Changing Face of Indian Banking Sector

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Abstract

Banks are the backbone of any nation. A continuous reform and implementation subsequently can keep this backbone in full functional mode. The proper circulation of money develops the opportunity of employment & innovations in a country. This paper is about Indian banking system, i.e., banking schemes launched recently, the problem of NPAs, IT revolution in Indian banking etc. to know the major changes going on in banking system of the country.

Key words: Indian Banking System, RBI, NPAs, Banking Schemes, Technology in Banking, e-Banking/digital banking etc.

Banks have not talked this much ever before. Banks play the crucial role in development of economy. Banks mobilizes the saving of the people & make them available for investment in productive enterprises. Basically role of banks are mobilising the saving for capital formation, granting loans to agriculture, trade & industry. Banks also provides loans for consumptive activities. This proper circulation of money develops the opportunity of employment & innovations in a country. This whole process needs fast communication & that's the technology which makes it possible. Definitely technology makes healthy relations between banks & its customer, it provide the wings to expectations & innovations and same time, try to move indian economy towards growth at the global platform.

Introduction of Indian Banking

The existence of banking systems in India dates right back to 1955 when Imperial Bank got renamed as State Bank of India. Since then Indian economy witnessed two liberalizations in 1960s (SBI was given power to control 8 state associated banks) and 1990s (licensed given to some Pvt. Banks) leads to the current banking structure which comprises of a primary governing body and further individual banking entities.
The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934 (rbi.org). The RBI plays an important part in the Development Strategy of the Government of India. It is a member bank of the Asian Clearing Union. The bank is also active in promoting financial inclusion policy and is a leading member of the Alliance for Financial Inclusion (AFI) (Wikipedia). RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It keeps the reserves of all commercial banks (Shaikh Saleem, 2015).

RBI is supreme authourity of all banks. On a broader basis from all banks the diffrentiation can be done as “Nationalised Banks” and “New Private Sector Banks”. According to report of IBEF(2017), the Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions(ibef.org).

**NPAs of Indian Banks**

Non Performing Assets are the most crucial concern for banks because it influence the profitability, credibility and liquidity of banks. In simple words, NPAs are the bad loan which may not be recover by banks. Public banks have more NPAs than private banks. Due to demonetization handsome amount of cash deposited in banks that may overcome the burden of NPAs. RBI announced various schemes to recover NPA still the total ‘NPAs from public & private sector banks were Rs 697,409 cr in Dec 2016. RBI’s Financial Stability Report (FSR) said, “the PSBs’ GNPA ratio may increase to 12.5% in march 2017 and then to 12.9% in March 2018 from 11.8% in Sept. 2016, which could increase further under
a severe stress scenario” (Financial Express, 2017)’. RBI said a total of 46.54 lakh cases to recover NPAs were filed in Lok Adalat, debt recovery tribunals and under the SARFAESI Act. Of this 44.56 lakh cases were taken up by Lok Adalats during fiscal March 2016 (George Mathew, 2017). Main causes behind NPAs of banks can be defaulter credit monitoring policy or inappropriate evaluation of credit proposals, absence of pre appraisal of projects and of course global economic crisis also influenced it in adverse manner. Bad loans should observed within the time and there limit should not extended or possibilities of any haircut can be removed by selling the inventory or assets of payer if delay prevailing from a long period. D. S. Rawat (Secretary General Assocham) says NPAs are the indicator of the health of the banking industry (Samarth, 2016). Decreasing NPAs of banks showing its strong credit management process or vice-versa.

**Changing Face of Banking**

1. **New Developments in RBI’s**

RBI is responsible for licensing of banks & branches and it also regulates the credit limit of state co-operative banks for financing SSI units.

