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Financial Liberalization and Institutional Transformation in India: Assessing the Performance of the Banking Sector.

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Abstract

Financial liberalization has been a force in changing the banking industry in India since the start of economic reforms in 1991. The reforms were made to improve stability how well banks operate, competition and how resources are used. Some of the changes were removing rules on interest rates better rules for banks needing more money to be ready for risks more private companies involved, better checking of banks and digital financial services. The current study looks at the connection between changes in how institutions work, financial liberalization and how the banking business in India has developed. It is a study that describes and analyzes using information from books, official reports and publications from the Reserve Bank of India (RBI). The measures for success in banking are the quality of assets, capital, how much money is made how much loans grow, how well banks operate and if more people have access to financial services. According to numbers the amount of capital compared to risky assets for scheduled commercial banks was 17.4% at the end of March 2025. The total bad loans ratio went down to 2.2%. These improvements show progress in parts of the financial system.. Problems like higher credit risks, attacks on computers not everyone having access to financial services and weak management still are big challenges. The report says that financial liberalization can be reached through banking practices, careful use of technology, responsible management and good rules. It ends by saying that long-term growth of institutions needs a balance between keeping stability being responsible to society and making money.

Keywords: liberalization, institutional transformation, banking-sector reforms, banking performance, financial stability, Reserve Bank of India financial inclusion, India.

1 Introduction

Financial liberalization is when the system makes things more efficient, competitive and uses the market to decide where money goes by getting rid of many rules for financial institutions and markets. All these things are affected: how financial markets work, who owns things how much money is needed rules for banks how loans are given and how interest rates are set. Financial liberalization is one of the parts of the economic changes in India in 1991. Before this the Indian banking system was very controlled. Rules about how much money must be kept, set interest rates limits on competition and loans that were given in a way affected

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how banks worked. These rules helped planned growth and the growth of banking services.. They also caused worries about how loans were given how well banks worked how much money they made and if they followed rules.

The financial crisis in 1991 made changes needed. The Committee on the Financial System led by M. Narasimham suggested steps to make sure there was checking make banks more efficient and make the financial sector more competitive. Better ways of seeing profits and how to sort out assets rules about having money more freedom to work and better rules were added in later changes. Financial liberalization then happened in steps. Public-sector banks were. Made better with technology but more competition came with the growth of private-sector banks. Financial institutions created computer banking systems, ways to manage better ways to deal with risks.

In years the range of changes in institutions has widened with digital banking, electronic payments, efforts to help more people use financial services and better ways to deal with loans that are not paid back. The Reserve Bank of India (RBI) has been very involved in this including rules, checking, money plans and work to keep the system safe.

The way Indian banks are doing gives a view of the results of these changes. The total bad loans (GNPA) ratio for scheduled banks was 2.2% at the end of March 2025 and their capital compared to risky assets (CRAR) was 17.4% (RBI, 2025a). While these numbers show quality of assets and more money to use they do not by themselves show that liberalization caused these results.

This paper looks at the changes in the banking sector. Checks how it is doing in the background of India's financial changes.

2. Objectives of the study:

Objectives of the Study are as follows:

- To check how much liberalization and banking changes have happened in India since 1991
- To look at changes in how banks are run how they are managed how they compete and how they are checked.
- To check how well the banking sector is doing in terms of the quality of its assets money to use how much money it makes and how much loans grow.
- To look at the role of RBI and other groups in helping banks stay safe.
- To find the problems that stop institutions from working after liberalization.
- To suggest ways to make banking better help more people use services and make institutions stronger for the long term.

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3. Methodological Approach

3.1 Research design

The study uses a way of looking at things and analyzing them. It gives a history of bank changes and a look at numbers that show how well they are doing. This way helps explain the link between how institutions grew and how the banking sector is doing.

3.2 Data sources

The current study uses information from RBI reports the Report on Trend and Progress of Banking in India Financial Stability Reports, government publications, committee reports on banking, books and articles from experts. The theory comes from writing and changes in how banks do business are talked about using official numbers.

