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INDIAN BANKING SYSTEM AND ECONOMIC DEVELOPMENT: AN ANALYTICAL STUDY

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ABSTRACT

In its capacity as the central authority, the Reserve Bank of India is responsible for overseeing a wide variety of financial institutions. These institutions include those in the public and private sectors, as well as those in rural and regional areas, and cooperative banks. The banking industry has seen a tremendous diversification and expansion that has never been seen before, which is unusual in the framework of its historical setting. Bank assets make up more than 80 percent of the total assets held by the financial sector in the majority of developing nations, which is a far higher proportion than what is observed in industrialised economies. Nearly two-thirds of the assets held by banks are concentrated in the five primary financial institutions in the majority of developing market nations. The majority of these banks are nationwide in scope. The numbers are far lower in developed economies. An further factor that differentiates the banking sectors of industrialised nations and those of developing countries is the degree to which banking activities are internationalised through internationalisation. Emerging nations usually have much lower degrees of internationalisation, which may be evaluated by the proportion of their total assets that are owned by banks that are owned by foreign firms on average. Having said that, this pattern does not appear to be relevant in every single place of the world. Over the course of the last several decades, the financial industry has seen a number of significant shifts. The shift that has taken place in the kind of organisations that are currently prevalent is among the most important. In the 1980s, a great number of financial institutions expanded their operations, with some of them culminating in the formation of major conglomerates that had branches all across the country. In this article, the changes and advancements that have occurred in the banking sector in India are discussed.

INTRODUCTION

The economic growth of developing countries is significantly influenced by the role that banks play. It is very necessary to distribute resources across all areas of the economy in order to boost economic growth. Banks amass savings in order to invest in a variety of activities. The conventional banking system entails banks acting as middlemen for their customers, which ultimately contributes to the growth of the national economy. Collecting subscription fees, processing payments, and acquiring and selling government-issued securities and equity, among other things. As a result, banking is beneficial to those who have busy schedules since it helps them save time and energy. Banks are the major entities that are responsible for enabling transactions involving foreign exchange in international business. Financial institutions, in addition to accepting deposits, also provide their customers with advice on the most effective investment methods. For the purpose of enhancing customer service through the use of cutting-edge technological innovations, the modern banking industry has developed a number of different projects. Due to the interconnected nature of the banking industry, it serves as a reflection of the economy as a whole. As is the case with the Indian economy, the banking industry in India is now going through a period of considerable optimism and potential. As a result of the ongoing developments in international markets, the banking industry is presented with a number of options. In today's highly competitive business, the most effective way for banks to prosper is to continually improve the quality of the customer service they provide. The bank's services, which include banking, can be utilised in a number of different ways.

Numerous occurrences in economic history demonstrate that the growth of the financial sector correlates with overall economic expansion. Financial expansion and depth constitute integral components of the financial sector's development. Financial deepening refers to the enhancement of financial performance, whereas financial widening pertains to the expansion of financial institutions and the provision of additional financial services (Ahmed & Ansari, 1998). The theoretical literature has several studies emphasising the need of advancing the financial sector to promote economic growth (e.g., Goldsmith, 1969; McKinnon, 1973; Shaw, 1973; Bhatia & Khatkhate, 1975). The financial markets enable small savers to aggregate their resources and allocate investments to the most lucrative opportunities, therefore influencing long-term growth within the financial system. Empirical data indicates that government policies regarding financial institutions substantially influence long-term economic growth, and several financial indicators are closely linked to economic growth (King & Levine, 1993). Assessing the efficacy of the banking industry is essential, since it serves as a cornerstone of the financial sector in every country. In 1911, Joseph Schumpeter acknowledged the significance of banks and other financial institutions for national economic development. India, like to several other rising market nations, is significantly dependent on its banking sector. The performance of the banking business generates widespread repercussions throughout the economy. Recent years have witnessed extensive discourse on efficiency and output (Stiglitz, 1998). Numerous individuals contend that banks are the paramount institutions on Earth, serving as the epicentres of country economies and financial systems. They engage not alone in financial transactions but also in development (Sharma, 1974), so impacting the economy similarly to various other organisations. The function of banking systems in promoting or mitigating economic expansion has elicited diverse opinions among economists. It is reasonable to presume that the banking sector, as an economic entity, possesses a more robust and direct relationship with economic prosperity than most non-economic organisations (Rond, 1972).

