

A study on Financial Sector Reforms in Indian Banking sector

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Abstract—A nation's ability to function depends on its financial sector. It benefits both businesses and people. Only when the financial sector is solid can businesses operate with ease. They will receive financing and terms for repayment. People may invest and make deposits with ease. Both governmental and commercial financial sector organizations offer all of these services. Regular development and improvements in this area are therefore crucial. Financial reforms have made enormous change in every sector, banking is one among that. In the present scenario banking sector is a backbone of current business development of the country, mainly depends on the banking sector. Bank is a financial institution it is deals with deposits and advances and other money related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. According to the needs and demands of customers lost of reform has been brought in the banking sector. This study focuses on the to study the Indian banking sector and performance of Indian banks, to understand the technological developments in Indian banking sector, and to offer a suitable suggestion for the development of Indian banking sector. The study found that there were the banking system in India is dominated by nationalized banks. Online banking has made remarkable change in the impact in the financial sector.

It has created transformation in banking structure, business process; work culture and human resource development. It has affected the productivity, profitability and efficiency of the banks to a large extent. To make it more sustainable there will be a need of bringing technological advancement, which will meet the modern banking need of the customers.

Index Terms—Indian banking sector, technology, performance, E-banking, Efficiency.

I. INTRODUCTION

The banking industry is essential to the operation and growth of any given economy. When it comes to creating and carrying out financial policy, banks are indispensable in all economic systems. Finding competitive wages and stable employment can be greatly facilitated by working in finance. This is due to the fact that a lot of people ask financial experts for assistance in arranging and managing their finances. The banking sector is one of the most well-liked in the finance sector since banks offer useful services including managing credit, holding money, and assisting with financial transactions.



Functions of Banks

Savings and checking accounts, credit cards, business and mortgage loans, investment services, and electronic banking choices including online and mobile banking are just a few of the many financial services provided by Indian banks.

Below is a list of some of the main functions performed by banks:

- **Taking Deposits:** Banks offer a secure location where people and companies can store their money, which can then be taken out as needed.
- **Loans:** Banks provide credit to people and companies for a range of needs, including personal loans, business expansion, and house mortgages.
- **Payments and Settlements:** Banks facilitate transactions using a range of payment options,

including electronic transfers, debit/credit cards, and checks.

- **Currency Exchange:** A lot of banks let clients purchase, sell, or swap foreign currencies through their foreign exchange services.
- **Valuables Storage:** A few banks allow their clients to safely store important papers and goods in safe deposit boxes.
- **Investment Services:** To assist clients in increasing their wealth, banks also offer investment goods including stocks, bonds, and mutual funds.
- **Online Banking Services:** Customers may easily access their accounts, pay bills, and transfer money with the use of banks' online and mobile banking services.

1.1. The table below shows a few Commercial Banks in India.

Public Sector Banks	Private Sector Banks	Foreign Banks
State Bank of India	Karnataka bank	AB Bank ltd
Canara Bank	I.C.I.C.I Bank	National Australia Bank
Indian Bank	YES Bank	HSBC Bank
Bank of Baroda	Axis Bank	PT bank maybank Indonesia TBK
Central Bank of India	City Union Bank	Deutsche Bank
Union Bank of India	IDBI Bank	Westpac Banking & Kuwait BSC
Indian Overseas Bank	South Indian Bank	Sonali Bank Ltd
UCO Bank	Dhanalaxmi Bank	Bank of Nova Scotia
Bank of India	Kotak Mahindra bank	JSC VTB Bank
Punjab national Bank	Tamilnad Mercantile Bank	Woori Bank

Source: <https://groww.in/banking>

II. BANKING INNOVATIONS

Debit Card: A plastic card that can be used as an alternative to cash for making purchases is called a debit card. Since the money is taken straight out of the bank account or the remaining balance on the card, it functions similarly to an electronic check.

Credit Card- A credit card is a component of a payment system called after the little plastic card that system users are given. It is a credit card that gives its owner the ability to purchase goods and services on the condition that they guarantee to pay for them. The card issuer provides the consumer (or user) with a line of credit from which the user can borrow funds to cover purchases from merchants or to utilize as a cash advance.

