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Growth of Banking Sector in India

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Abstract: *The banking sector acts as the backbone of modern business. The development of any country mainly depends upon the banking system. The Indian economy is emerging as one of the strongest economies in the world, with a GDP growth rate of more than 8 per cent every year. A strong banking industry is important in every country and can have a significant impact on economic development by providing efficient financial services. They play a vital role in the growth and development of the Indian economy. The process of liberalization and globalization has strongly influenced the Indian banking sector.*

Keywords: *Economy, Banking. Industry, Financial, GDP growth, liberalization*

I. Introduction:

In India, the banking sector plays a key role in economic development by providing various financial services. It acts as a catalyst in achieving rapid economic development. Banking Institutions serve the community in numerous ways. The most immediate connotation of the term Banking business conveys primarily two-dimensional objectives: accepting deposits from the public and utilizing them for lending to the ultimate borrowers. They play a role in the creation of credit, which leads to an increase in production, employment, and consumer spending, thereby boosting the economy. Commercial banks perform an important function in giving a direction to the economic development over time by financing the requirements of agriculture, business and industry. The commercial development and progress of a country are fully dependent upon the services rendered by banks. A well-developed banking system is a sine qua non for the economic development of a nation. The volume of their transactions highlights the economic strides made by the country. In the present scenario, commercial banks' operations have multiplied.

The growth in commercial banks has increased the volume of financial transactions. It is not only the number of financial transactions that have increased but also the breadth of credit risks that have increased with the growth in financial transactions by commercial banks. On the other hand, it is essential to the banks that deploying the funds for loans and advances should adhered to the lending principles which are based upon the concepts of Safety, Liquidity, Purpose, Diversity, Security and Profitability. As reported in the RBI's financial stability report (FSR), the gross non-performing assets (GNPAs) of scheduled commercial banks (SCBs) were at 7.48 per cent at the end of March 2021, compared to 3.2 percent in 20131. As a result of a large percentage of non-performing assets, the banks are suffering massive losses. Most of them are also unable to maintain a capital adequacy ratio. However, the stressed advances ratio declined marginally from 10.7 per cent in 2015 to 7.9 per cent in 2020, due to a fall in restricted standard advances2. According to the RBI's financial stability report (FSR), 2 the non-performing assets (NPAs) are putting pressure on the agricultural, services, and retail sectors.

The growing NPA questions the survival of the bank. Therefore, the success and long-term viability of banks is primarily dependent on the quality of credit operations. Credit operations, in general, are organized methods to managing the risks that arise from the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. The effectiveness of commercial banks in this sector has an influence on their profitability, liquidity, loan portfolio, solvency and financial leverage in every nation where they operate. The effectiveness of credit operations begins with the good credit planning followed by credit sanctions and disbursement, management of credit outstanding and recoveries.

Development of The Indian Banking Sector `

India is the most populous country in South Asia and has a massive financial system that is characterized by a high number of different financial institutions and products. Commercial banks in India vary from one another in terms of size, niches, and vintages. Their ownership structure varies as well, ranging from state-owned to private and foreign-owned. The State Bank of India was jointly owned by the Indian Government and the Reserve Bank of India. Some financial institutions were successfully transformed from their original forms into banks, viz., ICICI Bank and IDBI Bank. There are both new and old private-sector banks. Kotak Mahindra Bank Ltd. and Yes Bank Ltd. are the newest banks, while a few are more than 100 years old. When compared to other emerging countries, commercial banks in India outperform their counterparts in terms of geographic coverage, operational capabilities, technical capabilities, and the variety of services they provide to their customers3. The first bank in India named General Bank of India was set up in the year 1786, shadowed by the Bank of Bengal in 1809 established by The East India Company, Bank of Bombay in 1840 and Bank of Madras year 1843. After that, Bank of Hindustan was set up in 1870. Three entities (Bank of Madras, Bank of Bombay, and Bank of Calcutta) named as Presidency Banks.

