

Full Length Research Paper

## Future Trends In The Indian Banking System

**Dr. Sachin Ashok Deshmukh,**

M. Com., M. Phil., NET, SET, Ph. D., M. Com.(Sub. Commu.)

Associate Professor & Head, PG Department of Commerce,

Shri Pancham Khemraj Mahavidyalaya, Sawantwadi (Autonomous), Dist -Sindhudurg. (Maharashtra ) 416510

Accepted 17 Dec, 2023

### Abstract :

*"A bank is an entity that provides people with secure and necessary advances of money and to which people entrust money when they do not need it," Kinley explained.*

*According to the Banking Regulation Act of 1949, "banking" in India is "the receiving for the purpose of lending or investing deposits of money from the Public, repayable on demand or otherwise and withdrawable by check, draft, order, or otherwise."*

*There have been many shifts in India's banking industry throughout the years. In an effort to provide more value to their consumers, most banks have started to innovate. Debit and credit cards, retail banking, ATMs, NEFT, and many more innovations have resulted from this in the banking and financial industries. Financial institutions are making significant investments in R&D, bringing cutting-edge ideas and technology to bear in response to India's growing liberalization, privatization, and globalization. Traditional methods of dealing with funds have been transformed by the convergence of cutting-edge financial technology with banking services. Some of the most prominent instances of new developments in the banking industry are the proliferation of fintech companies, online banking, and mobile banking.*

**Index :** NEFT, ATM, Retail Banking, Debit and Credit Cards, Indian Banking

### I. INTRODUCTION

The financial system in India is vital to the country and its citizens. A new era of development has dawned on India thanks to banking, which has aided in the development of crucial economic sectors. For millions of individuals, this industry has been the key to realizing their dreams. But it has accomplished this only after enduring the humiliation of foreign occupation, the pain of partition, and the control of miles and miles of tough terrain. These days, Indian banks can hold their own against any bank in the world.

Prior to the 20th century, rural India was rife with usury, the practice of lending money at unreasonably high interest rates. The establishment of joint stock banks and the expansion of the cooperative movement have taken a lot of business away from the Indian moneylender, who is still in place but has lost some of his menacing influence.

In India's banking system, which coexists with commercial banks, cooperative banks largely service agricultural and agriculture-based enterprises (such as farming, cattle, milk, hatchery,

personal finance, etc.), as well as certain small industries and self-employment-driven hobbies.

The co-operative acts of each state's legislature usually dictate the rules for cooperative banks. However, the RBI now regulates these banks as well, according to a modification to the Banking Regulation Act of 1949, because the RBI started to supervise banks on March 1, 1966. In addition to issuing licenses to financial institutions, the Reserve Bank oversees the lending limitations that main co-ops set for state co-ops that provide SSI units.

The General Bank of India was established in 1786, marking the beginning of banking in India during the first decade of the 18th century. Next on the list was Bank of Hindustan. You won't find any of these banks anymore. Following this, three presidential banks were set up by the Indian government. There were three presidential banks: the Bank of Bengal, which received its charter in 1809, the Bank of Bombay in 1840, and the Bank of Madras in 1843. The three presidential banks were later merged into what is today called the State Bank of India, the Imperial Bank of India (IBI), by the Imperial Bank of India Act, 1920.

Credit Lyonnais and other international banks began doing business in Calcutta in the 1850s, some two decades later. Banking took root and flourished in Calcutta since it was the busiest commercial port at the time, mostly because of the British Empire's commerce. In 1865, the Allahabad Bank became the first bank in India to be owned entirely by Indians.

Privately held banks such as Punjab National Bank in Lahore (1895) and Bank of India in Mumbai (1906) contributed to the market's expansion in the early 20th century. In 1935, the Reserve Bank of India formally began to regulate the banking sector in India. Following India's

independence in 1947, the Reserve Bank was nationalized and given additional powers.