Objectives of the study:

1. In order to demystify the current state of the banking industry.
2. Analyse the possibilities presented by the evolving banking sector.

Methodology of study:

The data that was utilised in the present study originated from secondary sources.

Secondary data: There are a variety of secondary sources of statistical information that were utilised in this study. Some examples of these sources are books on banking, quarterly reports from the Reserve Bank of India, websites, academic publications, and the internet.

New tendencies:

Banks and other financial institutions are facing a substantial challenge in the form of the construction of an organisational structure that is capable of producing intellectual capital. The financial industry is currently seeing the most rapid acceleration of "creative destruction" in its entire history, which makes this statement particularly pertinent at the present time. As the process of creative destruction progresses, new structures are established. In this sense, the responsibilities that are expected of managers who belong to the "new generation" may be more extensive than those that were expected of their predecessors. In this job, the oversight of "competing imperatives" is more important than the traditional "integrity and caution" that is expected of a banker. Additional responsibilities are required.

To what extent does the term "new generation" refer to specifically? When compared to the generation that came before it, how does the current generation differ? In what ways have things changed, whether for the better or for the worse? Can you explain what that means? It is common practice to define a generation as the time span that is necessary for the majority of people to reach the age of maturity and form a family, which normally falls within the range of 23 to 30 years. There is also the possibility of generation being seen as a collective identity that is formed as a result of shared experiences. The collective experience of working in an environment that is always shifting would help to cultivate characteristics that are shared by the "new generation" of managers, who would, in turn, be moulded by the historical backdrop that we currently share. This issue is further upon by providing an outline of the banking sector in India.

Since the country's independence, the banking industry in India has had very few significant events; nonetheless, historians are able to break down its history into numerous different parts. A legislative framework for the regulation and supervision of banks in India was initially established by the Banking Regulation Act of 1949, which was the first piece of legislation to do this. Another key turning moment happened when our nation's banks were nationalised. This was the second significant turning point. It liberated forces that democratised money, transferring it from the hands of the elite to the hands of most people in the population. As a consequence of this, institutions broadened their financial reach, which resulted in the normal individual being granted additional agency throughout the course of the establishment of a complete infrastructure over the whole subcontinent. The beginning of the 1990s saw the beginning of efforts to reform the financial sector, which was the third significant event that occurred in the banking industry. As a result of these modifications, Indian banks underwent a substantial makeover. Because of the necessity to adjust to shifting circumstances and internal demands in order to grow market share and profitability in the face of intensifying competition, they were driven to investigate potential avenues for enhanced efficiency and to review their position with regard to external variables as well as their inherent capabilities and the constraints they face.

During this time period, the information revolution began, which led to the beginning of a substantial Third Wave of social, technical, and economic transformation (as described by Alvin Toffler), which continues to have an influence on the operations of corporations even today. The entirety of the ideas that were prevalent during the industrial age are today being re-examined and rethought. The disintegration of an old paradigm and the emergence of a new paradigm are two situations in which we regularly come across stunning and illuminating ideas. At this very moment, it is conceivable that the circumstances are favourable. What is the final destination of the journey that is about to be taken? It is certain that it will be different from the past, regardless of what happens in the future. A string of unexpected shifts is more likely to be the cause of this phenomenon. It is thrilling to experience discontinuity because it creates opportunities. There is a plethora of opportunities available in the modern day. Opportunities, on the other hand, come with responsibilities. In spite of the challenges they face, aspiring managers need to define their areas of expertise, be able to quickly adjust to new circumstances, and keep their enthusiasm and productivity high.