The first leading bank which was solely run by Indians was Allahabad Bank established in 1865 followed by Punjab National Bank in 1894, headquartered at Lahore. In the time between 1906 to 1913, Bank of India, Bank of Baroda, Indian Bank, Canara Bank and Bank of Mysore were 3 also established. All Presidency banks were incorporated to form one bank, the Imperial Bank of India in 1921 which was run by European shareholders4. There were about 1100 small banks in India between 1913 and 1943. The Government of India enacted the Banking Companies Act, 1949, which was subsequently amended by the Banking Regulation Act, 1949, to simplify the operations and activities of commercial banks (Act No.23 of 1965). As a Central Banking Authority, the Reserve Bank of India was given broad powers to supervise banking in India. Reserve Bank of India i.e., the central bank of the nation was set up in April 1935 to make banking system stronger, transparent and regulated. But in the initial years of the banking industry, the growth was very slow and not as per the expectations.

Commercial Banking in India

Commercial bank is a financial institution which accepts deposits from the public and gives loans for the purposes of consumption and investment to make profit. In Indian financial system, commercial banks are the major mobilizer and disburser of financial resources. The history of commercial banking in India had its origin in the seventeenth century with the establishment of trading centers by the East India Company. It is an undeniable fact that the banking sector in India has undergone remarkable changes during the last forty years. Since the nationalization of twenty major commercial banks, the geographical and functional coverage of banks have surged at a rate that is unprecedented in the world. After nationalization, the public sector banks have given up their traditional approach of maximizing profits for the shareholders to a development role in the interest of the country. Nationalization of banks brought about several diversifications, modifications and innovations in the structure and functioning of banks. In India till the eighties, the banks operated in a protected environment characterized by administered interest rates, high levels of pre-emption in the form of reserve requirements and directed credit. The horizon of commercial banking in India that enlarged with nationalization has further widened with the implementation of the Banking Sector Reforms in 1991. Financial and banking sector reforms were initiated in India in 1991 with the report of a committee on the financial system headed by Dr. M. Narasimham, against the backdrop of challenges faced by the Indian banks, from within and outside the banking system in the country as well as forces of globalization operating worldwide.

The Narasimham Committee proposed the introduction of prudential norms such as income recognition, asset classification, provisioning and capital adequacy norms, 5 which brought the transparency in operations and improvement in productivity, efficiency and profitability of banking operations. It recommended sweeping changes in the financial sector as per international norms to cater to the needs of the sector and to strengthen it. Loans The bank is meeting the varied personal credit requirements of different classes of people. Retail lending continues to be the thrust area of the bank. Though banking strategies are undergoing rapid transformations, retail lending continues to be an important portfolio and is contributing towards increasing net interest margins and risk diffusion.

Keeping in view the market trends, the bank has redesigned strategies and repositioned products, customizing them on a regular basis to the changing market requirements, thus enabling continuity in the growth of the portfolio. Retail credit products of Syndicate Bank are designed to meet the credit requirements of various categories of borrowers. To achieve qualitative growth with retail-branded products, the bank has adopted a focused lending approach coupled with marketing initiatives. 14 Specialized CPCs for Housing Loans are operating Pan India for speedy sanction of loans. The Bank launched “SyndSolar” Scheme for financing Off–grid Solar Roof Top for Housing loan customers as Home Improvement Loan. Credit linked Subsidy Scheme – “Pradhan Mantri Awas Yojana (PMAY)” under “Housing for All Mission” for Urban Poor has been implemented. During the year, the Bank has registered impressive growth of 40.48 % under Car Loan portfolio. Against the disbursement target of Rs.490 crores under Education loans allotted by Ministry of Finance, bank has disbursed Rs.529.36 crore during the year.

CORPORATE FINANCE

The bank extends finance to corporate for their working capital as well as term loan requirements. Under the corporate segment Bank has segregated Mid Corporate segment and Large Corporate segment. Exposure to a borrower up to Rs. 100.00 carriers brought under the Mid Corporate segment and exposure of above Rs. 100.00 crore brought under Large corporate segment. Apart from the normal Branch network, the Bank has 22 mid corporate Branches, 2 Large corporate Branches, 3 Corporate finance Branches and 1 industrial finance branches cater to the need of corporate clients.

