

PERFORMANCE EVALUATION OF BANKING SECTOR IN INDIA

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Abstract- Banking is defined as the business of accepting and securing money owned by other people and companies, and then lending it out to execute economic activities such as creating a profit or merely covering operating expenditures. The Indian Commercial banks face a vivid competition from private sector banks. Private Banks, having more incentive and risk, are right now one step ahead, but public sector banks have been doing well too. Banks play a key role in India's financial system and underpin economic growth. Although Indian authorities have taken a number of steps to strengthen the banking system, progress has been difficult and has been further curtailed by the COVID-19 pandemic. In the banking field, there has been an unprecedented growth and diversification of banking industry and banks are now utilizing the latest technologies like internet and mobile devices to carry out transactions and communicate with the masses. The performances of various banks have been measured using some crucial ratios in the current study to determine the working efficiency of the banks. This study intends to cover the crucial aspects and dynamics that has affected or will further affect the banking sector throughout India. The current study is naïve and will contribute a little to existing literature on banking sector and will be useful for bankers, strategist, policy makers and researchers.

Keywords: Banking sector, financial system, economic growth, technologies, efficiency.

1. INTRODUCTION

The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial sector, which plays a vital role in the functioning of an economy. It is very important for economic development of a country that its financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. Thus, the development of a country is integrally linked with the development of banking. In a modern economy, banks are to be considered not as dealers in money but as the leaders of development. They play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system reflects the economic health of the country. The strength of an economy depends on the strength and efficiency of the financial system, which in turn depends on a sound and solvent banking system. A sound banking system efficiently mobilized savings in productive sectors and a solvent banking system ensures that the bank is capable of meeting its obligation to the depositors. In India, banks are playing a crucial role in socio-economic progress of the country after independence. The banking sector is dominant in India as it accounts for more than half the assets of the financial sector. Indian banks have been going through a fascinating phase through rapid changes brought about by financial sector reforms, which are being implemented in a phased manner. Banking Regulations Act, 1949 Section 5(b) defines banking as 'accepting, for the purpose of lending and investments, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, demand, and order or otherwise.'

The following are the reasons why banking is at the top of the list of financial literacy pillars

- Keep your money safe.
- Keep track of your finances and create a budget.
- Direct deposit allows you to receive your pay check fast.
- Make financial transactions easier.
- Protect your liquid assets by purchasing insurance.
- Debit and credit card services are available.
- Make money by earning interest.
- Take out a loan
- Put your money to good use.
- Create a credit history to establish a FICO credit score that can help you borrow money and grow wealth.

The major functions of banks are in granting loans for personal or business use, accepting deposits, agency functions like transfer of funds, periodic payments, collection of cheques, portfolio management, etc. and utility functions like drafts, lockers, underwriting, social welfare programmes and other utility functions. Banks are generally categorized into two types i.e., Public Banks and Private Banks. Public banks refer to a bank or financial institution whose owners are the government, a municipality, or other public players. It is a government-controlled business. Private banks refer to the specialized financial services and products provided by a retail bank or other financial institution



to high-net-worth individuals (HNWIs). Banking sector growth may increase either directly by improving the quality of financial services and increasing funds available, or indirectly by improving the efficiency of financial intermediaries, both of which may lower the cost of financing, thereby increasing capital accumulation and economic growth.

2. OBJECTIVES OF THE STUDY

The following are the main objectives of the current research study

- To create awareness of the Indian Banking, its history and functions.
- To study the structure of Indian Banking System and how banks make money (credit creation).
- To study about the nationalization of Indian banks.
- To identify the recent trends in the banking sector in India.

3. RESEARCH METHODOLOGY

The present work entitled “Dynamics of Indian Banking Sector” is based on secondary data that has been collected with the help of various online sites, books and resources. The study is based on information and secondary data accessed from reputed Journals, RBI & Various Official Committees Reports and authentic Websites.

3.1 LITERATURE REVIEW

Brijesh K. Saho et al. (2007): This paper attempts to examine, the performance trends of the Indian commercial banks for the period: 1997-98 to 2004-05.

Vradi et al. (2006) In his study on ‘Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy. In order to see the efficiency of Indian banks we have seen the fore indicators i.e. profitability, productivity, assets, quality and financial management for all.

Petya Koeva (2003): His study on the ‘Performance of Indian Banks during Financial Liberalization’ states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behavior and determinants of bank intermediation costs and profitability during the liberalization period.

B. Sathish Kumar (2008): In his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. Roma Mitra et al. (2008): A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India.

Sharad Kumar (2010) : In his article "Banking changing the gear" has reviewed that Indian banking is transforming itself into a customer centric, commercial position by providing the better and qualitative services in addition to primary services with the help of superior technology and effective innovation which is producing customer delight.

Shri. G. D. Medhe (1988): In “A study of Bank customer services with special reference to Kolhapur Janata Sahakari Bank Ltd, Kolhapur”, he explained the term 'BANKING' as follows

B = Banking of efforts for nation economic prosperity.

A= Advancement of working capital, loans.

N = Nutrition food, it helps the weak farmers, land less laborers to purse milk animals.

K= Keeps your money safe and grow at fastest rate.

I = Industrial development takes place.

N= numerous deposits schemes to suit your expectations and packet and purpose.

G= Getting a prompt courteous and efficient services. In addition to above he gave more stress on bank

Anudhav. Anand. Mishra (2009): In his article, "A study on customers satisfaction in Indian Retail banking", has focused that the banking industry facing rapidly changing markets, new technology, economic uncertainties, fierce competition, more demanding customers and changing climate has presented and unprecedented set of challenges.