In 2014, RBI has given license to two new banks as universal bank i.e., Bandhan Bank & IDFC. RBI also granted license to 21 payment banks. 11 licenses issued as payments banks (Aditya Birla Nuvo, Fino Pay Tech, National Securities Depository, Reliance Industries, Dilip Shantilal Shanghvi, Tech Mahindra, Vodafone M-pesa, Airtel M Commerce, Department of Posts, Vijay Shekhar Sharma Cholamandalam Distribution). On August 19, 2015 after this on 16 September 2015 license given to 10 small finance banks (AU Financiers, Suryoday Micro Finance, Capital Local Area Bank, Dish Microfin, Equitas Holdings, ESAF Microfinance and Investments, Ujjivan Financial Services, Janalakshmi Financial Services, Utkarsh Micro Finance, RGVN (North East) Microfinance). A total 23 licenses given to new banks under RBI Governor Raghuram Rajan. RBI new Governor Urjit R Patel because he has to ensure the cleanup of bad loans or NPAs, proper regulation of digital banking specially in the time when Govt. prefers the less cash policy (Gaurav Choudhury, 2016). Banks start to launch their own apps or digital wallet for online transaction and of course implementation of GST & political pressure may also influence their working.

2. **Banking schemes launched by PM**

In India there are many people who don’t access the banking services, due to living in rural area & interior parts or illiteracy. To come over this situation PM Modi launched many schemes. It’s a way through which saving from unorganised sector can take place. Some of them are -

1) **PM Jan- Dhan Yojana** - It’s a nationwidescheme launched on 28 aug 2014. In this any individual in any bank can open an account at zero balance. At the end of april 2017 total deposits were crossed 64000 crore under PMJDY (pmjdy.in).

2) **PM Mudra Kosh Yojana** - This is a scheme to provide loans to small business and micro institutions. There are three categories 1) shishu- loan alloted up to Rs 50,000 2) loan ranging from Rs50 thousand to Rs 5 lakh and 3) Rs 5 lakh to Rs 10 lakh are alloted to beneficiaries. During FY2016-17 total PMMY loan sanctioned 3,97,01,047 and sanctioned amt was Rs 1,80,528.54 crore but it doesnot reach at target, Rs 1,75,312.13 crore disbursed in this year (mudra.org).

3) **Sukanya Samriddhi Yojana** - This is a girl child prosperity scheme, it’s a small deposit investment for 14 year. Minimum deposits is Rs.1000 & maximum limit is 1,50,000 per year. The interest rate for SSA is set to be 8.4% (ssay.in).

4) **Atal Pension Yojana** - APY is a pension benefit with minimum contribution per month. Specially for the people working in unorganised sector. Candidate within 18-40 yr can contribute to this scheme. they can opt pention after attaining the age of 60. Govt. contributes 50% of the users contribution for initial 5yr (pradhanmantriyojana.co.in).
5) PM Jeevan Jyoti Bima Yojana- this insurance plan covers Rs 2 lakh at the premium of Rs 330 per year (pradhanmantriyojana.in).

6) Direct benefit transfer of LPG (DBTL) or PAHAL- This scheme was launched on june1,2013 and finally covered 291 districts(vikaspedia.in) with the aim to benefit citizen of India. Subsidies are transferred to beneficiaries directly through their bank. People who doesnot have bank accounts, cant avail the scheme.

3. The Information Technology Revolution in Indian Banking-

Digitalisation or IT give a drastic or revolutionary change to working pattern of banking. The number of credit and debit cards in India is steadily rising but Indians still prefer debit cards over credit cards. Cashless payments in Oct 2016 increased 22%, when compared to Oct 2015. Consumers used the Unified Payments Interface, or UPI, the mobile payments platform, released in August 2016, for 300,000 transactions amounting to Rs 90 crore in November 2016. The number grew to 1.4 million transactions, worth Rs 480 crore, till December 25, 2016 (Abhishek Waghmare, 2016).

As per RBI report till March 2017 there are 29.84 million credit cards & 854.87 million debit cards in operation. Table showing data on transaction of these cards (rbi.org.in).

