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Recent Reforms in Indian Banking Sector

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ABSTRACT: The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers. Massive branch expansion in the rural and underdeveloped areas, mobilization of savings and diversification of credit facilities to the either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking.

INTRODUCTION

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. In the banking field, there has been an unprecedented growth and diversification of banking industry has been so stupendous that it has no parallel in the annals of banking anywhere in the world. During the last 50 years since 1969, tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers. Massive branch expansion in the rural and underdeveloped areas, mobilization of savings and diversification of credit facilities to the either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking. There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

THE INDIAN BANKING SECTOR

The history of Indian banking can be divided into three main phases.

Phase I (1786- 1969) - Initial phase of banking in India when many small banks were set up

Phase II (1969- 1991) - Nationalization, regularization and growth

Phase III (1991 onwards) - Liberalization and its aftermath

With the reforms in Phase III the Indian banking sector, as it stands today, is mature in supply, product range and reach, with banks having clean, strong and transparent balance sheets. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitization, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory and policy changes (e.g. amendments to the Banking Regulation Act).

Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past. In addition, the impact of the Basel II norms is going to be expensive for Indian banks, with the need for additional capital requirement and costly database creation and maintenance processes. Larger banks would have a relative advantage with the incorporation of the norms.

GLOBAL BANKING DEVELOPMENTS

The year 2010-11 was a difficult period for the global banking system, with challenges arising from the global financial system as well as the emerging fiscal and economic growth scenarios across countries. Global banks exhibited some improvements in capital adequacy but were beleaguered by weak credit growth, high leverage and poor asset quality. In contrast, in major emerging economies, credit growth remained at relatively high levels, which was regarded as a cause of concern given the increasing inflationary pressures and capital inflows in these economies. In the advanced economies, credit availability remained particularly constrained for small and medium enterprises and the usage of banking services also stood at a low, signaling financial exclusion of the population in the post-crisis period. On the positive side, both advanced and emerging economies, individually, and multi-laterally, moved forward towards effective systemic risk management involving initiatives for improving the macro-prudential regulatory framework and reforms related to systemically important financial institutions. Even today i.e., 2019-20 their needs a lot of developments in banking sectors.

POLICY ENVIRONMENT

Banking sector policy during 2010-11 remained consistent with the broader objectives of macroeconomic policy of sustaining economic growth and controlling inflation. The Reserve Bank introduced important policy measures of deregulation of savings bank deposit rate and introduction of Credit Default Swap (CDS) for corporate bonds. It initiated the policy discussions with regard to providing new bank licenses, designing the road-ahead for the presence of foreign banks and holding company structure for banks. The process of migration to the advanced approaches under the Basel II regulatory framework continued during 2010-11, while also facilitating the movement towards the Basel III framework Financial Inclusion continued to occupy centre stage in banking sector policy with the rolling out of Board-Approved Financial Inclusion Plans by banks during 2010-11 for a time horizon of next three years.

RECENT TRENDS IN BANKING

1) ELECTRONIC PAYMENT SERVICES – E CHEQUES

Now-a-days we are hearing about e-governance, e-mail, e-commerce, 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 and E-cheque instruments.

2) REAL TIME GROSS SETTLEMENT (RTGS)

Real Time Gross Settlement system, introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. 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 instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

3) ELECTRONIC FUNDS TRANSFER (EFT)

Electronic Funds Transfer (EFT) 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) ELECTRONIC CLEARING SERVICE (ECS)

Electronic Clearing Service 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.

5) AUTOMATIC TELLER MACHINE (ATM)

Automatic Teller Machine is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a devise 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.

6) POINT OF SALE TERMINAL

Point of Sale Terminal 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.

7) TELE BANKING

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

8) ELECTRONIC DATA INTERCHANGE (EDI)

Electronic Data Interchange 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.

IMPLICATIONS

The banks were quickly responded to the changes in the industry; especially the new generation banks. The continuance of the trend has re-defined and re-engineered the banking operations as whole with more customization through leveraging technology. As technology makes banking convenient, customers can access banking services and do banking transactions any time and from any ware. The importance of physical branches is going down.

CHALLENGES FACED BY BANKS

The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA's. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend, but lent for a purpose and with a purpose ought to be the slogan for salvation." The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualized. That means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers.

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. There will be more transparency and disclosures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures.

India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

IT IN BANKING

Indian banking industry, today is in the midst of an IT revolution. A combination of regulatory and competitive reasons has led to increasing importance of total banking automation in the Indian Banking Industry. Information Technology has basically been used under two different avenues in Banking. One is Communication and Connectivity and other is Business Process Reengineering. Information technology enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets.

The bank which used the right technology to supply timely information will see productivity increase and thereby gain a competitive edge. To compete in an economy which is opening up, it is imperative for the Indian Banks to observe the latest technology and modify it to suit their environment. Not only banks need greatly enhanced use of technology to the customer friendly, efficient and competitive existing services and business, they also need technology for providing newer products and newer forms of services in an increasingly dynamic and globalize environment. Information technology offers a chance for banks to build new systems that address a wide range of customer needs including many that may not be imaginable today.

