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Theoretical Study of Indian Banking System

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Abstract

Banks play a significant part in India's financial system and contribute to economic growth. The banking industry is the foundation of every contemporary economy. It is one of the most significant foundations of the financial industry and plays a crucial role in economic performance. It is crucial for the growth of the nation's economy that financial demands be met; industry and agriculture demonstrate the greatest degree of dedication and accountability. Therefore, the growth of the nation is intimately tied to the growth of banks. Banks should not be seen as money changers in the contemporary economy, but as development leaders. In several economic sectors, they serve a crucial role in aggregating deposits and debt payments. The financial system reflects the country's economic life. Economic vitality is contingent upon the stability and efficacy of the financial system, which in turn is contingent upon a solid and sustainable banking system. A solid banking system that integrates deposits into productive sectors and a melting bank system allow the bank to fulfill its duties to investors. After India's independence, banks play a significant part in the country's social and economic growth. India is dominated by the banking industry, which accounts for more than half of the financial sector's assets. The Indian banking sector has seen a remarkable transformation due to the reforms of the financial industry, which are implemented in phases. In this context, the researcher has conducted an overview analysis of the Indian Banking System, resulting in the current paper.

Introduction

Banks play an important role in India's financial system and support economic growth. The banking sector is the source of any modern economy (Sharma, 2016). It is one of the most essential financial pillars of the financial sector, and it plays a major part in the overall success of the economy. Industry and agriculture are held to the greatest degree of dedication and responsibility, which is important for the growth of the economy of the nation as a whole. Supporting the financial requirements of the country is vital. As a result, the growth of the

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banks in the nation is intrinsically connected to the overall growth of the country. In today's contemporary economy, banks need not to be seen as money changers but rather as leaders in the field of economic growth. They are very important in the process of combining deposits and the distribution of debt across a variety of economic fields. The nation's economic health may be inferred from the functioning of its banking system. The vitality of the economy is dependent on the robustness and effectiveness of the financial system, which in turn is dependent on a banking system that is both financially stable and solvent (Jain et al., 2020). The ability of the bank to fulfill its commitments to investors is contingent upon the existence of both a safe banking system and a functioning bank system. A safe banking system funnels deposits into productive industries. Since the country's independence, India's banks have played an important part in the nation's ongoing social and economic growth. The banking industry is very important in India since it controls more than half of the assets held by the country's financial sector. Because the reforms of the financial system are being carried out in phases, Indian banks have been through a remarkable period as a direct result of the quick changes brought about by these reforms (See for example: Vimala, 2016; Pandey et al., 2016; Madan & Srivastava, 2017).

The Reserve Bank of India (RBI) asserts that the banking industry in India is well managed and has sufficient levels of funding. The country's financial and economic circumstances are much superior to those of any other nation in the globe (Goel et al., 2022; Vijai, 2019; Chandrasekhar, 2016). According to studies on credit risk, market risk, and financial risk, Indian banks seem to be typically more robust and better equipped to endure the effects of global warming. Recently, fake banking kinds such as payments banks and minor financial banks have been established in the Indian banking system. The new measures proposed by the RBI might go a long way toward assisting in the reorganization of the domestic banking system. In comparison to the other 25 nations, India's Immediate Payment Service (IMPS) is the sole fifth-tier system in the Faster Payments Innovation Index (FPPI) (Saravanan, 2015). This indicates that India's digital payment system has made great strides in recent years.

Banking System in India

Banks and banking operations are segmented into their own distinct categories throughout India. Every group's overall performance is characterized by a unique combination of strengths and weaknesses (David, et al., 2021; Sheeba et al., 2016). They have their own own marketplaces that are just for them. Others split their time between working in rural and urban settings, depending on where their occupations are located. The majority of them can only be seen feeding in major cities and larger towns. There are 1485 co-operative banks, 96,000 co-operative banks, 12 public sector banks, 22 private banks, 46 foreign banks, 56 regional banks, 1485 co-operative banks, and 96,000 co-operative banks that make up the cooperative credit institutions that make up the Indian banking system. As of the month of September 2021, the total number of ATMs in India reached 213,145, of which 47.5% are located in rural and semi-urban regions (See for example: Antony, 2018; Selvakumar & Muthamizhselvi 2015; Mistry et al 2015).

Market Size

Assets held by banks across the board have grown between FY18 and FY21. By the end of the fiscal year 2021, the total assets held by the banking industry (including both private and public sector banks) will amount to \$2.48 trillion (Chitnis et al., 2016). The entire assets held by the public sector in FY21 were valued at \$1,602.65 billion, while those held by the private sector were valued at \$878.56 billion. The annual compound growth rate for bank loans was 0.29 percent between FY16 and FY21. The entire amount of available credit has increased to \$ 1,487.60 billion as of the end of the fiscal year 21. Deposits increased at a compound annual

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growth rate of 12.38 percent between FY16 and FY21, reaching \$ 2.06 trillion by FY21. As of the 31st of December in 2021, the total amount of money in bank deposits was Rs. 162.41 trillion (US\$ 2.17 trillion). According to India Ratings and Research (Ind-Ra), the growth of credit is anticipated to reach 10 percent by 2022-2023, which would be the equivalent of double the rise over the previous eight years. As of the 31st of December in 2021, the RBI estimates that the total amount of bank debt was Rs. 116,8 lakh crore, which is equivalent to \$1.56 trillion USD. As of February 2022, the total amount of credit extended to non-food companies was Rs. 114.10 trillion, which is equivalent to \$ 1.53 trillion.

