

# INDIAN FINANCE & BANKING INDUSTRY

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## Introduction to Banking and Financial Services

Banking and Financial Services is one of the most important pillars of the Indian Economy. The banking sector contributes about 7.7% of the total GDP of the country. Banks in India can broadly be classified as commercial banks, regional rural banks, and co-operative banks. The commercial banks can further be classified into Public Sector Banks (PSUs) and Private Sector Banks. Public Sector Banks or PSUs are those banks in which the government has more than 50% stake, whereas in Private Banks the government has no stake. There are also 9,659 Non-banking Financial Companies (NBFCs) which provide banking services without a banking license. The Banking and Financial Services comes under the Ministry of Finance and the Reserve Bank of India (RBI) is the apex regulatory body for all the banks in India. The RBI controls the monetary and banking policies of the government. India ranks sixth and seventh in the banking sector globally with regard to cost ratios and profitability respectively.

## Indian Advantage

India has a lot of advantages for the banking and financial sector. Some of these advantages are:-

- High net interest margins with low NPA levels, defends healthy business in the country.
- As per the annual report of the RBI, mobile banking services witnessed a growth of 92% and 13% in volume and value terms respectively, while the registered customers rose by 54% to 251 million at end-March 2018 from 163 million at end-March 2017.
- During FY07-18, credit purchase rose at a CAGR of 10.94%. As of FY 19, total credit increased rushed to USD 1,299.39 billion (Rs 93,751.17 billion).
- Credit to non-food industries increased by 12.3% every year reaching USD 1.24 trillion (Rs 86,334 billion).
- Increase in the working population and growing disposable incomes will increase demand for banking and related services.
- Internet banking, mobiles and extension facilities at ATM stations are expected to advance operational efficiency.
- Healthy regulatory oversight and credible monetary policy by the RBI have lent strength and stability to the banking sector.
- It is expected that rural banks will go through rapid developments in the future.
- The banking system in India has continually remained stable in spite of global turbulence, thereby retaining public confidence over the years.

## Market Overview

The Indian banking system consists of 12 public sector banks, 22 private sector banks, 56 regional rural banks, 46 foreign banks, 1562 urban co-operative banks besides co-operative credit institutions (FY17 data). In FY07-18, the total deposits increased at a CAGR of 11.66% and total lending increased by 10.94% CAGR. India ranks fourth in emerging countries in the retail credit market. It increased to USD 281 billion in December 2017 from USD 181 billion in December 2014. The 2019 budget allocation for this sector in the Union Budget presented by the government is Rs. 1,005,985.08 crores. Finance Minister Nirmala Sitharaman announced a Rs. 70,000 crore capital insertion into public sector banks in an effort to uplift credit.

## Latest trends and Strategies

The latest trends in the banking system of India are:-

**Digitization:** With growing digitization, the banking system has been made simpler, easier, signatureless, branchless and paperless with features like RTGS(Real Time Gross Settlement), NEFT(National Electronic Funds Transfer), Telebanking and Online Banking.

**UPI(Unified Payments Interface):** In India, UPI was launched in 2016 and is expected to be the future of retail banking. Presently, there are 39 apps and more than 50 banks supporting this transaction system. With the help of UPI, banking is expected to become more open in the future.

**Blockchain:** Blockchain uses technology to create blocks to process, record and verify transactions, without the ability to modify it. NITI Aayog is creating IndiaChain, India's largest blockchain network to enhance transparency, reduce frauds, lower human interference, speed up the transaction process and create an unhackable database.

**Enhance Mobile Banking:** It is one of the most dominant trends in today's banking system in India and has taken over traditional banking systems. Today, bill payments, fund transfer, checking account balance, everything can be done on smartphones without the need of visiting a branch.