<table>
<thead>
<tr>
<th>Transaction Through cards as at the end of month (March 2017)</th>
<th>No. of outstanding cards as at March, 2017</th>
<th>No. of Transaction</th>
<th>Amt of Transaction (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit cards</td>
<td>854.87 million</td>
<td>ATM 710108656</td>
<td>2259457.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>POS 271172292</td>
<td>356991.3</td>
</tr>
<tr>
<td>Credit cards</td>
<td>29.84 million</td>
<td>ATM 489248</td>
<td>2291.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>POS 107610258</td>
<td>333904.9</td>
</tr>
</tbody>
</table>

Source: rbi.org.in
(ATM – Automated Teller Machine, POS-Point of Sale)

This positive change in Banking influence indian economy towards growth & prosper. The concept of digital wallet also gives an additional advantage. Digital wallet (like paytm, mobikwik, payUmoney, pockets from ICICI, oxigen walletetc.) and mobile apps of different banks, makes faster & easier to transact, pay bills, ticket booking, online shopping etc. Indian young population showing their interest in digital payment still it will take some time in fully adoption. ‘According to a Google-BCG report, digital payments industry in India will grow 10 times to $500 billion by 2020 and contribute 15% of GDP. Further, the report predicts that non-cash transactions will surpass cash transactions in the Indian economy by 2023. Yet another report from BCG says that about 315 million people in rural India (or 48% of total online population) will be connected to the internet by 2020’ (Sagar Sharma, 2016).

Recently RBI starts to give licence to non bank entities to open ATM without the sponsor bank logo. It’s a White ATM facility. Sponsor bank provides cash to these white ATMs. Any customer from any bank can withdraw money from white ATM with nominal fee charge. First white ATM in india is indicash by tata group & 14 other like AGS etc. These changes surely affect customer’s preferences, their expectations are rising and they demand more, ICICI recognize it and ‘launches India’s first contactless mobile payment solution’ (icicibank.com).

Banks are trying to satisfy customers’ need through providing better services & huge product range. After demonetisation when the question of cash shortage keeps spinning in Indian people’ mind; on that time e wallet companies found an opportunity to attract cashless transaction and quickly spread their market to capture space in smartphones. Paytm is the existing popular indian e-wallet brand that already captured larger market share. Paytm has 150 million users. It added five million new users (after demonetization) and registered over seven million transactions worth ₹120 crore everyday (Rozelle Laha, 2017). Paytm, Mobiwik, freecharge, PayU Money, ICICI Pockets, HDFC Chiller, State Bank Buddy(launched by state bank of India), BHIM (Govt promoted mobile wallet) etc are also get popularity with the time and various apps & e-wallets launched by different banks to beat the inconvinions of customers.
With the rapid growth of e-banking or online transaction cyber fraud or crime also increasing, to strengthen cyber security RBI decide to set up an inter-disciplinary panel to examine various threats & suggest measures to deal with it.

4. P2P lending
Peer to peer lending refers to unsecured lending from online platform without the involvement of a bank or any financial institution. It simply brings lender and borrowers together on a common online platform so here they can transact with each other. Presently about 30 P2P startups working in India and it is highly unregulated (wikipedia). P2P lending market is projected to grow at a CAGR (compound annual growth rate) of 51.5% from 2016 to 2022, to reach $ 460312 million by 2022 (Shoaib 2017).

5. Consolidation of banks
To become competitive globally banks adopting the path of consolidation. Consolidation is a way to gain careful advantage of scale & scope, value maximization, diversification etc. Less large banks with sound financial & credit policies are better than more small banks with NPAs. On 1April 2017 SBI merged 5of its Association(State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore) & Bhartiya Mahila Bank with itself. With this large scale consolidation SBI will enter the league of Top50 Global Banks with a balance sheet size of ₹33 trillion, 278,000 employees, 420 million customers, and more than 24,000 branches and 59,000 ATMs. SBI's market share will increase to 22 percent from 17 per cent.It has 198 offices in 37 countries.(sbi.co.in)

6. Demonetization
Demonetization of high value currency gives a drastic change to Indian banking & economy. This was implemented on 8 Nov with the aim to catch the black money. There is two sides of coin, after demonetization fluctuation in limit of cash deposits & withdrawl increased the banks work load and people had to bear inconviennce due to inadequate supply of cash. People from rural area are not as much literate to use plastic money or even don’t have bank account. Another side people’ interest is generating towards e-wallet, card payment or e-banking/ banking apps for transactions due to shortage of paper currency. More bank accounts were opened & the cash which was idle in wardrobes was deposited in accounts. After demonetization govt advised bank to deploy 2 lakh Micro ATMs to deal with cash shortage (Bindisha Sarag, 2016). This is a challenging phase for network companies & financial institution to provide a secure channel for safe & on time transaction.

