Volume-7, No. 2 Aug.-2020, pp. Eng.18-22

An Analytical Study of Financial and Banking Sector Reforms in India

Dr. S.K Sharma, Associate Professor
Faculty of Commerce and Business Administration
D.N. (PG) College Meerut (U.P.) India.
Mis. Sonam Agrawal (Research Scholar)
D.N. (PG) College Meerut (U.P.) India.

Abstract

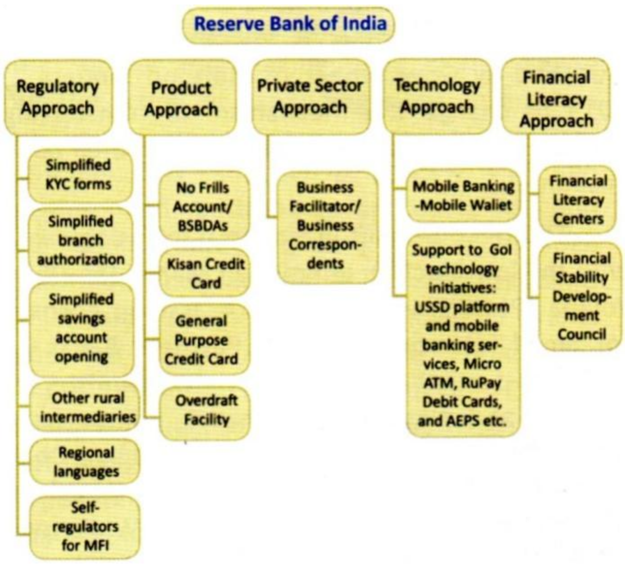
In any country economic development cannot take place without the development of financial and banking sector, and for the better development of these sectors time to time reforms are needed .The present study is an analysis to understand the financial and banking sector reforms and provide suggestions for further development of sector. Researcher has studied and analyzed various previous researches to understand the concept. The objective of the study is to find out thevarious phases of banking sector reforms and suggest next phase in the globalized environment. The study is based on secondary data collected from various reliable sources. In the end it can be concluded that overall efforts of government and banks are needed for reforms.

KEYWORD- Banking sector Reforms

INTRODUCTION

Economic reforms in the real sectors of the economy cannot reach their full potential without parallel reforms in the financial sector. Financial sector reforms refer to the general improvement of the operation and efficiency of the financial system as a whole and the removal of obstacles to its long-term growth.The financial system must play a critical role in mobilizing and allocating resources for more productive use in order to fulfill its role in economic growth.However, as the banking sector is the most dominant part of the financial sector, banking sector reforms have been the basis of the tasks to improve the efficiency, productivity and profitability of banks. These reforms took place in two stages in 1991 and 1997.

The various approaches used by the RBI to ensure the availability of financial services are shown in Figure



Financial and Banking Sector Reforms

Banking reforms aim to improve the productivity, efficiency and competitiveness of the banking sector. Financial sector reforms appear to be achieving—

1. Improving financial health;
2. Increasing competitiveness;

3. Improving the financial infrastructure related to supervision, control, technology and the legal framework;
4. Increasing the level of management capacity; as well
5. Corresponding changes in the policy structure, etc.

Reasons of Banking Sector Reforms

Because people require regular medical examinations to maintain good health in order to perform quality work with maximum efficiency, the equipment requires maintenance to operate efficiently. Similar to the banking system, few instalmentsis needed to improve itsperformance to the required standards. Since 1991, the banking sector has faced the following challenges—

1. It is largely regulated by the Central Bank, ie the Bank of India.
2. Outdated work technology.
3. Reduction of productivity and efficiency of public sector banks.
4. Increase inefficient assets.
5. Poor customer service.
6. Reduced portfolio quality.
7. Permanent losses from public sector banks from year to year.
8. Inability to match the competitive environment.

In view of the above inaccuracies, the Narasimham Commission was appointed in 1991 and submitted its report for three months in Nov. 1991 with detailed measures to improve the unfavorable situation in the banking sector. The main motivation behind the reforms was to improve the operational efficiency of banks to further increase their profitability and productivity.

Banking Sector Reforms in Ist Phase

These include the following—

1. Income recognition.
2. Cancellation of interest rate regulation.
3. Asset Reconstruction Fund.
4. Transparent instructions or regulations for entry and exit from private sector banks.
5. At least forty percent of the total advances must belong to the priority area.
6. Establishment of debt collection courts.
7. Reduction of SLR and CRR.
8. Branch release policy.
9. Classification and provision of data.
10. PSBs are allowed direct access to the capital markets.

Banking Reforms in Second Stage

Despite the many optimistic views on the development of them banking sector in terms of branch expansion, depositmobilization, etc., some deformation are still entering thesystem, which are listed below—

1. Increased competition.
2. Outdated technology.
3. NPA increase.

As the process of reforming the second banking sector has continued since 1999, it has shown an improvement in the performance of banks and, on the other hand, many changes have taken place due to the entry of banks into the world market.