3.3 Study period

The time period from 1991 to 2025 is covered, including when economic changes started and what happened after. The way banks did in the year 2024–2025 is very important.

3.4 Performance indicators

How well a bank is doing is measured by the total bad loans how much money is ready for risks how much money is made how much money is made from assets how much loans grow how much money is saved and how well the bank works. Institutional factors include changes in rules how things are managed, checks, using technology and helping more people use services.

3.5 Analysis method

The study uses ways to explain, look at history understand trends and look at papers. When the same kind of data is available it is possible to compare public sector banks with sector banks. The numbers from banks are looked at in the picture of changes.

The paper does not say it did surveys or tested using numbers. The results do not show causes but rather show the links between changes and what is seen. Limitations include dates for reports what is happening in the economy and who is in the institutions.

Discussion

4.1 Banking sector reforms and financial liberalization

The 1991 changes changed the way Indian banks work. The old ways were based on rules and loans given in a way while the new changes were more about rules to be safe how well they work and checking for risks.

The Narasimham Committee said there should be checking, better ways to keep track of money more competition and rules about having enough money. The coming in and growing of banks brought new ways to serve customers use technology make new products and run better.

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These changes did not stop the government and the RBI from being involved. Instead clear reports, checking and ways to find problems became more important with banks working on their own. So financial liberalization should not be looked at just less government control but as a change in how markets and institutions work together. The success of changes will depend on how institutions can handle competition and stay responsible with money.

4.2 Institutional Transformation and the Role of the RBI

The RBI has a job to keep the financial system safe through rules and checking banks controlling payments and other plans. Checking systems help find problems while rules and money needed help banks have money to use.

There are things that affect how well an institution works besides the rules. Banks need ways to manage their own work make sure rules are used and have leaders who are responsible for decisions on loans and managing risks.

The way the system works is also decided by the government, bank leaders, auditors and how to deal with loans that are not paid back. These groups must work together to follow rules and handle problems well.

The RBI's Annual Report 2024–25 says that managing risks, using technology checking well keeping safe from attacks finding fraud and protecting customers are the goals (RBI, 2025b). This means that changes in how institutions work is a never-ending process of changing to products how to run a business and new problems.

4.3 Quality of Assets and Non-Performing Assets

How good the assets are is important for checking loans keeping track of them getting the money back and how the company is managed. More money is set aside. There is less money made from interest. Bad loans mean less money is available to give out loans.

The Indian financial system had loans that were not being paid back in the past. Efforts to get the money back give money to public banks improve how loans are checked and how bad loans are seen made the start of a better way to manage the quality of assets.

The total bad loans for commercial banks was 2.2% at the end of March 2025 according to the RBIs report. The net bad loans ratio also went down to 0.5 per cent (RBI, 2025a).

This matches with fixing loans that were not paid back and better ways to manage the quality of assets. However these numbers need to be looked at with how much money's lost how much is found how many new loans become bad and how much new loans are given. A bad loan number on its own does not mean all groups of borrowers or all banks are doing better.

The numbers show the need for lending, good ways to get money back clear reports and good ways to check loans to make sure banks do well.

4.4 Capital Adequacy and Institutional Strength

Having money is a way to check if a bank can handle losses from the money it is at risk for. It is therefore a way to check if the bank can handle tough times.

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Changes in how much money's needed made the rules for banks better. Banks must have money to handle unexpected problems and stay in business when times are hard.

The capital compared to assets for scheduled commercial banks was 17.4% at the end of March 2025 (RBI, 2025a). This means the banking system has a lot of money to use.

But you also have to look at how strong the money's with how much money is available the quality of assets how things are managed and where the risks are. Strong money cannot fix loan choices weak ways to manage or ongoing problems, with how the bank works.

How strong institutions are depends on having the right amount of money checking well smart ways to manage risks and leaders who are responsible. Keeping an eye on things is important to make sure that having money stays the same as more loans are made and financial risks change.

