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PROBLEMS AND PROSPECTS OF BANKING SECTOR REFORMS IN INDIA: A THEORETICAL PERSPECTIVE

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Abstract

For past 30 years, the banking system of India has witnessed some of the most outstanding achievements. It is not just confined to cosmopolitans and metropolitans now. In fact, the banking system in India has now also reached to the remotest corners of India. Since the entire process of reform and liberalisation of banking sector happened in the year 1991, the banking sector of India has undergone some major transformation. The main objective of this reform is to make banking system of India competitive, profitable as well as productive. The banks in India especially, public sector ones and old private banks are not able to cope up with the competition. They are not able to match the profitability as well as productivity with an exception of SBI and associates. Other banks of the public sector and old private banks should undergo a major transformation in order to improve their profitability as well as productivity.

Keywords: banking reforms. Banking sector in India, private and public banks reforms, Indian banking system.

Introduction

Since India attained independence, institutional finance offered by the financial institutions has undergone complete change. The new institutions of the public sector like the development banks and other such financial institutions have emerged majorly and the old financial institutions like the commercial banks as well as the insurance companies, general and life have also been nationalised, expand and empowered. On the contrary, the banking system in India has witnessed a very long as well as difficult journey during this period. It underwent the narrow path of stringent rules and regulations, was burdened with the non-performing assets during pre-reforms period. However, it got a new life when liberalisation happened during early 90s. Even after the process of liberalisation happened in the banking system in India, it still tool the pressure to compete for the goals of improving efficiency and public welfare. The adaption of increased efficiency, advanced technology, less bureaucratic control, liberal norms as well as increased competition have made it way stronger as compared to before. In turn, this has made financial system even more accessible to a lot of ordinary Indian people and has also acted as the catalyst for them to participate in the growth story of India**(Arora and Bodhanwala, 2018).**

The CFS or the Committee on Financial Systems which is popularly called the Narasimhan Committee was established in the year 1991. Its aim was to bring about the required reforms in the financial sector. The Narasimhan Committee acknowledged as well as appraised the progress and success of the Indian banking system since major banks of India were nationalised in 1969. Unfortunately, developments were witnessed just in terms of expansion and spreading of branches of banks, generation of employment opportunities, mobilisation of the savings and not in terms of improving the efficiency of these banks. Apart from fraud, corruption, poor utilisation of the public money rather than improvements in terms of efficiency. Apart from corruption, poor utilisation of the public money, fraud, obsolete technology were some of the major drawbacks in real progress for the banks. The United Front Govt. appointed the Narasimhan Committee for reviewing the progress of these banking sector reforms. The committee gave its assessment to the Finance minister then on 23rd April, 1998. The primary goal of the committee for banking sector reform was to develop an efficient, strong and profitable bank system which matched global standards.

The economic growth and development of any country is reflected through its progress in different economic fields. These economic units could be classified into government sector, corporate sector as well as household sector. There are certain areas where the people who have additional funds and then there are ones who do not have sufficient funds. The financial system or the financial sector mainly works as intermediary and it also facilitates flow of cash funds from areas where there is surplus to areas where there is a deficit. The financial system is the composition of different markets, institutions, laws and regulations, money manager, transactions, liabilities, claims, etc. The financial system is mainly the system that allows exchange of financial funds between the investors, lenders as well as borrowers. The financial system comprises of a set of certain sub-systems of the financial markets, the financial institutions, financial services and instruments that help in forming the capital. It offers a mechanism through which savings maybe transformed into investment.

The measures of banking reforms have brought sweeping change in the critical sector of banking reforms. The performance of banks has also impacted the entire economy. Some of the major reforms of the banking sector comprise of modification of policy framework, improvement in financial stability as well as credibility of the banks, creation of a competitive market environment and strengthening of institutional framework. The measures of banking sector for improving the productivity as well as efficiency with the help of competition were also initiated as well as sequenced for creating an enabled environment for the banks. It helped them in overcoming the extra restrictions that were mainly related to the administered structure of the rate of interest, high level of pre-emption in form of the reserve requirements, allocation of credit to different sectors, etc. **Ozkan, Cakan and Kayacan,** 2017)**.**

Literature Review

Financial system of a country is a system which enables the borrowers and the lenders for exchanging funds. The globalised financial system can be said to be a broad regional system which encompasses all the financial institutions, lenders and borrowers within the economy at the global level. Therefore, the financial system mainly works as an intermediary for the investors and the savers. It enables flow of cash funds between the surplus spending unit as well as the deficit spending unit. It's majorly concerned with credit, finance and money. These 3 components are closely interrelated to each other. The financial system could be defined at the regional, global and specific company level as set of the institutions, markets and instruments that promote the channels as well as savings for an efficient use. It comprises of savers, intermediaries, users of the savings (investors) and the markets (**Ashraf, Bashir and Asghar, 2017)**.

In the world of Van Home, the financial systems allocate savings efficiently into the economy to the ultimate users. They may allocate the savings for either the purpose of investment in assets or for the purpose of consumption. The financial system comprises of various institutions, instruments as well as markets related in a very systemic manner and offers principal means through which savings get transformed into investment (**Chen, Hung and Wang,2018)**.

The main function of the financial system is providing a linkage between investment as well as savings for creating new wealth and for permitting adjustment in the portfolio in composition of existing wealth.

Therefore, the financial system may be defined as the set of closely inter-linked and complex financial institutions, financial services and instruments and financial markets that facilitate transfer of funding's (**Kansal et. al., 2018)**.