The expansion and complexity of financial institutions brought about by deregulation, innovation, and technology upgrades make it all the more important to strike a balance between efficiency and stability. Over the last three decades, after nationalization, reforms in the financial sector have caused enormous shifts in the banking industry and the financial markets. Financial institutions have diversified their offerings beyond their usual banking services in order to meet the changing demands of their clients. Financial institutions now have more leeway to decide how they will operate. Thanks to technological advancements, transaction costs have dropped significantly, portfolio diversification has become easier, and banks' credit delivery has improved. For the purpose of encouraging and improving banks' efficiency, prudential requirements that are in accordance with worldwide standards have been established. Debt recovery, asset reconstruction and securitization, consolidation, convergence, mass banking, and other fields have all had their institution-building processes bolstered by various approaches.

Despite these admirable developments, major issues have surfaced, leading to a decrease in efficiency and productivity and a deterioration of the banking sector's profitability. The bank's revenue production and capital fund enhancement have been hindered due to the decline in the quality of their loan portfolio. Confidence among depositors and investors has been negatively affected due to insufficient capital and inadequate preparations for loan losses. As a result, the government appointed the Narasimham Committee to investigate the issues and provide solutions to strengthen the financial system.

After the government implemented the recommendations of the Narasimham Committee, the banking sector saw a dramatic shift from being too bureaucratic and regulated to being driven by the market and featuring intense competition.

The banking industry's rapid and enormous diversification and development has not been trouble-free. Now that the banking sector is entering a new era, it will confront more competition from non-banks in both the local and global markets. During the next ten years, there will likely be a dramatic shift in the way banks in India operate. The private banking industry has grown and expanded with the advent of new private banks, with an emphasis on both retail and wholesale banking. While traditional banks have a vast branch network and a widespread geographic presence, emerging private banks are able to compete thanks to their large capital reserves, lean staffing, knowledge of how to create complex financial products, and cutting-edge technology.

The quality and substance of banking would be improved as a result of the upcoming gradual deregulation that stimulates competition and makes it easier to form partnerships that benefit both parties. In the end, India's banking system will only shine if cooperative banks, rural regional banks, and development banks work together to open enough efficient retail locations to tackle the new social and economic problems that will inevitably arise over the next 20 years. The financial system has also been impacted by the technological era, which has resulted in very rapid electronic fund transfers. New risks, including threats to data security and integrity, have emerged as a result of the expansion of electronic banking and need innovative approaches to risk management.

In many monetary systems, cooperative (mutual) banks play a significant role. When

aggregated, they rank among the biggest banks in a number of nations. Furthermore, based on the sample of banks in developed and emerging nations analyzed in this article, cooperative banks' market share in terms of total banking sector assets increased from around 9% in the mid-1990s to roughly 14% in 2004.

## **II. LITRATURE REVIEW**

More qualitative than quantitative growth has characterised the Indian banking industry's recent expansion, and this trend is likely to continue. The analysis predicts that the rate of growth in bank balance-sheet expansion would slow down, based on the Planning Commission's "India Vision 2020" and the Draft 10th Plan. After a 16.7 percent increase from 1994–95 to 2002–03, bank assets are projected to expand at a 13.4 percent annual composite rate for the remainder of the decade. Large increases to the liability side's capital base and reserves are anticipated.

The two main types of banks in India's banking sector are scheduled banks and nonscheduled banks, as defined by the Banking Regulation Act of 1949. Both commercial and cooperative banks are included in the category of scheduled banks. Nationalized banks, rural regional banks, the State Bank of India and its affiliates, and domestic and foreign private sector banks are the commercial banks that fall under this category if we divide them up by who owns them. More than 67,000 branches are located around the nation for these banks.

Over three quarters of India's banking industry's assets are held by the country's foundational Public Sector Banks (PSBs). They have a lot of staffing issues, outdated technology, and a lot of non-performing assets (NPAs). Meanwhile, private sector banks are making remarkable strides. When it comes to online, mobile, phone, and automated teller machine

banking, they are unrivaled. International financial institutions have high hopes for the Indian banking market.

There are a number of banks in India's banking industry, both public and private. Some of the private sector banks include IDBI and ING Vysa Bank, while some of the public sector banks include Punjab National Bank, Vijaya Bank, UCO Bank, Oriental Bank, and Allahabad Bank. Among the international banks present in India's banking sector are ANZ Grindlays Bank, ABN-AMRO Bank, Citibank, American Express Bank Ltd., and Citi.

