve branch sales and services, improve organisational design, use cutting-edge technology through new channels, and work towards lean operations.

In addition to this, regular adjustments in policy rates to preserve economic stability, numerous regulatory requirements, etc., are other significant issues. Despite these issues, it is anticipated that the Indian banking sector will continue to expand at a steady rate due to the country's enormous economic growth potential, large population, mobile banking (the provision of banking services via mobile devices), financial inclusion, rising disposable income, and other factors.

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