Internet Banking- Banks offer this service so that customers can use the Internet to pay bills, check account information, and other things. Instead of going to a bank and speaking with a teller, you can do financial transactions online with internet banking. It refers, broadly speaking, to the direct transfer of money between accounts using electronic means as opposed to checks or cash.

Automated Teller Machines (ATMs)- ATMs are a common electronic banking channel. Using a plastic card with unique properties, it operates. Customers can use this computer-controlled device to check their balance and make withdrawals without the need for human intervention. ATMs can be found either outside (anywhere outside the branch premises) or inside the branch (inside the branch premises). The

banks furthered their penetration, and in 2015, there were 0.18 million ATMs worldwide. Nonetheless, the number of ATMs being added by both private and public sector banks decreased. During 2014–15, public sector banks had an increase of 16.7%, yet they still accounted for roughly 70% of all ATMs.

III. CHALLENGES

Obstacles in the Banking Industry Many people in developing nations like India, lack access to banking services because of their dispersed and fragmented locations. However, when it comes to consumers who use financial services, their expectations are growing because of the rise in service quality brought about by information technology and the fierce competition between the various banks' offerings. The amount of services offered has expanded and banks have placed more focus on matching consumer expectations since foreign banks began to participate in the Indian market. The banking industry in India has quickly changed and adapted to the new, cutthroat economic climate. The two main issues that banks are currently facing are strengthening their balance sheet and managing competitive pressures. The weight of NPAs is causing banks to sigh today. It is understandable that these tainted debts will undermine the banks' core operations if they are not repaid.

High transaction costs- The high transaction cost of holding non-performing assets on their books is a big worry for the banking sector. As a result of the expansion, banks' operational effectiveness was strained, and nonperforming assets (NPAs) grew in their loan portfolios.

Regulatory pressure- Banks must devote a significant portion of their discretionary budget on complying with regulations and developing the systems and procedures necessary to meet their ever-increasing demands.

Prompt technology advancement- Translation times have already decreased with electronic clearings, settlements, and transfers. In order to remain competitive, banks must adopt new technologies and enhance their offerings.

IT revolution- Indian banks are under extreme pressure to perform well because, in the absence of

such, their continued existence would be in jeopardy. With the banking system moving toward virtual banking, the use of IT and e-banking is becoming the norm.

Intense Competition- the RBI and Government of India kept banking industry open for the participants of private sector banks and foreign banks. The Indian banking sector was introduced to competition when, in accordance with the suggestions of the first Narasimham Committee, entry was deregulated and both domestic and foreign banks were allowed to expand their branch networks. Due to this lowered entry barriers many new players have entered the market such private banks, foreign banks, non banking finance companies, etc. The foreign banks and new private sector banks have spearhead the hi-tech revolution.

IV. SCOPE OF THE STUDY

This study is not confined to only Indian context, but also global aspects are also taken into consideration. What challenges are facing by Indian banks internally and externally and what are the variables or factors showing their importance or impact on Indian banking Sector?

V. STATEMENT OF THE PROBLEM

In the majority of global financial systems, banking institutions are essential. They are always in the forefront of generating revenue. It is common knowledge that banks produce money by lending (credit) and transaction deposits. Nonetheless, as credit and money are created, an increasing number of non-banking financial entities are challenging banks. As a democratic nation with several proclamations made possible by various Acts, we have observed some disparities in the expansion of the Indian banking sector when compared to other nations. In other words, we are lagging somewhat behind them, but we are also facing some new obstacles. In any case, the Indian economy is presently going through a normal phase. But the issues are not exclusive to it. Through the analysis and interpretation of these advancements, experts hope to identify problems for which the Indian banking industry has workable solutions.

VI. OBJECTIVES OF THE RESEARCH

1. To study the Indian banking sector and performance of Indian banks.
2. To present the technological developments in Indian banking sector.
3. To offer a suitable suggestion for the development of Indian banking sector.