In the grand scheme of things, the Indian banking sector is now going through a turbulent time. As part of the initial round of financial reforms in 1969, fourteen major banks were nationalized, marking the shift from class to mass banking. As a consequence, banks' geographic scope expanded substantially. Industries designated as "priority sectors" were required by law to receive a certain proportion of all bank loans. The banking industry was an essential driver of the industrial sector's growth in the 1970s, which occurred in sheltered environments. As part of the subsequent changes, six other commercial banks were nationalized in 1980. The number of scheduled commercial banks has multiplied by four since then, while the number of bank branches has multiplied by eight.

When the financial sector liberalized and underwent its second wave of reforms in the early 1990s, public sector banks (PSBs) faced stiff competition from both private sector banks and international institutions. In January 1993, rules were published for the new private sector banks to start debut. There are now eight private sector banks operating. Because of their delayed launch, these banks have the opportunity to use cutting-edge technology. This allows them to save

expenditures on labor while improving the quality of their services.

The State Bank of India (SBI) and its seven affiliates had a quarter of the deposits and 28.1% of the loan market in 2000. At the time, the 20 nationalized banks collectively handled 47.5% of loans and 53.2% of deposits. In 2000, regional rural banks, other scheduled commercial banks, and foreign banks (42 total) made up 5.7%, 3.9%, and 12.2% of deposits and 8.41%, 3.14%, and 12.85% of loans, respectively.

### **III. PROBLEM STATEMENT**

Even though there were several restrictions, the endeavor was ultimately successful. Secondary data may be easily gathered, but we must be cognizant of its limits. Secondary data, which the research relies on, could be imprecise and broad in scope.

In the beginning, there is a lack of understanding about the financial industry. The bank management were unable to provide complete details. The initial intent of its collection may have been different.

### **IV. OBJECTIVE OF STUDY**

The business world is going through a period of change right now. While public sector banks, the foundation of the Indian banking system, are reducing government equity, non-performing assets (NPAs), and personnel headcount, private sector banks are merging and purchasing one another.

PSBs, which account for over 78% of the industry's assets, are beset by nonperforming assets (a startling Rs 830 billion in 2000), declining traditional source revenues, a large workforce, and a lack of modern technology, while new private sector banks are pushing forward and rewriting the traditional banking business model through innovation and service. The PSBs are now developing challenging solutions, despite the fact

that 20% of their massive workforce has decreased as a result of the successful Voluntary Retirement Schemes (VRS) initiatives.

Nevertheless, the private entities are unable to compete with the PSB because to its extensive reach, large size, and availability of low-cost deposits. Mergers and acquisitions (M&A) have therefore been a tool in their arsenal against PSBs. Several similar incidents have occurred in the sector throughout the last two years. As an example, consider the Times Bank-HDFC Bank merger. Bank of Madura, Anagram Finance, and ITC Classic were all acquired by ICICI Bank. Several banks are reportedly keeping an eye out, including Centurion Bank, Vysya Bank, Bank of Punjab, and Indu-Sind Bank. On the other hand, the merger between UTI Bank and Global Trust Bank revealed a lot about the private sector banking industry's inner workings.

While PSBs are still dealing with unhappy employees from successful VRS schemes, private sector banks have been at the forefront of various innovations in banking, including online and mobile banking, debit cards, ATMs, and a host of other services. There has been an increase in the annual branch opening limit from 8 to 12 branches for international banks, both new and old, as a result of India's commitment to the WTO agreement regarding the services sector. The previous limit was 8 branches.

A fresh window of opportunity has opened up for the acquisition of even the PSBs, thanks to talks of the government decreasing their shareholding from 51% to 33% in November 2000. A more streamlined set of FDI regulations in the first quarter of fiscal year 2002 could make it easier for international banks to acquire Indian partners via mergers and acquisitions.

As the economy and business sector continue to contract, more and more banks are

shifting their attention to the retail sector. Insurance is a new frontier for many of them as well. The insurance industry is a good fit for banks because of its massive customer bases and frequent interactions with ordinary investors.

