

AN ANALYTICAL STUDY ON THE GROWTH AND DEVELOPMENT OF THE INDIAN BANKING SYSTEM

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ABSTRACT

A sound and efficient banking system is a pre-requisite for a healthy economy. In today's time, the Indian Banking industry is not confined to perform its operations in a protected environment rather Liberalisation, Privatisation and Globalisation have opened floodgates of competition for them. Due to the advancement in Information technology, the customer's awareness level has been increased which has made them more demanding. In order to meet the demands of the customers and to survive in the competitive environment, there has to be determination and skill of innovation in the Banking industry. This has led to the adoption of innovative business practices by various Banks in India. The present paper is an initiative to understand the growth of the Indian Banking System and to have an insight on the market capitalization of the Indian Banks.

KEYWORDS: Indian Banking System, Growth, Development, Performance, Market Capitalization.

INTRODUCTION

Finance and banking is the life blood of trade, commerce and industry. In present times, a sound and efficient banking system is a pre-requisite for a healthy economy. The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The Indian Banking System traces back its history to 1786 when the first Bank in India was established. From that year till today the journey of growth of the Indian Banking System may be studied in two broad phases: Pre-Independence Phase (1786-1947) and Post-Independence Phase (1947 till date).

Pre-Independence Phase (1786-1947): This was the first phase in the Indian Banking during which the first Bank called 'The General Bank of India' was laid out in the year 1786. Close to it, the Bank of Hindustan and Bengal Bank came. During this period, three Banks in particular, Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843), were set-up by the East India Company as free units and were called 'Presidency Banks'. These three were subsequently converged in 1920 as Imperial Bank of India.

Later in 1865, Allahabad Bank was laid out followed by Punjab National Bank in 1894. Somewhere in the range of 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank endlessly Bank of Mysore were set-up. In 1935, Reserve Bank of India was laid out, which became the Central Banking Authority under the Banking Regulation Act 1949.

Post-Independence Phase (1947 till date): In 1955, Government nationalized Imperial Bank of India and shaped it as State Bank of India for handling Central and State Government's banking transactions and functioning as the principal agent of RBI. In 1959, seven subsidiaries of SBI were also nationalized and in 1969, 14 major commercial banks were nationalized. In 1971, Credit Guarantee Corporation of India was established to guarantee insurance of deposits and

mobilize credit to the banks in need. Regional Rural Banks were introduced in 1975 and in 1980, seven banks with deposits over 200 crores were nationalized.

The year 1991 marked a decisive changing point in India's economic policy since Independence. In this context, the recommendations made by a high level committee on the financial sector which was chaired by M. Narasimham laid the foundation for the banking sector reforms. The Narasimham Committee suggested that there should be functional autonomy, flexibility in operations, reduction in reserve requirements and introduction of prudential norms aimed at liberalizing the regulatory framework of the banking sector. These reforms tried to enhance the viability and efficiency of the Indian Banking Sector.

The Banking Sector possesses a significant spot in each economy and is one of the quickest developing sectors in India. Both public and private banks are facing strong competition among themselves to reach the targeted audience. However, the non-performing asset is the worrying factor which is also increasing simultaneously with core business. In order to reduce the non-performing asset, mergers became the option for the banking sector. The largest merger in the history of banking industry took place on April 1, 2017 i.e., State bank of India and its associates banks. In August 2019, PM Narendra Modi announced a mega-merger of 10 Public Sector Undertaking (PSU) banks in India into four. These banks were Oriental Bank of Commerce and United Bank of India converging with Punjab National Bank; Syndicate Bank converging with Canara Bank; Andhra Bank and Corporation Bank converging with Union Bank of India; and Allahabad Bank converging with Indian Bank.

REVIEW OF LITERATURE

Manisha Dhiman (2018) in her research paper "Performance of Indian Banking System" by explained that the Indian Banking System performed better as compared to the pre-reform period. The study revealed that the use of the modern innovation and computerization of the banking sector of India has increased many folds after the economic liberalization of 1991 as the nation's financial sector has been presented to the world's market. The utilization of innovation in expanding the banking operations is one of the significant focus areas of the banks. The study also explained that the efficient use of technology has facilitated accurate and timely management of the increased transaction volume of the banks. The study finds out that by offering simple, safe and secure technology to the customers, the level of customer satisfaction is increased regarding the banking facilities being provided to them by the concerned banks.