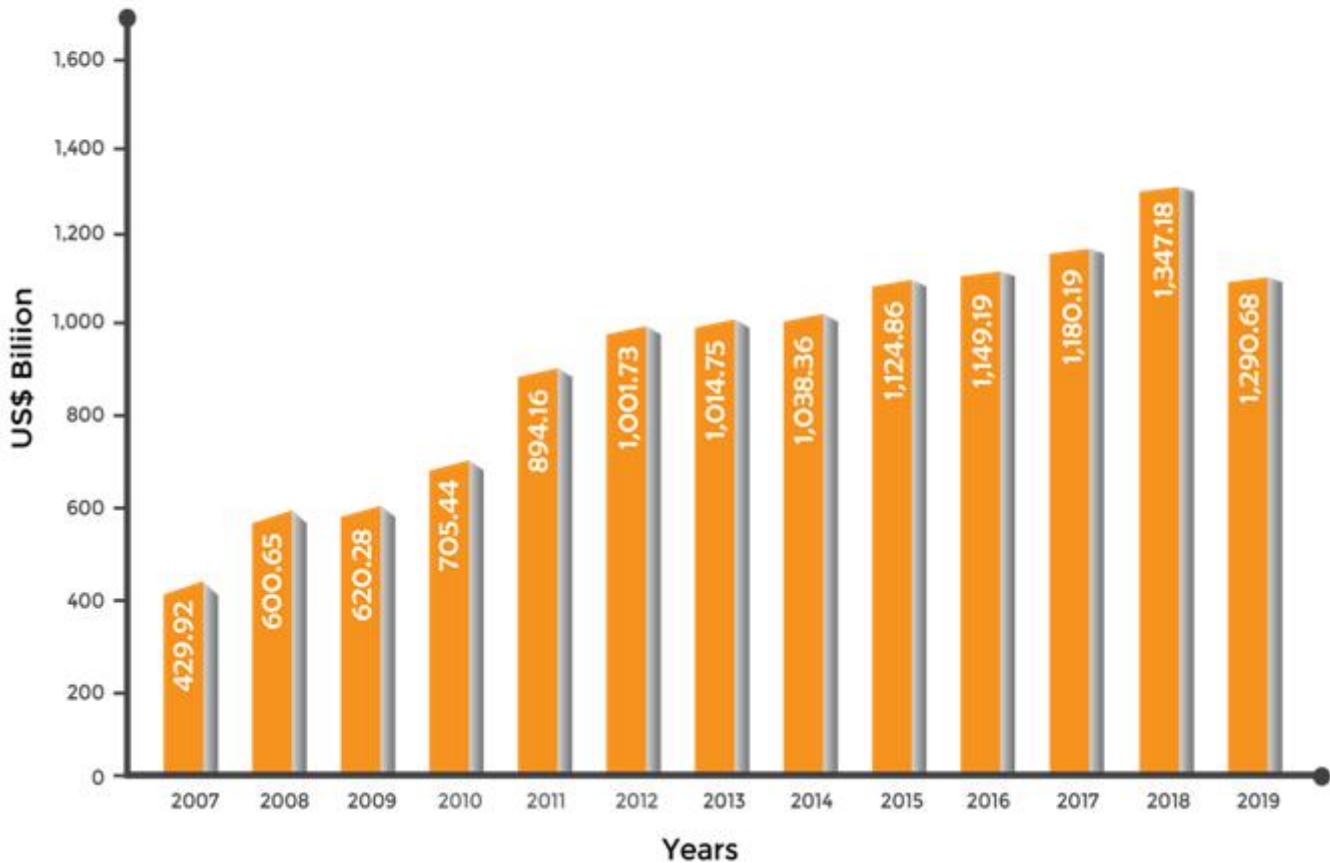
**Biometrics:** With a combination of OTPs and encryption technology, biometric authentication is expected to create a highly secure database protecting it from hackers and leaks attempts. Financial services in India are exploring this powerful technology to ensure security to customers' account.

The strategies made to improve the banking sector are as follows:-

- In September 2018, the Government of India made the Pradhan Mantri Jan DhanYojana(PMJDY) scheme an unlimited scheme and also added more incentives to it.
- The government of India is planning to insert USD 5.99 billion(Rs 42,559 crore) in the public sector banks by March 2019 and will fill the next part of re-capitalisation by mid-December 2018.