Priority Sector Credit

Based on the Bank's experience in lending to different sectors and keeping in view the dynamics of Economic Growth, Government Directives, National Priorities and Socio-Economic Obligations, thrust were given to Priority Sector lending especially lending to agriculture during the year. The Bank adopted various strategies during the year to achieve sustainable credit growth, improved asset quality, higher earnings and for maintaining well diversified credit portfolio covering all sections of the society to ensure inclusive growth. The Bank continued its growth under Priority Sector lending with added thrust on the consolidation of its position and focus on asset quality. The focus areas for credit were Agriculture, SMEs, Education, Housing, Micro Finance and other productive sectors of the economy. For quick disposal of a large number of credit applications and to hasten credit decisions, the bank has introduced the "Online Request" from prospective clients covering credit requirements under various segments of Priority Sector.

The prospective clients can access the Bank's website and submit their request for a loan through the application form prescribed therein. System generated acknowledgement is provided immediately to the applicants with a unique reference number which they can use to track their applications. Priority Sector Advances Bank has achieved 40.54 per cent (Rs.73733 Cr.) of ANBC as against regulatory requirement of 40 per cent under Priority Sector advances. Similarly, in Agriculture our Bank has achieved 18.94 per cent (Rs.34439 crore) of ANBC as against regulatory requirement of 18 per cent. In all other sub 54 segments of Priority Sector our Bank has exceeded the regulatory requirements. In case of weaker section Bank has reached 15.46 per cent against the target of 10 per cent of ANBC. Similarly, bank has surpassed the required level in financing to women also (12.08 per cent of ANBC). Lending to Minority communities (15.21per cent against the target of 15 per cent of PSA) was also achieved by the bank for the year ending March 2019.

AGRICULTURE AND ALLIED ACTIVITIES

Credit to Agricultural Sector reached a level of Rs.34439 crore forming 18.94 per cent of ANBC as at March 2018, against the mandatory requirement of 18 per cent. Bank has reached Rs.30120.86 crore under lending to Non-corporate borrowers which is 16.56 per cent of ANBC against the mandatory level of 11.99 per cent. Bank has surpassed the mandatory target of 8 per cent of ANBC under lending to Small and Marginal farmer's category by reaching 11.60 per cent (Rs.21103 crore). Bank has reached Rs.34904 crore including priority and non-priority Agriculture against the revised Agriculture business projection of Rs.34250 crores for March 19. During the financial year Bank has disbursed Rs.21779 crores under agriculture. Bank has covered more than 26.16 lakh customers under agricultural advances. RURAL EXTENSION EDUCATION PROGRAMMES The Bank has been in the forefront in promoting adoption of new technology in the field of agriculture and rural ventures, enabling farmers & entrepreneurs to improve their productivity/production. During the financial year 2018-19, 2233 programs were conducted by benefiting 113104 participants with an expenditure of Rs.13.52 Lakh.

II. Conclusion:

These programs included agricultural seminars, animal health check-up camps, field visits, demonstrations, self-employment awareness programmes, vanamahotsavas, a nationwide REEP day was celebrated on 06.11.2019. National Farmers Day was celebrated on 23.12.2019. RURAL DEVELOPMENT AND SELF EMPLOYMENT TRAINING INSTITUTE(RUDSETI) The Bank has co-sponsored 27 Rural Development and Self-Employment Training Institutes (RUDSETIs) across the country. These institutes have trained 22077 candidates during the year 2018-19. Out of these trained candidates, 11747 are 55 women & 6134 are from SC/ST category. Total number of candidates trained since inception is 469181. The settlement rate is 73 per cent. The RUDSETI model has been accepted by Govt of India: Ministry of Rural Development, as a role model to be replicated across the country at the district level. The settlement rate is 72 per cent. Our RUDSETI model has been accepted by Govt of India: Ministry of Rural Development, as a role model to be replicated in each District of the Country. A Monitoring cell of the National Academy of RUDSETIs has been established in Bangalore for monitoring these RSETI institutes and their activities in Pan India.

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