



IMPACT OF DEVELOPMENT OF BANKING SECTOR

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Introduction

Around the globe, various initiatives use the mobile phone to provide financial services to those without access to traditional banks. Yet relatively little scholarly research explores the use of these m banking, m-payments systems. This paper calls attention to this gap in the research literature, emphasizing the need for research focusing on the context(s) of m-banking m-payments use. Presenting illustrative data from exploratory work with small enterprises in urban India, it argues that contextual research is a critical input to effective “adoption” or “impact” research. Further, it suggests that the challenges of linking studies of use to those of adoption and impact reflect established dynamics within the Information and Communication Technologies and Development (ICTD) research community.

The spread of mobile phones across the developing world is one of the most remarkable technology stories of the past decade. Buoyed by prepay cards and inexpensive handsets, hundreds of millions of first-time telephone owners have made voice calls and text messages part of their daily lives. However, many of these same new mobile users live in informal and/or cash economies, without access to financial

services that others take for granted. Indeed, across the developing world, there are probably more people with mobile handsets than with bank accounts. Various initiatives use mobile phones to provide financial services to “the unbanked.”

Market Size

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. Banks are also encouraging their customers to manage their finances using mobile phones.

ICRA estimates that credit growth in India’s banking sector would be at 7-8 per cent in FY 2017-18.

Investments / developments. Mastering the new realities of India’s banking sector

India’s banking sector is a study in contrasts: it supports the world’s fastest-growing large economy but is grappling with challenges that test its strength and resilience.



Primary among them is the burden of distressed loans. According to Reserve Bank of India (RBI) data, the value of banks' gross nonperforming assets (GNPA) and restructured assets reached \$150 billion in April 2016 and has been growing by almost 25 percent year on year since 2013. State-owned banks account for more than three-fourths of the stressed-asset load, which is now far higher than their net worth. Provision levels are inadequate because these banks hold only 28 percent of GNPA's and restructured assets as provisions. There is a gap of close to \$110 billion between the system's stressed assets and the provisions made. These problems are considerably less severe for private banks.

Yet headline numbers do not tell the entire story, and there are many layers to the changing face of banking and finance in the world's second most populous country. Even as legacy banks continue to be under pressure from stressed assets and stagnant loan growth, the sector as a whole represents one of the world's biggest opportunities to create value in banking. Macroeconomic fundamentals continue to be strong, the country is in the midst of a digital revolution, and the ongoing disruptive changes (including momentum on the regulatory front) point to possibilities for both new entrants and incumbent banks.

In addition to the push for digitization, new policies favor financial inclusion and promote competition by allowing new domestic players to set up payments banks (which can only accept deposits and cannot issue loans or credit cards) and small-finance banks (which provide basic banking services to

underserved sections of the economy). The further easing of norms, such as permission to set up wholly owned subsidiaries, makes it easier for foreign banks to enter India's banking sector. Although processes are evolving, regulatory interventions point to the emergence of a digital, inclusive, and interoperable financial-services market in India.

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

- International Finance Corp, (IFC), a member of the World Bank Group, has invested Rs 130 crore (US\$ 20 million) in, Avas Financiers Ltd, which will provide housing loans to low-income consumers in rural and semi-urban areas of India.
- The Reserve Bank of India (RBI) has proposed to allow banks to invest in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) which is expected to benefit both real estate and banking sector in diversifying investor base and investment avenues respectively.
- The Canada Pension Plan Investment Board (CPPIB) and the Caisse de Depot Quebec (CDPQ) have acquired a 1.5 per cent stake in Kotak Mahindra Bank from Mr Uday Kotak, Executive vice-chairman and Managing director, Kotak Mahindra Bank, for a total consideration of Rs 2,254 crore (US\$ 350.0 million).
- Fullerton India Credit Co Ltd, a non-banking finance company (NBFC), has raised Rs 500 crore (US\$ 75 million) through masala



bonds, to support its onward lending and other financing activities.

- The Insurance Regulatory and Development Authority of India (IRDA) has allowed insurers to invest up to 10 per cent in additional tier 1 (AT1) bonds, that are issued by banks to augment their tier 1 capital, in order to expand the pool of eligible investors for the banks.
- Qatar's Doha Bank plans to apply to the Qatar Central Bank and Reserve Bank of India for permission to establish a local subsidiary in India, with the vision to create a retail branch network in India.
- Fairfax Financial Holdings, a Canada-based financial services firm, has received an approval from the RBI to acquire a majority 51 per cent stake in Kerala-based Catholic Syrian Bank for Rs 1,000 crore (US\$ 150 million), which will be the first takeover of an Indian bank by a non-banking financial entity, after RBI tweaked ownership norms.
- India Post has received the final license from RBI to start its payment bank operations, thus becoming the third entity in India after Bharti Airtel and Paytm to receive payment bank license from RBI.
- Microfinance firm Ujjivan Financial Services Ltd has announced starting of banking services across its branches under the name of Ujjivan Small Finance Bank Ltd, thus becoming the largest among five small banks which are

scheduled to start their operations or have already started.

