

BANKING INDUSTRY

INTRODUCTION

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers that have capital deficits to customers with capital surpluses. Due to their critical status within the financial system and the economy generally, banks are highly regulated in most countries. They are generally subject to minimum capital requirements which are based on an international set of capital standards, known as the Basel Accords.

All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks. Scheduled Commercial Banks in India are categorized into five different groups according to their ownership and / or nature of operation. These bank groups are: (i) State Bank of India and its Associates, (ii) Nationalized Banks, (iii) Regional Rural Banks, (iv) Foreign Banks and (v) Other Indian Scheduled Commercial Banks (in the private sector).

The Reserve Bank of India (RBI) is the central banking institution. It is the sole authority for issuing bank notes and the supervisory body for banking operations in India. It supervises and administers exchange control and banking regulations and administers the government's monetary policy. It is also responsible for granting licenses for new bank branches. The Deposit Insurance and Credit Guarantee Corporation, an organization promoted and fully funded by the RBI, offers deposit insurance facilities. The RBI directs banks to meet Bureau of Indian Standards guidelines. Indian banks must also adhere to the prudential norms laid down by the Basel Group.

The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal.

Key Players

SBI, HDFC Bank, ICICI Bank, Bank of Baroda are few major players. SBI, HDFC and Bank of Baroda are the largest banks in India.

MARKET SIZE

The Indian banking system consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1,562 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions (FY17 data).

RECENT DEVELOPMENTS/FINDINGS

As of September 2018, the Government of India launched India Post Payments Bank (IPPB) and has opened branches across 650 districts to achieve the objective of financial inclusion.

The total value of mergers and acquisition during 2017 in NBFC diversified financial services and banking was US\$ 2,564 billion, US\$ 103 million and US\$ 79 million, respectively.

The government decided to give a capital infusion of Rs. 65,000 crore to PSBs in 2018-19. In July 2018, five PSBs including Punjab National Bank, Corporation Bank and Andhra Bank received a total of Rs. 11,336 crore out of the capital infusion plan for this fiscal.

In a survey conducted by FICCI during July – December 2018, a majority (54%) of reporting Public sector banks cited a reduction in NPA levels, with only 38% citing an increase. Major sectors with high levels of NPAs are infrastructure and metals, iron and steel, engineering goods and textiles. Other major sectors with high NPAs are food processing, gems & jewelry, and auto & auto-components. The survey also revealed that there has been an increase in share of retail loans vis-a-vis corporate loans.

In the previous survey, retail loans comprised 40% and corporate loans 60%. Whereas in the current round the ratio has changed to 45% share of retail loans and 55% corporate loans. Infrastructure, real estate, auto and auto components, food processing, petroleum and fuel products, metals, chemicals, mining and engineering goods are witnessing a rise in long term credit.

In 2019, Vijaya Bank and Dena Bank were merged with Bank of Baroda.

In April 2019, the RBI reduced the REPO rate by 25 basis points.

GOVERNMENT INITIATIVES

As of September 2018, the Government of India has made the Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme an open ended scheme and has also added more incentives.

To improve infrastructure in villages, 204,000 Point of Sale (PoS) terminals have been sanctioned from the Financial Inclusion Fund by National Bank for Agriculture & Rural Development (NABARD). The number of total bank accounts opened under Pradhan Mantri Jan Dhan Yojana (PMJDY) reached 333.8 million as on November 28, 2018.

ROAD AHEAD

Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs. Also, the advancements in technology have brought the mobile and internet banking services to the fore. India's digital lending stood at US\$ 75 billion in FY18 and is estimated to reach US\$ 1 trillion by FY2023 driven by the five-fold increase in the digital disbursements.

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