## **V. New Developments in Indian Banking**

Banking and financial services in India have seen a tremendous transformation throughout the "Digital India" era. The shift is due to a number of factors. Innovative financial technology has completely transformed banking and financial services in India. Because of it, a number of technological developments have emerged and progressed, which has led to a sea change in various sectors. Not only do these developments in banking and financial services help improve existing systems, but they also take a small step towards making our society paperless.

### **5.1 Digitization**

It became critical for India's banking and financial services to adapt to the changing landscape and provide innovative digital solutions to cater to consumers who were tech-savvy due to the fast rise of digital technology. There has been a tremendous digital transformation in several sectors, including banking, insurance, healthcare, retail, trade, and commerce. The banking and financial sector must get on the digital bandwagon if it wants to remain competitive. It all started in India in the 1980s, when the banking industry started using IT for fundamental tasks like customer care, accounting, and auditing. In order to better serve its customers, Core Banking Solutions were quickly implemented. This change, however, didn't start until the Indian economy opened up to the world market in the 1990s, during liberalization. The primary driver of technical advancements in the banking business is the sector's opening up to private and foreign institutions. There are many ways in which modern

banking and finance have benefited from embracing technological advancements. It is quite remarkable how convenience banking has surpassed traditional banking. Features such as electronic funds transfers (EPS), real-time gross settlement (RTGS), national electronic funds transfer (NEFT), online banking, and telebanking have simplified and modernized the banking system. Thanks to digitization, "anywhere and anytime banking" is now a reality.

#### **i) E-checks and other forms of electronic payment**

Online transactions no longer need paper checks; instead, an electronic document known as an e-Cheque may be used. Handwritten signatures are transformed into digital ones via the use of public key cryptography. The e-Cheque system is sufficiently secure to prevent fraud against banks and their customers thanks to its message integrity, authentication, and nonrepudiation characteristics. Because it does not require real-time interactions or approvals from other parties, the e-Cheque works well with interactive online transactions or email. Payers, payees, banks, and the whole financial system are believed to be little affected by its compatibility with paper Cheque habits and systems.

#### **ii) RTGS, or Real Time Gross Settlement**

Banks in India may now send electronic instructions to move money from one another's accounts thanks to the Real Time Gross Settlement system, which became live in March 2004. Banks are able to conduct their financial activities more efficiently thanks to the Real-Time Gross Settlement (RTGS) system, which is maintained and run by the Reserve Bank of India (RBI). So, it's a "Real Time" foundation for money transfers between banks. Consequently, the recipient may get their hands on the funds right away, and their bank is obligated to deposit the funds into their

account no later than two hours after receiving the order. On weekdays, you may complete an RTGS transaction between 9 AM and 4:30 PM, and on weekends, you can do the same between 9 AM and 2 PM. The following are the RTGS fees:

1. All inbound transactions are free of charge.
2. For each outward transaction between 2 lakh and 5 lakh rupees, the maximum amount that may be spent is 30 rupees.
3. Transactions over 5 lakh rupees should not exceed 55 rupees.

#### **iii) The Fast and Secure Electronic Funds Transfer**

With Electronic Funds Transfer (EFT), a business or individual can simply visit their bank branch to pay another business or individual in cash or give their bank the green light to send money directly to their bank account. The electronic funds transfer (EFT) method is often used to deposit funds directly into an employee's bank account. The recipient's name, account number, bank name, city, branch name, and account type (savings or current) must be filled out in order for the money transfer to go through quickly and accurately. The EFT service is offered by RBI. Quick and easy money transfers between accounts are another perk of EFT. Customers no longer have to physically visit banks to complete their transactions.

#### **iv) ATM**

Customers in India may access their money at any time, day or night, thanks to the ubiquitous Automatic Teller Machine. With an ATM card, customers may do regular banking activities remotely, eliminating the need to deal with a teller. You can use ATMs for a lot more than just withdrawing cash. You may pay utility bills, move money between accounts, deposit checks and cash, check your balance, and much more besides.