7. Development of Payment Banks in India
Concept of Payment bank become popular in current scenario, it’s the impact of digitalisation that public prefering online mode for their transactions. RBI grants approval or license after fulfil all conditions given in guidelines that stipulated by RBI. Payment bank is a total digital process of banking, its an effort to reach customer through their mobiles (specially in rural areas) where people don’t have bank accounts. Airtel Payment Bank is first, Paytm Bank is second & India Post Payments Bank is third group that launched in India & receive permit from RBI. ‘Airtel Payment Bank provides upto 7.25% interest on deposits, Paytm give 4% and India Post Payments Bank offers 5.5% interest to its account holders’ (Hiral Thanawala, 2017). Its deposit limit is also upto 1 lakh that is quite rational & comfortable amount. Current & savings account can be opened under payment banks and customer receives interest on their deposits. Payment bank can issue ATMs, debit card, cheque book but payment banks can not issue credit cards & loans (Gopal Sathe, 2015). However payment banks offers many good things to its customer still it can not replace traditional commercial banks, due to its certain limitation of credit & loan facility, deposit limitations, limited ATMs & branches etc.
8. GST implication on Banking Sector

GST (Good and Service Tax) will be apply from 1july in all over India, it replaces all indirect taxes, means only single tax will be payble for all goods & services. According to IBA (Indian Bank Association) banks are still not fully prepare for GST. The complication may be due to 1) vast geographical reach of banks and 2) higher GST rates. To pay tax firms need to register under CGST (Central GST) or SGST (State GST) and may be Integrated GST. Banks have various branches in different states. Bank may need to obtain statewise registration in every state where its branch exists. Most banks have obtained a centralised registration under service tax. With use of netbanking account holder use bank services or do transaction from different places so its services have vast range. So consumption of services & provider belongs to different areas. It may be complicated to register all records. GST should provide a clear, simple & easy schedule to avoid wrong payment under CGST, SGST or IGST. Whole work procedure is based on IT so it will have more trasparency and clearence. GST service tax is 18%, that is higher from current rate so banking services like issue of DD, checkbook etc. may expansive (Pritam Mahure, 2017).

Conclusion

Indian banking gradually become more mature in its product range and public dealing from last 10 years. Banks now providing CMS (Cash Management Services) to organisations with collection & payment products for managing, planning & optimising the cash flow, it also ensures the investment of surplus cash. Bnks which offers CMS are ICICI, HDFC,BOI, UBI etc. Pvt.or foreign banks are trying to enter in rural market with good facilities to attract rural population. Still its a challenge for them to enter in rural area. Banks are trying to reach in rural area through Micro ATMs & Banking Correspondents. Banks are adopting the strategy of merger & acquisition to face the upcoming challenges. ICICI Bank Ltd. merged with the Bank of Rajasthan Ltd. in order to increase its reach in rural market and market share significantly. ING Vayasa bank merged in Kotak Mahindra Bank in April 2015. Coca-Cola tied up with SBI to enhance digital transaction (businessstoday.in). State Bank of India (SBI) is in the process of acquiring its associates. Although Indian banks have more clean, strong & transparent balance sheet as compare to other banks. But still it can not be deny from that Indian banking need more liquidity to overcome non performing assets, even though indian economy & banking showing its stable image to global market and becomes a better place to invest. To maintain the compatibility between indian market & globalization regular innovation, upgradation & maintanance of services and technology  is required.

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