Government Initiatives

- Under Pradhan Mantri Jan Dhan Yojana (PMJDY), the total number of accounts opened since January 2015 increased 135 per cent to 295.2 million as of August 16, 2017.
- Mr Arun Jaitley, Minister of Finance, Government of India, introduced 'The Banking Regulation (Amendment) Bill, 2017', which will replace the Banking Regulation (Amendment) Ordinance, 2017, to allow the Reserve Bank of India (RBI) to guide banks for resolving the problems of stressed assets.
- Finance Minister Mr Arun Jaitley has proposed various measures to quicken India's transition to a cashless economy, including a ban on cash transactions over Rs 200,000 (US\$ 3,100), tax incentives for creation of a cashless infrastructure, promoting greater usage of non-cash modes of payments, and making Aadhaar-based payments more widespread.
- The Government of India has announced demonetisation of high denomination bank notes of Rs 1000 and Rs 500, with effect from November 08, 2016, in order to eliminate black money and the growing menace of fake Indian currency notes, thereby creating opportunities for improvement in economic growth.



- The RBI has cut its key repo rate by 25 basis points to 6.25 per cent, in order to boost growth as according to RBI, the inflation momentum has moderated because of a normal monsoon.

The government and the regulator have undertaken several measures to strengthen the Indian banking sector.

- Government of India has decided to amend Section 35 A of the Banking Regulation Act that will allow the Reserve Bank of India (RBI) to direct banks for the recovery of non-performing assets (NPAs)
- The Reserve Bank of India (RBI) has proactively instructed banks to increase their levels of provision on the loans provided to the telecom sector as a prudent measure, which will help to shore up provisions for future recognition of any non-performing assets arising out of the sector.
- The RBI has allowed banks in India to raise funds through issuance of rupee-denominated bonds overseas, also called masala bonds, within the current limit of Rs 2,44,323 crore (US\$ 36.6 billion) set for foreign investment in corporate bonds.
- The Ministry of Labour and Employment has successfully opened around 3,840,863 bank accounts as on December 26, 2016, for workers especially in the unorganised sector, as part of its campaign to promote and ensure cashless transfer of wages to workers.
- The National Bank for Agriculture and Rural Development (NABARD) plans to provide around 200,000 point-of-sale (PoS) machines in 100,000 villages and distribute RuPay cards to over 34 million farmers across India, to enable farmers to undertake cashless transactions.
- The Government of India's indigenous digital payments application, BHIM (Bharat Interface for Money), has recorded 18 million downloads since its launch on December 30, 2016, according to Mr Amitabh Kant, Chief Executive Officer, NITI Aayog.
- The Ministry of Finance has lowered the threshold for making electronic payments to suppliers, contractors or institutions from Rs 10,000 (US\$ 150) to Rs 5,000 (US\$ 75), in order to attain the goal of complete digitisation of government payments.

Road Ahead

Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure,

in order to enhance the customer's overall experience as well as give banks a competitive edge.

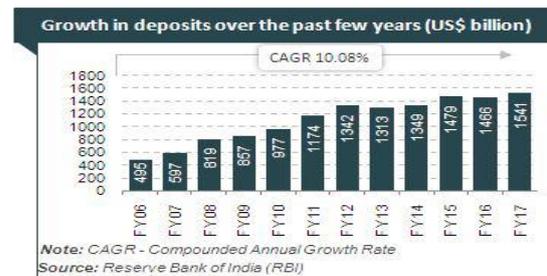
Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market shortly. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe. Mr Bill Gates, Co-founder of Microsoft Corp, has stated that India will move quite rapidly to a digital payments economy in as little as seven years, based on the introduction of digital payment banks combined with other things like direct benefit transfers, universal payments interface and Aadhaar.

Exchange Rate Used: INR 1 = US\$ 0.015 as of October 06, 2017.

Growth in Banking Sector Deposits (Latest update: November, 2017)

- During FY 06–17, deposits grew at a CAGR of 12.03 per cent and reached 1.54 trillion by FY17.
- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Access to banking system has also improved over the years due to persistent government efforts to promote banking-technology and promote expansion in unbanked and non-metropolitan regions.
- At the same time India's banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years.
- Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY), have also increased. As on November 9, 2016,

US\$ 6,971.68 million were deposited, while 255.1 million accounts were opened



Why learn more about our Financial Services Practice?

The expansion and upward mobility of the middle class have transformed retail banking in India over the past decade. We expect these changes to continue as about 89 million households join this social segment by 2025. Upwardly mobile customers are more discerning, which is reflected in loyalty levels. Compared with their predecessors a decade ago, such consumers are half as likely to recommend a financial institution to an acquaintance and 15 percent more likely to shop around. They also have nearly 20 percent more banking relationships, on average.

At the same time, a regulatory push by the government and the RBI over the past few years is encouraging more competition and the emergence of digital business models. New categories of banking licenses have been launched—such as payments banks and small-finance banks. It's also become easier for foreign players to enter the market, since they can now set up wholly owned subsidiaries in the country. This means that they can operate much as Indian-owned banks do, without restrictions on their branch footprints or their efforts to raise domestic capital.



Conclusion:-

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system. The Government of India has introduced several reforms to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for Micro and Small Enterprises, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by both government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

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