Namita Rajput and Anil Kumar Goyal (2019) in their reaearch paper "Indian Banking Sector a Major Contributor to Economy: Constancy Major Concern", focused on the comprehensive review of all the possible dimensions of financial stability in the country across the Public Sector, Private Sector and Foreign Banks through Statistical tools from a time period of 13 years from 2005-2018. The study revealed that the banking stability has a direct impact on the real output and employability which revolves around the financial stability of an economy. With the global initiatives undertaken, the Reserve Bank of India (RBI) developed Banking Stability Map and published the Financial Stability Report in 2010. Financial stability is a phase or situation, where the banking system attains maximum efficiency and develops the capacity to absorb any economic shocks. The study finds out that the current banking developmental policies are paving their ways to strengthen and broaden the pathway for a more transparent system.

Dr. K. Laxman Goud (2021) in his research paper “An analytical study on Trends and Progress on Indian Banking Industry”, focused on the process of consolidation, a significant feature of banking in developed and emerging economies, especially in the recent years. The study revealed that the notable difference between the consolidation process in developed and emerging markets is the overwhelming cross-border nature of mergers and acquisitions in the latter. The study finds out that the banks continue to play a pre-dominant role in financial intermediation in developing countries. Another difference in the banking industry in developed and emerging economies is the degree of internationalization of banking operations. Internationalization is defined as the share of foreign-owned banks as a percentage of total bank assets, tends to be much lower in emerging economies.

According to the “**Bulletin-December 2021**” of **Reserve Bank of Australia** on “The Indian Banking System”, the banks assume a critical part in India's monetary framework and support financial development. It stated that nonetheless, during the 2010s, the soundness of Indian banks weakened essentially and an ensuing decrease in credit development added to a lull in monetary action. Albeit Indian specialists have found various ways to fortify the financial framework, progress has been troublesome and has been additionally diminished by the Coronavirus pandemic. The study revealed that while the monetary linkages among Australia and India stay restricted, India is an undeniably significant exchanging accomplice for Australia, and proceeded with shortcoming in its financial framework is probably going to burden India's interest for Australia's products.

Prerna Devi Khandelwal and Monika Dave (2022) in their paper “The Emerging Trend of Banking Digitalization in India” explained that the Indian banking sector has successfully integrated IT-enabled approaches for its operations. The study explained that the majority of customers are using mobile banking services because it is time saving and cost effective than traditional banking and provides contactless payment because it does not involve handling paper money. The findings of the study reveal that the impact of the COVID-19 pandemic on consumers' lifestyles has a direct and beneficial impact on the expansion of internet and mobile banking services. The COVID-19 pandemic resulted in the development of technologically advanced financial products and services. The banking industry also witnesses a rise in the digital banking transactions.

OBJECTIVES OF THE STUDY:

1. To study the growth and development of the Indian Banking System.
2. To have an insight regarding the Market Capitalization of the Public and Private Sector Banks in India.

METHODOLOGY

The present study is based on the secondary data which is collected from various journals, periodicals, magazines, articles, annual reports and publications of the Reserve Bank of India and from the various websites sharing information regarding the Indian Banking System.

DATA ANALYSIS AND INTERPRETATION

The Indian banking framework comprises of 12 scheduled public sector banks, 21 scheduled private sector banks, 46 scheduled foreign banks, 43 scheduled regional rural banks and 12 scheduled small finance banks.

List of Scheduled Public Sector Banks	
Sr. No.	Name of the Bank
1	Bank of Baroda (BOB)
2	Bank of India
3	Bank of Maharashtra
4	Canara Bank
5	Central Bank of India
6	Indian Bank
7	Indian Overseas Bank
8	Punjab & Sind Bank
9	Punjab National Bank
10	State Bank of India (SBI)
11	UCO Bank
12	Union Bank of India

List of Scheduled Private Sector Banks	
Sr. No.	Name of the Bank
1	Axis Bank
2	Bandhan Bank
3	CSB Bank
4	City Union Bank
5	DCB Bank
6	Dhanlaxmi Bank
7	Federal Bank
8	HDFC Bank
9	ICICI Bank
10	IndusInd Bank
11	IDFC First Bank
12	Jammu & Kashmir Bank
13	Karnataka Bank
14	Karur Vysya Bank
15	Kotak Mahindra Bank
16	Nainital Bank
17	RBL Bank
18	South Indian Bank
19	Tamilnad Mercantile Bank
20	YES Bank
21	IDBI Bank