In order to achieve success in any endeavour, it is necessary to have a comprehensive awareness of one's own character. This understanding should embrace one's educational approach, interpersonal dynamics, core beliefs, and major areas in which one might potentially contribute. It is only through the use of one's potential that one may reach true greatness.

It is required to implement a new work culture that is more dynamic, forceful, and rigorous in order to fulfil the criteria of customer engagement, product differentiation, brand integrity, reputation, corporate governance, and regulatory mandates. It is necessary for new managers to grasp and successfully navigate difficult developments in order to develop effective plans for their organisations. We make an effort to carry out a semi-structured examination of the changing environment of Indian banking, with the goal of generally following to the transition tendencies that Edward E. Furash has highlighted. In the event that the next generation of managers were to acquire a more profound understanding of these patterns, they would be better equipped to turn the threats that are posed by the ever-changing environment into opportunities.

Current state of the banking industry:

Over the course of 2009 and 2010, scheduled commercial banks (SCBs) saw a decline in the quality of their assets and their profitability, which led to a stop in the expansion of their balance sheets respectively. There was a 16.6% annual rise in bank credit during the 2009–2010 fiscal year; nevertheless, there were indications of improvement beginning in October 2009, which coincided with the beginning of the economic recovery. The aggregate ratio of gross nonperforming assets (NPAs) to gross loans for scheduled commercial banks (SCBs) grew from 2.25% to 2.39% over the fiscal years 2008–2009 and 2009–2010. Even though it was significantly impacted negatively, the Indian banking sector was able to survive the global financial crisis and has since recovered from its consequences. Indian financial institutions are now performing very well in terms of growth, profitability, and loan default levels when compared to their regional counterparts. Innovation, expansion, and profitability are all areas that have been demonstrated to be successful in the banking industry. As a result of their low level of market penetration in comparison to other markets, this banking development process has to be improved in order to facilitate the expansion of banking services in order to satisfy the more widespread need for financial inclusion. In the years 2010 and 2011, financial institutions saw gains in both their profitability and the quality of their assets. The results of the stress tests suggested that the banking industry would suffer very little to no damage from shocks to interest rates and liquidity. Increasing concerns have been raised regarding the general stability of the banking system as a result of the disparate development of lending to various sectors, including as retail, real estate, infrastructure, and non-bank financial corporations (NBFCs). Enhanced provisioning regulations, continued asset-liability disparities, and reliance on short-term borrowings to sustain asset expansion are further challenges that need to be addressed.

In today's modern society, the banking business is highly significant and indispensable as a service sector. The greatest economy in the world is found in India, which has a population that exceeds 1.1 billion people. Given that it now accounts for fifty percent of India's gross domestic product, the banking industry is the most prominent service company in the country. When it comes to driving social and economic progress, the financial industry needs to take on a significant role. It is possible to choose from a wide variety of alternatives in the current economic climate. Over the course of the past several years, the banking industry has been subject to major shifts as a result of the global financial crisis. For the purpose of enhancing the banking sector in essential areas, the Government of India, the Reserve Bank of India (RBI), and the Ministry of Finance have all undertaken a number of significant initiatives. Consumers have been offered exceptional incentives by a number of top banks in the industry, such as the ability to create an account with no initial deposit, in order to take advantage of the current legislation, which include the CRR and interest rates.

The financial sector in India is on the verge of undergoing a dramatic upheaval immediately. In the end, it will strengthen the system of financial transactions. Due to the fact that banks are presently operating with lower margins as a result of deregulation, it is necessary for them to place a greater emphasis on the spending habits of customers and their loyalty. Because of this, banks are diversifying their offerings to include non-banking items like insurance, which is a sector that has a lot of untapped potential.