4. RECENT TRENDS IN THE BANKING SYSTEM

4.1 Electronic Payment Services (e-Cheques)

In the recent days we are aware of e-governance, e-mail, ecommerce, e-tail etc. In the same manner, a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque (a substitute electronic form for paper cheque) and E-cheque instruments.

4.2 Real Time Gross Settlement (RTGS)

Real Time Gross Settlement system, introduced in India since March 2004, is a system through which with the help of internet instructions can be given by banks to transfer of funds from one bank account to the another bank

account. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantly and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

4.3 Electronic Funds Transfer (EFT)

It is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider of EFT.

4.4 Electronic Clearing Service (ECS)

It is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals.

4.5 Automatic Teller Machine (ATM)

It is the most popular device in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a device that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc. Point of Sale Terminal: It is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

4.6 Tele-Banking

It facilitates the customer to do entire non-cash related banking on telephone. Under this device Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

4.7 Electronic Data Interchange (EDI)

It is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form.

4.8 Net Banking

It is done through internet by individuals and firms for transfer of funds, booking rail tickets, shopping, purchasing cinema tickets, purchasing shares etc.

4.9 Mobile Banking

Mobile Banking is a service provided by a bank or other financial institution that allows its customers to conduct a range of financial transactions remotely using a mobile device such as a mobile phone or tablet, and using software, usually called an app, provided by the financial institution for the purpose.

4.10 Amalgamation of Banks

The consolidation of banks is known as amalgamation of banks. Recently the Union Cabinet on 15-02-2017 approved the merger of State Bank of India with five of its associate banks for efficient enhanced operational efficiency and reduced cost of funds.

5. GROWTH AND PROFITABILITY IN BANKING SECTORS IN INDIA OVER THE YEARS

According to the RBI, the Indian banking sector is "sufficiently capitalized and well-regulated." Indian Banking Industry, instead of taking a hit, has emerged out of the pandemic with a new strength that surely will go a long way. With new and creative innovations and freshly brewed ideas, Indian banking sector is sure to reach the heights it never have before. The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions As of November 2020, the total number of ATMs in India increased to 209,282. Asset



of public sector banks stood at Rs. 107.83 lakh crore (US\$ 1.52 trillion) in FY20. During FY16-FY20, bank credit grew at a CAGR of 3.57%. As of FY20, total credit extended surged to US\$ 1,698.97 billion. During FY16-FY20, deposits grew at a CAGR of 13.93% and reached US\$ 1.93 trillion by FY20. According to the RBI, bank credit stood at 108.79 trillion (US\$ 1.46 trillion) and bank deposits stood at Rs. 155.14 trillion (US\$ 2.08 trillion), as of July 16, 2021. Credit to non-food industries stood at Rs. 107.93 trillion (US\$ 1.45 trillion), as of July 16, 2021.

The growth of banking sector has been a collective effort of every being and every industry. Certain salient investments and developments that took place are:

- In July 2021, Google Pay for Business has enabled small merchants to access credit through tie-up with the digital lending platform for MSMEs—Flexi Loans.
- In December 2020, in response to the RBI's cautionary message, the Digital Lenders' Association issued a revised code of conduct for digital lending.
- As of June 23, 2021, the number of bank accounts—opened under the government's flagship financial inclusion drive 'Pradhan Mantri Jan Dhan Yojana (PMJDY)'—reached 42.55 crore and deposits in Jan Dhan bank accounts totalled >Rs. 1.44 lakh crore (US\$ 19.31 billion).
- On November 6, 2020, WhatsApp started UPI payments service in India on receiving the National Payments Corporation of India (NPCI) approval to 'Go Live' on UPI in a graded manner.
- In October 2020, HDFC Bank and Apollo Hospitals partnered to launch the 'Healthy Life Programme', a holistic healthcare solution that makes healthy living accessible and affordable on Apollo's digital platform.
- In 2019, banking and financial services witnessed 32 M&A (merger and acquisition) activities worth US\$ 1.72 billion.
- In March 2020, State Bank of India (SBI), India's largest lender, raised US\$ 100 million in green bonds through private placement.
- In February 2020, the Cabinet Committee on Economic Affairs gave its approval for continuation of the process of recapitalization of Regional Rural Banks (RRBs) by providing minimum regulatory capital to RRBs for another year beyond 2019-20 - till 2020-21 to those RRBs which are unable to maintain minimum Capital to Risk weighted Assets Ratio (CRAR) of 9% as per the regulatory norms prescribed by RBI.
- The NPAs (Non-Performing Assets) of commercial banks recorded a recovery of Rs. 400,000 crore (US\$ 57.23 billion) in the last four years including record recovery of Rs. 156,746 crore (US\$ 22.42 billion) in FY19.

CONCLUSION

Our banking sector has steadily evolved and moved in tandem with the growing requirements of the economy. The sector has developed manifold according to the aspirations of the customers with the use of new tools and technologies which have emerged over a period of time. After the careful study and after considering all the facts; numeric, objective and subjective; we've come to an inference, Indian banking sector is pretty well off if bigger picture is taken into view. The overall NPAs are low; the CRAR ratios are adequate, even the banks not performing so well are working above average. So all in all, covid-19 failed to bring down the banking sector. The sector saw an opportunity and worked its way up to where it is now. It is still a long way to go, but with the steady growth and more innovation, growth perspective of the Indian Banking Sector is shining bright like a star. Just the right reforms and policies and the star won't go supernova for long. Indian banking system will further grow in size and complexity while acting as an important agent of economic growth and intermingling different segments of the financial sector. It automatically follows that the future of Indian banking depends not only in internal dynamics unleashed by ongoing returns but also on global trends in the financial sectors.

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