- It is becoming increasingly imperative for banks to assess and ascertain the benefits of technology implementation. The fruits of technology will certainly taste a lot sweeter when the returns can be measured in absolute terms but it needs precautions and the safety nets.
- It has not been a smooth sailing for banks keen to jump onto the IT bandwagon. There have been impediments in the path like the obduracy once shown by trade unions who felt that IT could turn out to be a threat to secure employment. Further, the expansion of banks into remote nooks and corners of the country, where logistics continues to be a handicap, proved to be another stumbling stock. Another challenge the banks have had to face concerns the inability of banks to retain the trained and talented personnel, especially those with a good knowledge of IT.
- The increasing use of technology in banks has also brought up 'security' concerns. To avoid any pitfalls or mishaps on this account, banks ought to have in place a well-documented security policy including network security and internal

security. The passing of the Information Technology Act has come as a boon to the banking sector, and banks should now ensure to abide strictly by its covenants. An effort should also be made to cover e-business in the country's consumer laws.

- Some are investing in it to drive the business growth, while others are having no option but to invest, to stay in business. The choice of right channel, justification of IT investment on ROI, e-governance, customer relationship management, security concerns, technological obsolescence, mergers and acquisitions, penetration of IT in rural areas, and outsourcing of IT operations are the major challenges and issues in the use of IT in banking operations. The main challenge, however, remains to motivate the customers to increasingly make use of IT while transacting with banks. For small banks, heavy investment requirement is the compressing need in addition to their capital requirements. The coming years will see even more investment in banking technology, but reaping ROI will call for more strategic thinking.

FINANCIAL INFUSION FOR MERGED PSU BANKS

In a major move that is set to redefine India's banking space, Finance Minister Nirmala Sitharaman announced the merger of 10 public sector banks into four. The amalgamation scheme includes the merger of Indian Bank with Allahabad Bank; Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank (PNB); Canara Bank with Syndicate Bank; Union Bank of India, Corporation Bank and Andhra Bank.

PSBs	Capital Infusion (In ₹)
PNB	16,000 Crore
Union Bank of India	11,700 Crore
Bank of Baroda	7,000 Crore
Indian Bank	2,500 Crore
Indian Overseas Bank	3,800 Crore
Central Bank of India	3,300 Crore
UCO Bank	2,100 Crore
United Bank of India	1,600 Crore
Punjab and Sind Bank	750 Crore

BOB, DENA BANK AND VIJAYA BANK MERGED TOGETHER ON APRIL 1, 2019

State-run Bank of Baroda has now become India's second largest public sector bank after its merger with Dena and Vijaya Bank respectively. The amalgamation of the two lenders with BOB, will be effective from 1 April, 2019. This is the first three-way merger of the banks in India, making the combined geographical reach of 9,490 branches, 13,400 ATMs with 85,678 employees serving 120 million customers.

List of PSU Banks after Merger 2020

From Monday onwards all the branches of Dena and Vijaya Bank will function as branches of Bank of Baroda and the customers of both banks will be treated as customers of BOB, the RBI said on Saturday. In addition to this, the customers will also continue to use the same account number, IFSC Code, MICR Code along with their current cheque books and ATM cards.

List of PSU Banks after Merger 2020

Anchor Bank	Banks to be Merged with Anchor Bank	Combined Domestic Branches
Punjab National Bank	Oriental Bank of Commerce + United Bank	11,437
Canara Bank	Syndicate Bank	10,342
Allahabad Bank	Indian Bank	-
Bank Of Baroda	Dena Bank +Vijaya Bank	9,490
Union Bank	Andhra Bank + Corporation Bank	9,609
State Bank of India (SBI)	State Bank of Bikaner and Jaipur (SBBJ) + State Bank of Hyderabad (SBH) + State Bank of Mysore (SBM) + State Bank of Patiala (SBP) + State Bank of Travancore (SBT) + Bharatiya Mahila Bank	24,000 branches (approx)

Financial Parameters	Bank of Baroda	Vijaya Bank	Dena Bank	Merged Entity
Total Business (In Cr)	10,29,810	2,79,575	1,72,940	14,82,325
Gross Advances (In Cr)	4,48,330	1,22,350	69920	6,40,600
Deposits (In Cr)	5,81,485	1,57,325	1,03,020	8,41,830
Domestic Branches	5502	2130	1858	9490
Advance Branches	81	57	38	68
Deposit Branches	106	74	55	89
Employees	56360	15875	13440	85675
RoA	0.29%	0.32%	-2.43%	-0.02%
CRAR Capital Ratio	12.13%	13.91%	10%	12.25%
CET-1 Capital Ratio	9.27%	10.35%	8.15%	9.32%
Net NPA	5.40%	4.10%	11.04%	5.71%
CASA Ratio	35.52%	24.91%	39.80%	34.06%

After this three-way merger, the combined entity will have deposits and advances of Rs.8.75 lakh crore and Rs.6.25 lakh crore respectively. Not only this, the merger also helps BOB increase its reach in the Western, Southern and North-Eastern regions of India such as Maharashtra, Karnataka, Gujrat, Kerala, Tamil Nadu and Andhra Pradesh. Well, if experts are to be believed, the new Bank of Baroda will improve customer base, market reach, operational efficiency and a capacity to offer a wider bouquet of products and services to the customers.