Bring Attention to the Latest Developments in the Indian Banking Industry:

- An automatic teller machine, often known as an ATM, is the most common type of device in India. This device gives consumers the ability to withdraw money at any time of the day or night. Individuals who own an ATM card are able to do traditional banking transactions without the need to engage in conversation with a human teller. The use of automated teller machines (ATMs) allows for a wide range of financial transactions to be carried out, such as the payment of utility bills, the transfer of funds between accounts, the deposit of cheques and cash, and requests for balance information.
- Through the use of telebanking, customers are able to do all non-cash accounting transactions over the phone. In order to facilitate more straightforward questions and transactions, this device makes use of an automatic voice recorder. On the other hand, telephones that are staffed by human operators are reserved for more complex enquiries and transactions.
- A point-of-sale terminal is a computer that links to the computerised customer records of a bank. Additionally, it is a plastic card with magnetic stripes that identifies the purchaser to the system. At the conclusion of a transaction, computers will automatically transfer money from the account of the buyer to the account of the seller on the basis of the transaction.
- The Electronic Clearing Service, often known as ECS, is a retail payment system that is able to process significant quantities of receipts or payments that are substantially identical to one another. This is especially beneficial in situations when the individual payments are very little and occur on a regular basis. Instead than being geared towards people who transfer little amounts of money, this service is intended for huge corporations and groups that are affiliated with the government.
- Since its implementation in March 2004, the Real Time Gross Settlement system in India has made it possible for financial institutions to electronically advise one another to move monies between their respective accounts. The Real-Time Gross Settlement (RTGS) system, which is managed by the Reserve Bank of India (RBI), makes it possible for financial institutions to transfer cash to one another in a quick and effective manner. The word "real time" banking refers to the immediate transmission of funds between different financial organisations, as the name of the term indicates. That the receiver is able to retrieve the cash instantly is indicated by this, and that their bank should credit their account within two hours of receiving the money.
- In the context of financial transactions, the term "Electronic Funds Transfer" (EFT) refers to a system that enables individuals to electronically transfer money to another individual or organisation. The sender has the option of going to their bank in order to either pay the recipient in cash right away or to give the bank permission to quickly transfer the monies. It is crucial to provide the bank with all of the necessary information in order to guarantee the smooth and promptly executed execution of these transfers. This information includes the name of the receiver, the account number, the kind of account (current or savings), the city, and the name of the branch. The Reserve Bank of India (RBI) is the agency that offers electronic funds transfer services.

Potential perks:

- There will definitely be a rise in the use of online banking as a consequence of data warehousing and data mining. This will also lead to a consolidation of linked services in the areas of online banking, stock trading, lending, and insurance. As the use of financial services that are accessible at any time and from any location becomes more widespread, it will inevitably demand growth. It is possible for financial institutions to accomplish this by offering online banking services in addition to their conventional offerings.
- Recent years have seen an increase in the use of client segmentation by financial institutions, which has enabled more customisation of product portfolios. Retail finance has become more prominent as a result of the proliferation of consumer durables like houses and vehicles being sold. There has been an increase in bank earnings as a result of increased recovery rates, which has been made possible by this type of financing.
- The underserved market of clients in rural areas, which accounts for seventy percent of India's population, has not yet been completely tapped by the banking sector. Although financial institutions have

expanded their presence in every urban region, they have not yet gained a footing in the majority of the villages that are considered to be historically significant. By virtue of the fact that a sizeable proportion of the Indian population lives in rural regions, it is imperative that financial institutions establish branches in each of these places.

- It is possible for financial institutions to broaden their customer base by making their services more easily accessible. Additional branch locations, automated teller machines, telephonic and mobile banking, video banking, and other services may fall under this category. A bank's most significant asset in terms of expanding its clientele and revenue is a customer service department that is of the highest possible quality. The bank has the chance to nurture a customer's confidence in the institution via each and every connection. The quality of a bank's customer service has become the most important factor in determining its overall performance in the face of strong competition.
- The Indian client market is now the most significant potential that the banking sector in India has to offer. Consumers in modern India want to be able to support their costs and the accumulation of assets through an optimum combination of equity and debt during their youth, which will make it easier for them to achieve the lifestyle that they have ultimately chosen. Within the context of both rural areas and metropolitan centres, he is the embodiment of the voice of the public, which encompasses smaller communities. Currently, companies who deal in consumer products are making use of this possibility; it is now the responsibility of the financial institutions to capitalise on this market and offer solutions.