Key Investments on Indian banking Industry

The number of bank accounts opened under the government's primary investment program "Pradhan Mantri Jan Dhan Yojana (PMJDY)" has reached 44.63 crore as of 21 February 2022, and deposits in Jan Dhan bank accounts have reached Rs. 1.58 trillion (US \$ 21.25 billion). These are both significant investments and developments in the Indian banking industry.

The Reserve Bank of India (RBI) made the announcement that it was launching its first worldwide hackathon on November 9, 2021 under the name "HARBINGER 2021 - Innovation for Transformation." The event's topic was "Smarter Digital Payments." Kotak Mahindra Bank made the announcement that it had finished purchasing 9.98 percent of KFin Technologies for Rs. 310 crores, which is equivalent to \$ 41.62 million in modern currency, in November 2021. The MSMEs—FlexiLoans digital borrowing platform was combined with Google Pay for Business in July 2021, making it possible for small shops to have access to financing.

An revised version of the digital lending code of conduct was published by the Digital Lenders Association in December 2020. This was done in response to a warning letter issued by the RBI.

WhatsApp received permission from the National Payments Corporation of India (NPCI) to "Go Live" on the Unified Payments Interface (UPI) on November 6, 2020, and used this permission to start their UPI payment service in India. The "Healthy Life Program," a comprehensive healthcare solution that makes healthy living accessible and accessible and easily accessible on the Apollo digital platform, was jointly introduced in October 2020 by HDFC Bank and Apollo hospitals as part of a collaborative effort between the two organizations.

The world of banking and financial services had 32 merger and acquisition (M&A) deals totaling \$1.72 billion in 2019. Private placement was used in March of 2020 by India's biggest financial institution, the State Bank of India (SBI), to generate US \$100 million worth of environmentally friendly bonds. The Cabinet Committee on Economic Affairs gave its approval in February 2020 to continue the process of revitalizing the Rural Banks (RRBs) by providing a small regulatory fee to RRBs for another year beyond 2019-20 - by 2020-21 for those RRBs who can afford it. This was accomplished by providing a small regulatory fee to RRBs for another year beyond 2019-20. to keep their Capital to Risk weighted Assets Ratio (CRAR) at 9 percent in compliance with the criterion for control that was established by the RBI.

Government Initiatives

The National Asset reconstruction corporation (NARCL) is going to take over 15 non-performing loans (NPLs) from various banks. The total value of these debts is Rs. 50,000 crores, which is equivalent to \$6.70 billion USD. The United Payments Interface (UPI) Lite is going to be launched by the National Payments Corporation of India (NPCI), and it will provide offline UPI capabilities for digital payment transactions. This may be used to make payments

of up to Rs. 200 (about \$2.67) in total. India has included its intentions for a digital banking system (CBDC), which may be referred to as the Digital Rupee, in the budget for the Union's fiscal year 2022-2023. The National Asset reconstruction company (NARCL) is going to take over 15 non-performing loans (NPLs) from various banks. The total value of these debts is 50,000 crores, which is equivalent to 6.70 billion dollars.

The Reserve Bank of India (RBI) introduced the "RBI Individual Direct Scheme" in November 2021, targeting retail investors as a means of boosting the involvement of government securities retailers. As a part of its risk reduction initiatives, the Reserve Bank of India (RBI) has introduced new auto debit regulations that will go into effect on October 1, 2021. These laws include an extra obligatory guarantee feature (AFA), which will increase the safety and security of credit card transactions. The Central Banks of India and Singapore made the announcement in September 2021 that they will integrate their respective digital payment systems by July 2022. This would allow for quicker and more affordable money transactions.

In August of 2021, the Prime Minister of India, Mr. Narendra Modi, will launch e-RUPI, a personal digital payment solution with a focus on achieving a specific aim. E-RUPI is an electronic voucher in the form of a QR code or an SMS that is delivered to the recipient's mobile phone in a series. Users of this one-time payment option will not need to use a card, digital payment application, or online banking access in order to redeem the voucher with the service provider. The Union's budgets for the years 2021-22 indicate that the government would establish IDBI Bank and will privatize two banks that are now held by the state. Consolidation efforts have been executed without a hitch by the government, resulting in a decrease of eight public sector banks.

Achievements by the government for the banking sector

The Unified Payments Interface (UPI) reported 4.62 billion jobs with a total value of Rs. 8.32 trillion (US\$ 111.8 billion) in the month of January 2022. The Reserve Bank of India (RBI) has reported that India's foreign currency reserves have reached 630.19 billion United States dollars as of February 18, 2022. The National Bank for Agriculture and Rural Development (NABARD) Fund has given its approval for the construction of 204,000 point-of-sale (PoS) marketing terminals in order to develop the infrastructure in rural regions. In October of 2021, the number of jobs created by the instant payment service (IMPS) reached 430.67 million, and the amount of money generated by the service was Rs. 3.70 trillion (US \$ 49.75 billion).

Conclusion

It is anticipated that an increased impetus for the expansion of the banking industry will be provided by a better use of existing infrastructure, a more rapid execution of projects, and ongoing transformation. All of these considerations point to the fact that the banking industry in India should anticipate robust expansion since rapidly expanding enterprises would look to banks to satisfy their need for credit. Additionally, developments in technology have led to the rise of mobile banking as well as internet-based services. The banking industry spends a significant amount of attention on offering enhanced services to its clients and enhancing their technological infrastructure in order to boost general consumer awareness and to provide banks an advantage over their competitors. The growth in digital payments in India has caused a fivefold rise in the country's digital loans, which now stands at \$ 75 billion and is anticipated to reach \$ 1 trillion in FY23. It is anticipated that the financial technology industry in India would reach Rs. 6.2 trillion (\$83.48 billion) by the year 2025.

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