Literature Review

Wahab, A. (2001) analyzed the effectiveness of reformed commercial banks. He also highlighted the main issues that need to be addressed for further improvement. He concluded that the reforms had a beneficial effect on the performance of commercial banks in general, but there are still some distortions, such as the development of low-priority areas, low profitability, etc., which need to be reformed again.

Vashisht, A. K. (2004) examined recent global developments that have changed the environment in which commercial banks operate. Globalization has significantly expanded the economic interdependence and interaction of countries. In a globalized environment, the financial performance of commercial banks

has changed and in the coming years, commercial banks will face new challenges and new opportunities.

Pravakar Sahoo, (Oct. 2014), India's economic integration, measured by any standard, leaves much to be desired. As of 2012, only 35 percent of Indians over 15 had a bank account at a formal financial institution in the developing world, the average is 41 percent (World Bank 2012). Due to the ambition of the Reserve Bank of India to expand access to

financialservices, the number of bank accounts increased by about 100 million during the period 2011-2013. Today there are 229
million basic bank accounts. Access to official financial institutions has gradually improved, but there are still no bank branches in thousands of villages

Dr. R. S. Reddy & T. S. Raji Gain (Sept. 2018), it has been recognized worldwide that economic growth cannot be sustainable if all sectors of society, especially the disadvantaged,are not included in the process. development. An inclusive growth approach focuses on productive employment as a means
of increasing the incomes of poor and marginalized groups and raising their standard of living. Inclusive growth helps sustainable rural development as it creates employmentopportunities and helps reduce poverty.

Shishir Sinha (Aug. 2019)5, It takes time to increase both consumer and investment demand, which requires the strengthening of the entire banking sector, which includes mainly planned commercial banks and non-bank financial companies (including housing finance companies). The trade union budget for the period 2019-2020 tried to give a boost to all three. The most important aspect is that the provisions contained in the budget address jointly liquidity and regulatory issues, thus paving the way for a comprehensive reform of the entire banking sector.

Objectives

1. To study the banking sector reforms.
2. To study and analyze the efficacy of banking sector reforms.
3. To study various phases of banking sector reforms and suggest next phase in the globalized environment.

Research Methodology

For the present study, the principal source of information is the secondary data. The researcher has gone through a number of standard text books dealing with the related problem. Besides the different important journals, statistics published by various authorities, data available on the internet, research papers and issues of Reserve Bank of India and other magazines have alsobeen screened dealing with the problem.

Suggestions

Third Stage of Banks Reforms

The future agenda of the IIIrd reform should undoubtedly address the following key areas—

1. NPA Management— The NPA level in the Indian banking industry is a matter of great concern, and therefore urgent clean-up of the bank's balance sheet has become a major issue. Although the ratio of net NAP to net advances has decreased somewhat, it is still very high in absolute terms. Do not consider projects with outdated technologies for funding. Do not consider emergency loan financing for more than five years, except for agriculture, infrastructure and small businesses. Trained staff to monitor the creditworthiness of borrowers and the final use of bank loans, in order to avoid serious bankruptcies after default, in order to finance only productive projects.

2. Modernization of Technologies— As new entrants, using new technologies and complete computerization of their bank branches, have been able to promote global competition, public and old private sector banks are still waiting for some other alternatives and are far behind newcomers. Therefore, open and new competitive challenges cannot be met. The need today is for public sector banks to carefully follow the adoption of such as e-banking that increase their ability to handle more and more customer requirements without wasting time.

3. Reduction in SLR & CRR— With SLR and CRR reserves reduced, all banks were able to use their surplus capital in other profitable activities. If it decreases, all banks' capital will increase and they will be able to invest their surplus capital in government bonds, foreign stock markets, additional loans, etc.

4. Priority Sector Advances— The downward trend in the share of priority sector achievements in total advances must be checked to see if the banking system is to adapt to the specific requirements of the Indian economy. Reduce the current target limit of 40 percent to 35 percent, in addition to encouraging banks to finance more than this target in this area, and rewarding these banks with some additional benefits, such as tax breaks as much as possible increase of lending limits, etc. Simplify the process of processing a loan application, contracts and other documents.

5. Interest Rates—Interest income is steadily declining due to interest rate deregulation, entry into the NBFC market with easy financing and intense competition. On the other hand, interest income increases, which is a good indicator of increased profitability. Interest rate should reduce on mortgages as well as loans for infrastructure development activities.

6. Rural Banking Development—PSBs have more agricultural branches than new entrants, which is the main reason for their slow growth. New PSBs and BFs should be motivated to open branches in rural areas by providing them with some additional benefits, such as tax breaks, increased credit limits, etc. Start more programs to educate people about the operation of the banking system and its benefits.

7. Accountability— There is no profit report in the case ofPSB. No one is responsible. Every bank must commit to responsibility and respect good employees.

8. Assessment Skills— So far, the focus of India's banking sector has been heavily on financing agriculture and manufacturing, covering MSMEs. But now the banks have to take over the category of services as well. Thus, with the help of IT, banks need to improve their creditworthiness capabilities and pay more attention to Financing a wide range of services activities.