The Indian banking industry will, in the future, be presented with a multitude of chances. These opportunities will include the growth of the sector into new sectors and markets, the creation of novel procedures, the increase of productivity, and the provision of service that is exceptional to customers.

CONCLUSION

The review of the policy governing financial services, namely the policy governing banking, must take place within this more comprehensive framework. The World Trade Organisation has gone about its discussions with financial services with extreme care, and some of the world's largest nations have not made any significant commitments in the banking sector. Banks appear to possess a unique place in state policy when viewed in the context of the existence of national ownership of financial intermediaries. The ownership and governance of banks share some characteristics; these characteristics are present in both industrialised and developing nations. It is almost always the case that banks are either owned by a significant number of private individuals or by the state to a large extent. In addition to the legislative basis, nature, and scope of the transfer of ownership or control, there are some limitations that apply to the transfer. This is reasonable given that banks are easily distinguishable from other types of businesses. As can be observed from the talks that are taking place within the World Trade Organisation (WTO) over commitments to liberalise the domestic banking sector for foreign institutions and ownership, the majority of the world's most powerful economies appear to be concerned about this matter.

The Governor of the Bank of England, Sir Eddie George, highlighted the fact that banks are unique in the economy because of the three fundamental services that they perform: they keep the liquid assets of the economy, they enable payments, and they provide non-market finance to a substantial portion of the economy. The unique responsibilities that banks are responsible for make them stand out from other institutions. Furthermore, banks have specific features in their balance sheets that are essential for executing these responsibilities. For instance, banks are especially susceptible to systemic risk in the classic sense because to the imbalance between their assets and liabilities. This is because banks have a greater number of liabilities than assets. Banks should not be considered in the same manner as non-banks, he underlines more and more all the time. "On the contrary, I remain sceptical that the specific public concern for banking operations applies to non-banking financial institutions, despite the clear presence of distinct functional public interests in various cases."

According to the available information, banks continue to be the principal institutions involved in the process of financial intermediation in developing nations. There are a number of factors that contribute to this predictable tendency, including the fact that depositors require a certain income, the inadequacy of financial risk management capabilities, the existence of deposit protection, and the several layers of government guarantees. When there is a financial crisis, the government will inevitably pay significant expenditures. This is true regardless of whether a bank is public or private, or whether it operates on a local or global scale. When an economic crisis occurs, ownership does not have any impact on the financial implications that occur. As contrast to developing market economies, it is of the utmost importance to determine whether or not banks play a distinct role in the process of financial integration in developed countries. The banking sectors in developing nations are arranged considerably differently compared to those in developed markets; it is beneficial to have an understanding of these differing organisational structures.

In most emerging economies, the percentage of total financial sector assets held by banks is greater than 80 percent, but in industrialised nations, this percentage is significantly lower than in emerging economies. There is a concentration of more than two-thirds of bank assets among the five largest mostly domestic banks in the majority of emerging market nations. The numbers are substantially lower in economies that have already evolved. Developed economies and emerging economies are distinguished from one another by a number of factors, one of which is the degree to which banking activities are internationalised. When it comes to emerging economies, internationalisation, which can be defined as the proportion of banks that are owned by foreign entities to the total assets, is typically significantly lower. On the other hand, this pattern does not exist everywhere in the world.

Over the course of the past several years, consolidation has emerged as a key factor in the banking industry in established nations in comparison to emerging economies. A more frequent occurrence of cross-border mergers and acquisitions is the most prominent distinction that can be made between the consolidation processes of industrialised nations and those of emerging ones. Both inside continental Europe and between the United States and Europe, mergers between institutions from different nations have, for the most part, been rather uncommon. A considerable increase in the ownership of specific banks in developing nations by foreign entities has occurred as a consequence of privatisation procedures, which are occasionally connected with crises.

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