Growth Drivers

**GROWTH IN CREDIT OFF-TAKE OVER PAST FEW YEARS  
(US\$ BILLION) (AS OF DEC 2018)**



- **Economic and Demographic Drivers:** The continued credibility of Monetary Policy and structural economic stability help the banking sector. Favorable demographics and rising income levels also benefit the growth of this sector.
- **Policy Support:** In May 2018, the Government of India provided USD 93 trillion (Rs 6610,021 crore) loans to 120 million beneficiaries under the Mudra scheme. Before this, in Jan 2018 The Insolvency and Bankruptcy Code(Amendment) Ordinance,2017 Bill had been passed which is expected to further improve this sector.
- **Infrastructure Financing:** India currently spends 6% of its GDP on infrastructure; NITI Aayog expects that this fraction will further grow.
- **Government Initiatives:** The Government of India will invest USD 6.78 billion(Rs 48,188 crore) in 12 public sector banks in FY20, to help in maintaining regulatory capital requirements and financial growth in India. It will also invest USD 730.88 billion(Rs 5194,638 crore) in Bank of Baroda post its merger with Dena Bank and Vijaya Bank.

- Personal finance, including housing finance provides important support against volatility in corporate loans.
- Different schemes by the government have led to the opening of lakhs of bank accounts, like under the Pradhan Mantri Jan Dhan Yojana 316.7 million accounts had been opened upto 2018.

### Investment Opportunities

- In May 2018, the total equity funding of the microfinance sector rose at a rate of 39.88 from USD 1.03 billion (Rs 7,321 crores) to USD 4.49 billion (Rs 31,911 crores) in 2017-18. This clearly opens investment opportunities by building confidence in investors.
- Insurance, credit and investment penetration is increasing in rural areas. Further, the wealth management section has also seen growing HNWI participation.
- Increasing incomes are driving demand for financial services across earning brackets.
- India benefits from a large utilization of channels to increase the reach of financial services.
- Government has extended the FDI limit and approved new banking licenses in the insurance sector.

### Major Players

**State Bank of India:-** The State Bank of India is the largest bank of India and is one of the largest employers in the country. It has a huge network of over 13,000 branches across the country and about 190 foreign offices in almost 36 countries.

**HDFC Bank:-** According to market capitalization, HDFC is the largest bank in India with over 2402 domestic branches and 12922 ATMs in the country.

**ICICI Bank:-** ICICI Bank is the third largest organization in the Indian banking industry with over 60 years of its existence and high capitalization value. It has a customer count of over 2.5 million and a broad network of 4050 branches across the country.

**Axis Bank:-** With a high market capitalization, Axis Bank is placed fourth among Indian banks. Established in 1994, Axis Bank has a chain of almost 2402 domestic branches and 12922 ATMs spread across the country.

**Bank of Baroda:-** Bank of Baroda is another large PSU banking group with Over 38,737 employees and 5193 branches.

**HSBC Bank:-** HSBC Bank India is a subsidiary of HSBC holdings which came to India in 1995. Currently, it has 50 bank branches in cities and over 40 ATM locations across the country.

**CITI Bank:-** CITI Bank is a subsidiary of CITI Group which was established in 1902 in Kolkata. Presently, it operates in 19 cities with 35 branches and has Over 500 ATMs across the country.



**Digital Payment :-** There has been a rise in online payment after demonetisation with the help of options like Paytm, PhonePe, Google Pay, and many more such apps. The total transaction value in the digital payment segment amount to USD 64,787 million (Rs 460,450 crores).

**TATA Capital :-** TATA Capital Ltd. is a leading financial and investment service Provider categorised under NBFC. It offers consumer loans, infrastructure finance, commercial finance, etc. It has more than 100 branches in the country.



### Road Ahead

India's digital lending stood at USD 75 billion (Rs 5,33,036 crore) in FY18 and is expected to reach USD 1 trillion (Rs 71,07,150 crore) by FY 23. Increased spending on infrastructure, enhanced implementation of projects and continued reforms are expected to provide further momentum to the growth in the banking sector. Also, advancements in technology have brought the internet banking services and mobile services to the fore. During this hour, this sector is laying greater emphasis on providing improved services to its clients by improving their technology framework.

### Conclusion

Banking sector in India is the most important sector in the Indian economy. The banking sector will flourish in the future while acting as an important agent of the economic growth of the country. With India getting extensively into the global financial world, the Indian banking sector has still a long way to go to catch up with its counterparts.

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**With Best Regards,**

**Team JPC**

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