VII. RESEARCH METHODOLOGY

7.1. RESEARCH DESIGN USED IN THE STUDY:

This study employs a descriptive research approach in order to minimize bias and maximize the dependability of the data gathered. A descriptive

study is predicated on prior knowledge of the subject; research has a very clear goal and precise data requirements. In order to critically evaluate the material provided, the researcher had to use fact and information already available through financial records from prior years. Thus, by designing the research, to be of both an analytical and descriptive character. The study determined what kind of data should be gathered and how to go about doing it.

7.2. Secondary Data:

Researcher collected the secondary data by various reports, journals, news articles, various bank portals, RBI portal and internet sources. using banks annual reports and authorized websites of banks.

VIII. MAJOR FINDINGS

8.1. The total number of digital payment transactions undertaken during the last five financial years and the current financial year are as under:

Financial Year (FY)	Total number of digital transactions (in crore) #
2017-18	2,071
2018-19	3,134
2019-20	4,572
2020-21	5,554
2021-22	8,840
2022-23	9,192*

Source: RBI, NPCI and banks and <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1897272>

The Indian government is dedicated to growing the country's digital economy, which would improve the standard of living for its people and the strength and quality of the financial sector. The number of digital payment transactions has expanded dramatically from 2,071 crore in FY 2017–18 to 8,840 crore in FY 2021–22 due to the concerted efforts of the government and all relevant stakeholders. (Source: RBI, NPCI and banks).

Over the past five years, a number of simple and practical digital payment methods, such as Immediate

Payment Service (IMPS), Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), and National Electronic Toll Collection (NETC), have experienced significant growth and revolutionized the digital payment ecosystem by boosting both P2P and P2M payments. As the favorite payment method for citizens, BHIM UPI recorded 803.6 crore digital payment transactions in January 2023, valued at ₹12.98 lakh crore.

8.2. The total value of digital payments during the last five financial year and in the current financial year are as under:

Financial Year (FY)	Total value of digital transactions (in lakh crore) #
2017-18	1,962
2018-19	2,482

2019-20	2,953
2020-21	3,000
2021-22	3,021
2022-23	2,050*

Source: RBI, NPCI and Banks and <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1897272>

The expansion of digital payments in India and the availability of several simple and practical digital payment options have made life easier for the populace and promoted financial inclusion, business and economic growth. Contactless digital payment options like BHIM-UPI made it easier for people to distance themselves from one another and for businesses, especially small ones, to continue operating throughout the pandemic. The benefits of using digital payments are as follows:

- **Fast and practical payment method:** Digital payment methods like IMPS and BHIM-UPI allow funds to be transferred to the beneficiary account quickly, in contrast to cash. Additionally, by utilizing the BHIM-UPI mode, a user can conduct a digital transaction through their phone by providing a virtual payment address (email-like address) or their cellphone number, which is easy to remember. Payments are now easier thanks to BHIM-UPI, which has made it possible to access various bank accounts with a single mobile app.
- **Enhanced financial inclusion:** Citizens can easily receive payments in their accounts and make payments using their phones thanks to digital payments, which provide anytime, anywhere access to accounts. Individuals who might have been put off by the time and expense of physically visiting a bank branch to conduct transactions can now easily access their bank account online and enjoy all the advantages of joining the official banking system and gaining financial inclusion. With the recent implementation of UPI 123PAY, feature phone users can now conduct digital transactions in assisted voice mode using UPI, promoting financial inclusion and digital transactions in rural regions.
- **Enhanced transparency in the government system:** In the past, cash payments were vulnerable to "leakage," or payments that did not reach the receiver in whole, and "ghost," or fraudulent, recipients, especially when it came to government transfers of social security benefits. Benefits are now sent via digital payment methods straight to the target beneficiary's account (direct benefit transfer).
- **Better speed and prompt delivery:** Whether the sender and recipient are in the same town, region, or nation, digital payments can be made very instantly, as opposed to cash payments, which move at the pace of their carrier.
- **The National Electronic Toll Collection (NETC) system uses radio frequency identification technology to allow customers to pay electronically at highway toll plazas that are enabled by the system without having to stop at the toll.**
- **Bharat Bill Payment System (BBPS):** Through a variety of channels, including Internet banking, mobile banking, mobile apps, BHIM-UPI, and others, Bharat Bill Payment System (BBPS) offers customers an easily accessible and interoperable bill payment solution. With BBPS, citizens may conveniently pay their bills at any time, from any location.
- **Improved Credit Access:** Digital payments, as opposed to cash payments, create a user's financial footprint instantly, which makes formal financial services—including credit—more accessible. Digital transaction histories can be used by banks and other lending institutions to make cashflow-based lending choices for both retail and business loans, particularly for small enterprises that might have trouble obtaining credit in the absence of verifiable cash flows.
- **Safe and secure:** Cash payment recipients are especially susceptible to theft in addition to frequently having to travel great distances to get their payments. India's digital payments are safe since they require several levels of authentication before being processed.