The financial institutions help in mobilising the funds from the suppliers and offer them to those who need them. Similarly, financial market is also needed for moving funds from the saves to the intermediaries and from the intermediaries to the investors. So in short, the financial system is the mechanism through which the savings are mainly transformed into investment **(Tamatam, 2019)**.

The banking sector of India has given quite an encouraging and a positive response to reforms of the financial sector. Entry of the new private sector banks and the foreign banks has completely shaken the public banks. Changing the entire scenario of the financial system has given birth to new opportunities for banking institutions to expand the global presence with the help of strategic alliances, self-expansion, etc. The banks are now diverting the focus on the retail banking in order to gain an access to the low cost funding and for expanding into the relatively hidden potential areas of growth**(Aruna, 2020)**. It has also been said that the CAMERL framework is considered to be a significant system of measuring performance on the basis of different ratios which are used for finding the rank of these banks. The CAMEL model includes computation of different ratios under the Capital Adequacy Assets Quality, Earning Quality, management efficiency, Liquidity of banks, etc. Different types of banks could use different types of ratios for every variable of the CAMEL framework. It may help in finding out the ranks of different banks. The CAMEL framework is the ratio based system of measuring performance. It is also based on the financial measures which help in measuring performance of these banks**(Maity, 2019)**.

It has also been argued that even though the rural banks in India have shown a huge quantitative progress, the quality is a different issue altogether. It has also been said that for being suitable for and for being effective in our country, the banking system in the rural areas should operate at the level of the village, advance customised packages of credit along with the component of consumption and should closely monitor its disbursement towards the farmers in different villages. It should also offer technical support and marketing linkages. It has been considered that policymakers need to give thrust for nurturing of the special skills in the institutions, positive attitude of the management as well as culture conducive to a health rural bank system**(Maity and Sahu, 2018)**.

It has been found that different reforms have been undertaken in the past couple of years. These reforms were epoch and created a base for efficient and proper functioning financial model and has helped in facilitating next stages of reforms. It has been said that HRD or the human Resources Development, industrial relations, technology and customer service are 4 pillars of banking system for the future of India. Even the advances of priority sector in banks have been identified during the period of post reforms of the banking sector. It has been found that the advances of priority sector have dropped substantially during the period of post reforms in spite of expansion of areas or scope of priority sector. A good number of public sector banks have not even able to achieve the required targets of lending to the weaker sectors and the agriculture sector. The marginal and the small farmers continued to be demand constrained as well as credit constrained**(Chaluvadi, Rautand Gardas, 2018)**.

Talking about digitisation of the banking industry in India signifies the services that have been rendered by the banks online. Some of these services are **Transfer of funds**- the banking industry in India has introduced different options of fund transfer for making transactions easy. RTGS, NEFT, electronic funds transferring facility have been provided to the clients for transferring the money. Most large scale companies as well as government organisations use electronic clearing services which help them in making bulk payments to multiple partners

Tele banking- banks have also started the service of tele banking wherein the services are offered through telephone. The chat boats are also used to solve different queries. Also the bank executives handle other queries.

Digital wallet- banks issue magnetically encoded debit and credit card for making the process of transferring funds from customers to the businesses. Digital wallets enables the customers to debit some amount electronically from their account. Phonepe, Payte, etc. are some of the most common wallets these days.

Auto teller machines or ATMs- these are some of the most commonly used machines in the banking sector. At present, ATMs not just allow an individual to withdraw cash from anywhere anytime, but it also allows the person to pay his bills, transfer money between accounts, etc.

The traditional functioning of banks are limited to accepting deposits and giving out loans as well as advances to customers. Today banking has been transformed into innovative banking. With the help of information technology, new innovations have been introduced in designing products and delivering them to the customers. Swipe, tap and click are new sounds of financial transactions. The modern day technology is advanced and very fast, it has replaced paper completely with computer, bank teller with auto teller machines and the file cabinet with servicer rack. The current banking system has introduced a number of initiatives which oriented for providing a much better customer service through new technologies. The banking sector today has similar sense of opportunity as well as excitement which is quite evident in Indian economy. The ongoing developments in global markets provide a number of opportunities for the banking system.

In today's competitive world of banking, improvements are happening quite often in the customer service. It is also considered to be an important tool for better growth. The banks are offering a number of changes for accessing the banking and the other services.

The future of the banking sector in India mainly depends on the future technology in banking. In future, data science may be used for predicting the needs and requirements of the customers as well as banks for providing services to customers anytime. There would also be changes in process of banking in future**(Goyal, 2019)**.

OTPs and passwords are at present being used for the banking services and now we may expect advanced biometric authentication to happen soon. Face recognition and voice recognition may also be used in future. The banks will soon adopt the technology of block chain wherein the details of the account of the customer would be maintained in the real- time across different banks while reducing the risks of hacking.

The financial transactions also become encrypted packets known as blocks and are added to the encrypted chains like email chains. RBI is now building approximately 2000 branches across the country. Fresher also gets an edge over these types of decisions. RBI might think about the timing of banking sector. It would be from 9 AM till 3 PM. The future of banking sector in India is quite bright as it has been seen taking on the smart technology, innovate its usage and improve customer services through digitalisation. The recent developments that have happened in banking sector have given strength to growth of the banking sector in India**(Rakshit and Bardhan, 2019).**

Conclusion

The banking system in India adopts reforms for modernising the banking system and for strengthening the economy. India has come quite close to vision of a cashless economy. Banks have also improved their businesses through deep integration with the help of accounting software. The banking system is changing globally. The retail banking sector in India is also improving and growing day by day and is providing a number of convenient facilities to the clients.

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