4.5 Operational Efficiency, Competition and Profitability

Financial deregulation made the competition higher. Banks needed to improve their productivity, customer service, operating systems and product development. Private-sector banks helped create technology-based business models while public-sector banks updated their operations and made more digital services available.

According to the RBI's banking-sector report 2024–25 (RBI, 2025a) scheduled commercial banks had a return on equity of 13.5%. Return on assets of 1.4% in the fiscal year. These numbers show that profit in the sector was still good.

Profit can be affected by many things like interest rates, types of loans, provisions, cost of money and the overall economy. This is not the way to measure how well an institution is working.

An evaluation should be complete. Include operating costs, customer satisfaction, risk-adjusted returns, service reliability and the ability to lend to profitable industries. Public sector banks work in an area where commercial goals and development goalsre both important. When looking at their success their financial health and their role in economic growth should be considered.

4.6 Digital Transformation and Financial Inclusion

One big change in institutions is transformation. Core banking systems, mobile banking, internet banking and electronic payment systems have changed the way people get services and the way banks handle transactions.

Digital services can make transactions faster make it easier for people serve those who live away and help with better money management. Digital systems can also help with information for monitoring and making decisions.

Digital changes also bring new responsibilities. Data protection, operations, cyber security, digital fraud and handling complaints are more important in banking control.

Financial inclusion is more than making accounts and giving digital payment tools. People want services that're easy to afford, reliable, clear and within their budget. Things like internet access, tech skills, language and trust can stop people from getting involved.

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Financial inclusion and giving loans support for farming and small businesses are still important according to the RBI's Annual Report 2024–25 (RBI, 2025b). The RBI also said that its Financial Inclusion Index was 64.2 in March 2024 up 6.8% from the time last year (RBI, 2025b). These steps show progress in access and use. The quality and lasting nature of financial inclusion still need more checking.

4.7 Ongoing Challenges

Even though there have been improvements Indian banks still deal with several problems. New problem loans can happen because of much exposure in some areas bad loan checks and problems with management. Fast loan growth needs risk checking but cyber attacks and digital fraud can make customers lose confidence.

Performance can also be different between banks because of differences in technology, management skills and trained workers. Small businesses and people in areas may still have trouble getting good banking services.

These problems show that liberalization is a process.. Continued changes in rules, better management, strong internal control and careful innovation are still important to keep the organization strong.

5.Findings

The study finds the following after looking at changes and government information about the banking sector:

- Institutional changes: Rules about safety, capital standards and how to regulate have made a better system for Indian banks.
- Better quality of assets: The gross NPA ratio for scheduled banks dropped to 2.2% by the end of March 2025 showing a big improvement in asset quality.
- Strong capital: Scheduled commercial banks had money reserves with a CRAR of 17.4% as of the end of March 2025.
- Good profit: The return on assets of 1.4%. Return on equity of 13.5% for 2024-25 show that the banking industry was making good money.
- Competition and technology: Liberalization made things more competitive and modern and digital banking made financial services reach more people and work better.
- Risks: Cyber security, management, loan risks and unequal access to financial services are still big problems.
- The need for performance: Along with being financially strong and making money, access, cost, customer protection and fair loans should be measured.
- Need for research: Evidence shows things in the banking sector have changed but more detailed studies are needed to see what changes are due to liberalization and not other things.

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6. Conclusion

Since 1991 the Indian banking industry has changed a lot because of changes. Rules about safety, capital standards, competition, control and technology have all changed, which changed the banks and how they work with people and the economy.

The official data in this article shows that profit, money strength and quality of assets have improved. The banking industry seems to have ability to handle money risks as seen from the falling NPA rate and big money reserves.. These results should be looked at in the bigger picture of the economy, rules and changes in how loans are given.

The study says that financial changes shouldn't just be judged by money results. Long-term success needs: Being responsible protecting customers smart digital steps and real financial inclusion.

There needs to be a balance between rules and competition for the future of Indian banking. Banks need to be strong but also help make good investments and fair economic growth. More studies with long-term banking data, similar performance measures and proper ways to look at data are needed to understand the link between financial changes and banking efficiency how strong banks are and fair growth.

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