8.3. Kisan Credit Card (KCC) Scheme (Number in lakh, Amount in crore)

Financial Year	Number of Operative KCCs	Outstanding Crop Loan	Outstanding Term Loan	Outstanding Loan for Animal Husbandry and Fisheries	Total
2021-2022	268.70	4,33,408	29,306	13,559	4,76,541
2022-2023	282.96	4,61,391	37,551	19,694	5,18,918
Total	551.66	8,94,799	66,857	33,253	9,95,459

Source: Public sector banks, private sector banks and small finance banks (excluding RRBs).

The above table explains the importance of banking reaching the farmers community. In recent developments in the banking sector it has covered almost all the population categories. Farmers getting benefited a lot with kisan credit card.

8.4. Fraud Cases - Bank Group-wise (Amount in crore)

Bank Group/Institution	2020-21		2021-22		2022-23	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
Public Sector Banks	2,888	77,879	3,075	40,015	3,405	21,125
Private Sector Banks	3,705	45,515	5,332	17,387	8,932	8,727
Foreign Banks	519	3110	494	1,206	804	292

Source: RBI Supervisory Returns.

In the above table last three year data related to fraud cases happened. The number of fraud cases happened in public bank sector were less in number than the private bank sector. Whereas the amount which has been fraud in high in public bank sector. As we are achieving advancement in technology in banking sector the number of fraud or insecurity is increasing.

IX. SUGGESTIONS

- ✓ The Indian banking system need to simplify the banking knowledge so that common man can easily understand and follow.
- ✓ Need to develop a strong method to protect the financial transactions of the customers.
- ✓ Need to develop high security advancement in the banking sector.
- ✓ To promote future growth, make sure you are prioritizing the most productive relationships.
- ✓ To Maintaining transparent, honest interactions and offering simple and secure processes can go far in building your credibility with your customer base.
- ✓ Keeping your customers and members happy should be a key element of any growth strategy. Not only should you plan to expand your client

base, but you should also prioritize satisfying existing customers and members.

- ✓ Implementing innovative services that help make the customer and member experience better, e.g. virtual financial assistants, payment reminders, credit score monitoring, etc.
- ✓ Provide both types of experiences for the customer/member’s preferred financial institution experience
- ✓ Emphasizing a strong code of conduct that prioritizes transparency, honesty, and empathy for customers and members
- ✓ Continuously seeking feedback from your team in the form of surveys, suggestions, etc. to ensure that actionable changes can and do occur

X. CONCLUSION

The banking sector has played a crucial role in supporting the growth of the Indian economy and in promoting financial inclusion. The Indian Banking System has undergone significant evolution, starting from traditional banking practices to its current form, characterized by the presence of public sector banks, private sector banks, foreign banks, and regional rural banks. Despite facing several challenges, the sector’s

future prospects are positive, with several initiatives to enhance its growth and efficiency. The Indian Banking System has come a long way and is vital in supporting the Indian economy. Understanding its history and evolution is crucial in appreciating its significance and the efforts made to ensure its stability and growth.

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