THE PLAN OF GOVERNMENT WITH BANK MERGERS

The government is seriously considering reducing the number of public sector banks (PSUs) from the existing 21 to 12 with a view to creating 3-4 global sized banks. The existing count of these banks can get reduced to 10-12 in the medium term, while there would be 3-4 banks of the size of State Bank of India (SBI) as per the 3 tier structure. However, regional centric banks like Andhra Bank and Punjab & Sind Bank would continue to exist as independent entities. The same will go with some mid-sized banks. What's giving more fodder to the government to go ahead with the merger is the grand success SBI achieved by combining its five associate banks and Bhartiya Mahila Bank to form a single entity. The five associate banks included State Bank of Bikaner & Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Travancore (SBT), State Bank of Patiala (SBP) and State Bank of Mysore (SBM). By virtue of the merger, SBI got into the hall of fame by making an entry into the list of 50 banks in the world. The merger has helped the bank take its customer count to 37 crores and add a vast network branches and ATMs that went up to 24,000 and 59,000, respectively. Humongous, isn't it? So, how's government going to execute a massive consolidation drive involving banks of different capital base? Let's find out the answer now.

TOP PSU BANKS TO CHOOSE SMALLER ONES FOR MERGER

According to several reports in the media, top PSU lenders like Punjab National Bank (PNB), Bank of Baroda (BoB), Bank of India (BOI), Canara Bank and Union Bank of India would take under their umbrella some 3-4 banks to create a large entity and would have a massive distribution channel to boast of. The merger will add to the operational strength of the PSU banks. So, see in the table where will the PSU banks stand if the proposed merger structure does take effect.

Table Showing the Merger List of PSU Banks

Acquirer Banks	Banks to be Merged	Staff Count (Approx.)	Asset Count (Crores) (Approx.)
PNB	Oriental Bank of Commerce (OBC), Allahabad Bank, Corporation Bank, Indian Bank	1,50,000	2,60,000
Bank of Baroda	Vijaya Bank, Dena Bank	85,675	6,40,600
Bank of India	Andhra Bank, Bank of Maharashtra	94000	10,90,0000
Canara Bank	UCO Bank, Syndicate Bank, Indian Overseas Bank	1,40,000	13,82,000
Union Bank of India	IDBI, Central Bank of India	1,04,000	11,80,000

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IMPACT OF PSU BANK MERGERS

The merger of PSU banks has its share of merits and demerits. The addition of staff and network is the effect that can be easily gauged from the impending merger move. What else can emerge due to the merger? Don't know? Take a look below.

Merits of Merger

- A large capital base would help the acquirer banks to offer a large loan amount
- Service delivery can get improved
- Recapitalization need from the government to reduce
- Customers will have a wide array of products like mutual funds and insurance to choose from, in additional to the traditional loans and deposits
- Technological up gradation on the cards

Demerits of Merger

- It would be tough to manage issues pertaining to human resource
- Few large inter-linked banks can expose the broader economy to enhanced financial risks
- The local identity of small banks won't be that prominent

FUTURE OUTLOOK

Everyone today is convinced that the technology is going to hold the key to future of banking. The achievements in the banking today would not have make possible without IT revolution. Therefore, the key point is while changing to the current environment the banks has to understand properly the trigger for change and accordingly find out the suitable departure point for the change.

Although, the adoption of technology in banks continues at a rapid pace, the concentration is perceptibly more in the metros and urban areas. The benefit of Information Technology is yet to percolate sufficiently to the common man living in his rural hamlet. More and more programs and software in regional languages could be introduced to attract more and more people from the rural segments also.

Standards based messaging systems should be increasingly deployed in order to address cross platform transactions. The surplus manpower generated by the use of IT should be used for marketing new schemes and banks should form a 'brains trust' comprising domain experts and technology specialists.

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CONCLUSION

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. Indian Banking Industry has shown considerable resilience during the return period. The second generation returns will play a crucial role in further strengthening the system. The banking today is re-defined and re-engineered with the use of Information Technology and it is sure that the future of banking will offer more sophisticated services to the customers with the continuous product and process innovations. Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking". The shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements. Adoption of stringent prudential norms and higher capital standards, better risk management systems, adoption of internationally accepted accounting practices and increased disclosures and transparency will ensure the Indian Banking industry keeps pace with other developed banking systems

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