#### **v) Online Credit.**

With the use of telebanking, customers may do all of their non-cash banking transactions over the phone. For easier inquiries and transactions, this device is used with an Automatic Voice Recorder. For more complex inquiries and transactions, manned phone terminals are used.

#### **vi) EDI, or electronic data interchange**

Electronic data interchange refers to the process by which trade partners exchange standard, computer-processed, globally recognized formats of business documents such as purchase orders, invoices, shipping notifications, and receiving advices over the internet. The electronic transmission of money and other financial data is another use case for electronic data interchange (EDI).

#### **vii) Payment Methods**

With these plastic cards, consumers may make purchases anytime they choose, up to the predetermined limitations, and then pay for them later. Credit cards are postpaid and have predetermined spending restrictions, but debit cards are prepaid and have saved value. Customers may use their credit cards to purchase now and pay later via an overdraft option.

### **5.2 Improved Mobile Banking**

Among the most prominent developments in banking systems at the moment is mobile banking. By definition, it's the use of a smartphone to do a number of banking operations, such as seeing account balances, transferring funds, and paying bills, all without physically going to a branch. The conventional financial systems have been swept up by this tendency. It is anticipated that mobile banking will continue to improve in the next years, making it increasingly easier and more efficient to meet client requests. The Internet of Things (IoT) and voice-enabled payment services are on the horizon for mobile banking, according to

industry predictions. Everything from smart TVs and vehicles to smart houses and everything in between has one of these voice-enabled services. Leading companies in the sector are teaming together to develop mobile banking technologies that can be controlled by voice commands, using networks linked to the internet of things.

### **3. UPI, or the Unified Payments Interface:**

The Unified Payments Interface, or UPI, has revolutionized the payment process. Instantaneous interbank transactions are made possible with this real-time payment system, which is accessible through mobile platforms. This kind of payment is seen as the way retail banking would be done in the future in India. The National Payments Corporation of India and the Reserve Bank of India collaborated to create this top-tier payment gateway, which is both quick and safe. The debut of this groundbreaking payment mechanism occurred in 2016. In contrast to other online banking systems, this one allows for the transmission of money at any time, day or night. The method for making transactions is backed by about 50 institutions and over 39 applications. This approach was crucial in India after demonetization. There will likely be a future shift toward more "open" financial practices made possible via UPI.

### **4. Blockchain:**

The most recent fad is blockchain technology, which is quite new. Cryptography and the underlying technology that it employs are supposedly the wave of the future when it comes to banking and finance throughout the world. To process, validate, and record transactions in an immutable way, blockchain technology creates blocks. IndiaChain, the biggest blockchain network in India, is being created by NITI Aayog. It is anticipated to have a revolutionary impact on several sectors, decrease the likelihood of fraud, increase transparency, shorten the time it takes to

complete transactions, decrease the need for human interaction, and build an unhackable database. There will likely be repercussions for a number of areas of banking and finance, including lending, stock markets, trade financing, clearing and settlement systems, and payments. Because of its complex architecture, blockchain technology is formidable.

### **5. Robots with Artificial Intelligence:**

Chatbots, or artificial intelligence robots, have begun to be used by a number of Indian banks, both public and commercial, to aid with customer care. This technology is still in its early stages of adoption, but chatbots are sure to advance in the near future. By eliminating room for human mistake, the technology will provide clients with precise answers. It also helps with financial choices, surveys, and detecting fraudulent conduct.

### **6. The Ascent of Financial Technology Firms:**

Fintech startups were formerly seen by banks as a disruptive force. But as times have changed, fintech businesses have grown in importance inside India's financial services industry. A key component of the ecosystem, the industry has recently arisen. These businesses are striving to revolutionize finance by using financial technology. This sector has grown into a multi-billion dollar business due to the enormous investment in it over the last few decades. The delivery of financial solutions to consumers has been revolutionized by fintech businesses and fintech applications. In addition to lowering the barrier to entry for financial services, fintech businesses have improved service quality, enhanced the client experience, and lowered prices. Fintech companies, well-established banks, government programs like "Start-Up India," incubators, investors, and accelerators are all key players in India's rapid transition. The National Association of Software and Services Companies

(NASSCOM) predicts that by 2020, the fintech services industry would have grown 1.7 times, reaching \$8 billion.