Other suggestions-The following seven trends will shape the next generation of banking services in India—

1. Transforming the Way We Bank— Technology will shape the banking outline of the future. This includes bigdata, cloud computing, smart phones and other such innovations. Omni channel, not multichannel, will change the way customers interact with banks. For example, extending personalized offerings to customers' mobile phones, using a home video conferencing system for personalized connectivity, and using face recognition technology for effective cross-selling are some of the ways in which technology will help future banking.

2. 'Creative Destruction' of Banks— Banks need to focus on innovation that will increase competition and lead to better and cheaper customer service. Banks can also work together to achieve scale and excellence by integrating their infrastructure into consortia. In addition, outsourcing services such as customer authentication, fraud control, payment processing, account infrastructure, KYC processing to existing technology service providers could be key steps in the future.

3. Cashless and Branchless Banking— The banking industry could soon evolve from a nine to five-point business into a 24/7 solution platform worldwide. Storefront banking can help you achieve economies of scale in revenue generation and cost management. The growing trend of branchless banks is leading to the closure of traditional branches in developed countries (Bank of America has closed more than 1,000 branches in the last 5 years). Banking business innovations could be combined with national platforms such as Aadhaar to reduce customer acquisition costs by 40 percent and make banking branches even more viable.

4. Innovation in ATM usage—The World Bank estimates that the transaction costs for Indian banks are Rs. 48 per branch, Rs. 25 for telephone banking, Rs. for ATMs, Rs. 8for IVR and Rs 4 for online. India has low ATMpenetration, with only 11 ATMs per 1 million people in India, compared to 37 in China and 52 in Malaysia. In this respect, solar ATMs can reduce installation costs by almost 50 percent, as well as meet the needs of energy shortages rural areas.

5. Infrastructure Financing—India's share of the global infra-structure market is about 5 percent and is expected to grow to 9-10 percent by 2025. Futuristic growth models will evolve according to the principles of the 5:25 structure and the public-private partnership (PPP) long-term financing model. In addition, new mechanisms will emerge in the form of infrastructure debt funds, green banks and financing for resilience gaps.

6. New Models to serve MSMEs—The MSME sector provides 8% of the country's GDP. SIDBI estimated the total demand for debt financing in the MSME sector at US $ 650 billion. New structures such as cluster financing, technology modernization capital policy, MUDRA bank, loan guarantee systems, hatcheries and start-ups will play an important role in the coming years.

7. Competition and Consolidation—the banking landscape in India will change with the advent of a new generation of specialist banks. The incentive for innovation, competition and business continuity will also pave the way for synergistic integration. Here are some innovative ideas that could become a feature of the next15-20 years—

1. Account number portability (on mobile number portability lines)
2. Efficient use of big analytical data
3. Securitization of retail loans

Conclusion

Finally, we must remember that random efforts will not solve the problem of financial sector. The credit system as a whole - state, commercial and cooperative-must be so interconnected that there are no gaps or duplication in it. Only then will the country as a whole be able to reap the real fruits of credit in the form of banking reform, which remains the key to India's future prosperity. Access to financial services allows the poor and other disadvantagedsectors of society to open their doors to non-bank members tosave, invest, create jobs and reduce inequalities. The SBLP andKCC experience is quite satisfactory. Economic integration actsas a bridge between economic opportunities and results.However, more steps are needed to improve financial and technological literacy, capacity building, easy and affordablecredit lines and the marketing of small and marginalized farmers. Because technology can play a critical role in conducting branchless banking, banks can use mobile banking, micro ATMs and the business correspondent model to access nonbank banking services. It is also expected that start-up agricultural technology companies can provide the latest technology and connect farmers to the market for greater profits.

References

1. Trend and Progress in Banking, 1998-99, Reserve Bank of India.
2. Ministry of Finance (1933b), *Public Sector Commercial Banks and Financial Sector Reforms: Rebuilding for a Better Future,* New Delhi, Government of India.
3. Dr. R. S. Reddy & T. S. Raji Gain, Financial Inclusion for Inclusive Growth, Kurukshetra, Sept. 2018, Publication Division, Govt. of India, Soochana Bhawan, New Delhi-110003, pp. 27.29
4. Shishir Sinha, Comprehensive Reform for Banking Secor, Youjana, Union Budget 2019-20, Publication Division, Soochna Bhawan, C.G.O. Complex, Lodhi Road, New Delhi-110003 pp. 76-79
5. Pravakar Sahoo & Bhaves Garg, India’s Credit Ratings: Boost to Investors’ Sentiment, Banking Reforms, Yojana, January 2018, Publication Division, Soochna Bhawan, C.G.O. Complex, Lodhi Road, New Delhi-110003 pp. 65-67
6. Rangrajan, C., 1998, Indian Economy: Essay in Money and Finance: (New Delhi: UBSPD).
7. Reserve Bank of India, (a), Various Years, Report on Trend and Progress of Banking in India (Mumbai)
8. World Pay Global Payments Report 2018 (share of cash and other payments inthe payments methods used)