Source: Official website of RBI

List of Scheduled Foreign Banks in India	
Sr. No.	Name of the Bank
1	Australia and New Zealand Banking Group Ltd.
2	Westpac Banking Corporation
3	Bank of Bahrain & Kuwait BSC
4	AB Bank Ltd.
5	Sonali Bank Ltd.
6	Bank of Nova Scotia
7	Industrial & Commercial Bank of China Ltd.
8	BNP Paribas
9	Credit Agricole Corporate & Investment Bank
10	Societe Generale
11	Deutsche Bank
12	HSBC Ltd
13	PT Bank Maybank Indonesia TBK
14	Mizuho Bank Ltd.
15	Sumitomo Mitsui Banking Corporation
16	MUFG Bank, Ltd.
List of Scheduled Foreign Banks in India	

17	Cooperatieve Rabobank U.A.
18	Doha Bank
19	Qatar National Bank
20	JSC VTB Bank
21	Sberbank
22	United Overseas Bank Ltd
23	FirstRand Bank Ltd
24	Shinhan Bank
25	Woori Bank
26	KEB Hana Bank
27	Industrial Bank of Korea
28	Kookmin Bank
29	Bank of Ceylon
30	Credit Suisse A.G
31	CTBC Bank Co., Ltd.
32	Krung Thai Bank Public Co. Ltd.
33	Abu Dhabi Commercial Bank Ltd.
34	Mashreq Bank PSC
35	First Abu Dhabi Bank PJSC
36	Emirates Bank NBD
37	Barclays Bank Plc.
38	Standard Chartered Bank
39	NatWest Markets Plc
List of Scheduled Small Finance Banks	

Sr. No.	Name of the Bank
40	American Express Banking Corporation
41	Bank of America
42	Citibank N.A.
43	J.P. Morgan Chase Bank N.A.
44	SBM Bank (India) Limited*
45	DBS Bank India Limited
46	Bank of China Ltd.

Sr. No.	Name of the Bank
1	Au Small Finance Bank Limited
2	Capital Small Finance Bank Limited
3	Equitas Small Finance Bank Limited
4	Suryoday Small Finance Bank Limited
5	Ujjivan Small Finance Bank Limited
6	Utkarsh Small Finance Bank Limited
7	ESAF Small Finance Bank Limited
8	Fincare Small Finance Bank Limited
9	Jana Small Finance Bank Limited
10	North East Small Finance Bank Limited
11	Shivalik Small Finance Bank Limited
12	Unity Small Finance Bank Limited

Source: Official website of RBI

Here, it is to be noted that * SBM Bank (India) Limited (Auxiliary of SBM Group) and DBS Bank India Limited (Auxiliary of DBS Bank Ltd.) have been given permit on December 06, 2017 and October 04, 2018 separately for continuing financial business in India through Wholly Owned Subsidiary (WOS) mode and they have started activities with impact from December 01, 2018 and March 01, 2019 respectively.

The key improvements and developments in India's banking industry incorporate the following:

- The quantum of bank accounts opened under the government's flagship financial inclusion drive 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' — arrived at 45.60 crore and stores in the Jan Dhan financial balances added up to Rs. 1.68 trillion (US\$ 21.56 billion) as on June 2022.
- In April 2022, India's biggest private bank HDFC Bank declared a ground breaking consolidation with HDFC Limited.

- RBI declared the send-off of its first worldwide hackathon 'HARBINGER 2021 - Innovation for Transformation' with the subject 'Smarter Digital Payments' on November 2021.
- In July 2021, Google Pay for Business has empowered little shippers to have access to credit through association with the advanced loaning stage for MSMEs — Flexi Loans.
- In December 2020, in light of the RBI's preventative message, the Digital Lenders' Association gave a modified set of rules for digital loaning.
- WhatsApp began UPI payments service in India on getting the National Payments Corporation of India (NPCI) endorsement to 'Go Live' on UPI in a reviewed way on November 6, 2020.
- HDFC Bank and Apollo Emergency clinics joined forces in October 2020 to send off the 'Healthy Life Program', an all-encompassing medical services arrangement that makes sound living open and reasonable on Apollo's computerized stage

At present, the Market Capitalization of the Public and Private Sector Banks is as follows:

Public Sector Banks

Name of the Bank	Last Price	% Change	52 week High	52 week Low	Market Capitalization (Rs. cr)
<u>SBI</u>	616.65	0.59	622.90	425.00	550,336.18
<u>Bank of Baroda</u>	193.05	1.55	197.20	77.00	99,833.15
<u>PNB</u>	59.95	3.10	60.20	28.05	66,011.04
<u>Name of the Bank</u>	<u>Last Price</u>	<u>% Change</u>	<u>52 week High</u>	<u>52 week Low</u>	<u>Market Capitalization (Rs. Cr)</u>
Union Bank	93.75	7.02	94.40	33.55	64,075.76
<u>Canara Bank</u>	326.55	1.89	334.00	171.70	59,240.42
<u>Indian Overseas Bank</u>	30.85	14.68	31.45	15.25	58,313.94
<u>Bank of India</u>	101.80	3.93	103.40	40.40	41,774.30
<u>Indian Bank</u>	294.25	9.26	300.95	130.15	36,647.11
<u>UCO Bank</u>	29.05	19.79	29.10	10.52	34,732.06
<u>Central Bank</u>	39.60	17.51	40.20	16.10	34,376.52
<u>Punjab & Sind</u>	40.90	9.95	40.90	12.50	27,721.15
<u>Bank of Maharashtra</u>	32.65	10.49	33.70	15.00	21,975.07

Source: <https://www.moneycontrol.com/stocks/marketinfo/marketcap/bse/bank-public.html>
(as updated on 13 December 2022)

Private Sector Banks

Name of the Bank	Last Price	% Change	52 week High	52 week Low	Market Capitalization (Rs. Cr)
HDFC Bank	1,648.35	0.29	1,721.85	1,271.75	919,107.06
ICICI Bank	931.80	0.27	958.00	642.00	649,993.67
Kotak Mahindra	1,868.55	0.14	1,997.00	1,630.00	371,058.87
Name of the Bank	Last Price	% Change	52 week High	52 week Low	Market Capitalization (Rs. Cr)
Axis Bank	944.60	0.61	949.00	618.10	290385.83
IndusInd Bank	1,235.45	2.46	1,275.25	763.75	95,793.16
IDBI Bank	58.10	5.06	60.50	30.50	62,471.46
Yes Bank	23.95	13.78	24.40	12.11	60,010.49
AU Small Finance	664.05	-2.01	732.90	467.50	44,254.57
Bandhan Bank	251.90	2.09	349.50	209.45	40,576.70
IDFC First Bank	60.15	1.86	61.20	28.95	37,496.67
Federal Bank	136.10	1.64	140.00	78.70	28,761.43
City Union Bank	195.75	0.75	200.35	108.60	14,487.72
RBL Bank	157.70	1.68	205.35	74.15	9,454.50
Karur Vysya	109.60	1.15	111.85	41.75	8,778.42
TMB	520.90	1.55	547.85	460.10	8,248.53
Equitas Bank	62.10	7.72	63.70	37.50	7,787.28
Ujjivan Small	32.70	8.10	33.20	13.50	6,391.23
JK Bank	61.15	1.92	62.75	23.80	5,879.45
Karnataka Bank	163.75	5.61	165.85	55.25	5,097.56
CSB Bank	259.00	8.32	278.25	178.00	4,493.28
DCB Bank	138.15	1.39	141.20	68.05	4,298.79

Source: <https://www.moneycontrol.com/stocks/marketinfo/marketcap/bse/bank-private.html>
(as updated on 13 December 2022)

It is evident from the above data that the State Bank of India is having the highest market capitalization with INR 550,336.18 crores among the public sector banks in India which is followed by the Bank of Baroda and Punjab National Bank having market capitalization of INR 99,833.15 crores and INR 66,011.04 crores respectively. Among the private sector banks, the HDFC Bank is having the highest market capitalization of INR 919,107.06 crores which is followed by the ICICI Bank and Kotak Mahindra Bank having market capitalization of INR 649,993.67 crores and INR 371,058.87 crores respectively.

CONCLUSION

The present study concludes that the India's banking sector is sufficiently capitalised and well-regulated. The Indian financial industry has taken on different creative financial models like payments and small finance banks. Lately India has additionally centered on expanding its financial area reach, through different plans like the Pradhan Mantri Jan Dhan Yojana and Post Payment Banks. The digital payments framework in India has advanced the most with India's Immediate Payment Service (IMPS) being the only framework at level five in the Faster Payments Innovation Index (FPII). India's Unified Payments Interface (UPI) has additionally altered constant payments and strived to build its worldwide arrive at lately. The present study finds out that the State Bank of India and the HDFC Bank are having the highest market capitalization among the public and private sector banks respectively. It can be concluded that with the fast mechanical headways in the computerized instalments scene and development of new participants across the FinTech ecosystem, banks need to focus on updating their IT framework and further developing client administrations, along with fortifying their digital protection.

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