### **7. Banking Exclusively Online:**

This cannot be disregarded since it is a relatively new development in India's financial sector. In an effort to eliminate paper and physical branches, digital-only banks have arisen as the whole banking and financial services sector moves online. There is a new kind of bank that is quickly replacing the old ones. All of these financial institutions' services are available only via digital mediums, such as smartphones, laptops, and tablets. In a nutshell, it offers access to real-time data and simplifies most fundamental functions. Conventional banks are supposedly threatened by the increasing popularity of these institutions. India's first digital-only bank is ICICI Pockets. Customers are drawn to these banks due to their efficient business strategies. Concurrently, they provide low-cost, high-speed financial services, however virtually. Because they eliminate the need to physically visit the bank and wait in line, these banks are perfect for customers in today's fast-paced world.

### **8. Online Banking:**

The advent of cloud computing has been revolutionary. Benefits of cloud computing include more adaptability and scalability, more efficiency, streamlined integration of emerging technology, quicker service and solution delivery, and safer data storage and transfer. The ease of data updates on cloud-based models also means that banks won't have to shell out as much money for software and hardware.

### **9. Biometrics**

Widespread changes to national identification regulations are anticipated as a result of a biometric authentication system, which is primarily implemented for security reasons. The



effect will be felt by several sectors, including banking and financial services. Biometric authentication, in conjunction with encryption and one-time passwords (OTPs), is expected to provide a database that is very protected against hacking and data breaches. This strong technology is being investigated by financial institutions in India as a means to guarantee high-level security for consumers' accounts and funds.

#### **10. Wearable technology**

Financial services and banking tech are collaborating on smartwatches to provide retail banking consumers more agency and convenience with their data. Our day-to-day routines have been revolutionized by wearable technology. A historical shift away from conventional paradigms heralds an impending upheaval in the near future. There aren't many obstacles to the dramatic change in the environment. Customers are receptive to new banking services, and initiatives like the "Jan Dhan Yojana," which seeks to provide bank accounts to all citizens, have strong government backing. At the same time, government regulators, nationalized banks, and other financial institutions are under pressure from private and foreign sector banks to embrace new technologies so they can remain competitive.

#### **VI. CONCLUSION**

The banking industry is crucial to the development of both national and personal economies. If a nation wants to become developed, it needs a solid banking and finance system. It is critical for economic development, employment, wealth creation, poverty alleviation, and GDP growth.

Banking nowadays is often referred to as creative banking. The banking and financial sectors have benefited greatly from the new advancements brought about by IT in terms of product design and delivery. They specialize on

customer service and making sure customers are happy.

Electronic banking, electronic funds transfer, and related technologies have made possible the transmission of monies within time intervals that were previously unimaginable. Security, privacy, and transaction secrecy are becoming more important concerns as a result of internet connectivity and networking. Last but not least, the banking sector will need to adopt a new business model that entails creating management and customer services with a variety of products and controlled expenses if it is to endure in the long run.

#### **VII. REFERENCES**

##### **JOURNALS**

1. Aditi Mittal and Sumit Gupta "Emerging role of information technology in banking sector"s development of India" Acme International Journal of Multidisciplinary, Volume – I, Issue – IV April – 2022 ISSN: 2320 – 236X
2. Deolalkar G.H. "The Indian Banking Sector on the Road to Progress"
3. Indian Banking 2023 Special issue 2023, vol. 26 No I, IBA bulletin, IBA Mumbai

##### **WEBSITES 1:**

1. [www.rbi.org.in](http://www.rbi.org.in)
2. [editorijmie@gmail.com](mailto:editorijmie@gmail.com)
3. <http://www.mbaknol.com/business-finance/recent-trends-in-indian-bankingsector/>
4. <http://www.articlesbase.com/information-technology-articles/it-emergencerecent-trendsin-banking-industry-of-india-1981838.html>
5. [http://www.vikalpa.com/pdf/articles/2003/2003\\_july\\_sep\\_83\\_99.pdf](http://www.vikalpa.com/pdf/articles/2003/2003_july_sep_83_99.pdf)