# CHAPTER 24

# BANKS

24.1 **Global Scenario:** Since the Lehman Brothers declared bankruptcy in 2008, incidences, every now & then, have sustained the concerns over global financial stability. While most emerging market economies (EMEs), including India, recovered quickly from global financial crisis, advanced countries continued to be plagued with growth figures looking dismal for some time. But things started to change thereafter. Economic growth is finding traction in the US, it appears to be slipping in the Euro area and seems to be reversing in Japan. Any hard landing in China is an additional risk to global growth. Political turmoil persists in Middle East & North African (MENA) region and Ukraine.

24.2 The current weak global growth outlook may prolong easy monetary policy stance in most advanced economies(AEs). Against the backdrop of low interest rates in AEs, portfolio flows to emerging market and developing economies have been robust, increasing the risk of reversals on possible adverse growth or financial market shocks, thus necessitating greater alertness. Many emerging markets have increased their resilience to external shocks with increased exchange rate flexibility, higher foreign exchange reserves, increased reliance on FDI flows and domestic currency external financing, and generally stronger policy frameworks. However, the Federal Reserve is poised to raise interest rates.

24.3 As per IMF , Global Financial Stability Report , October 2015, Financial stability has improved in advanced economies .However, legacy issues from the crisis in advanced economies— High public and private debt in advanced economies and remaining gaps in the euro area architecture need to be addressed to consolidate financial stability, and avoid political tensions and headwinds to confidence and growth.

24.4 Risks continue to rotate toward emerging markets, amid greater market liquidity risks. Many emerging market economies relied on rapid credit creation to sidestep the worst impacts of the global crisis. This confluence of borrowing and foreign currency exposure has increased the sensitivity of these economies to a tightening of global financial conditions. As emerging market economies approach the late stage of the credit cycle, banks have thinner capital cushions, while non performing loans are set to rise as corporate earnings and asset quality deteriorate. In China, banks have only recently begun to address the growing asset quality challenges associated with rising weaknesses in key areas of the corporate sector. These developments in emerging market banking systems stand in contrast to those in advanced economies, where banks have spent the past few years deleveraging and repairing balance sheets, raising capital, and strengthening funding arrangements

**24.5 Domestic Macroeconomic Conditions:** Indian banks, not only emerged unscathed from the global financial crisis but continued to manage growth with resilience during 2010-11. But the weakening domestic macroeconomic conditions combined with continuing subdued global growth and its increasing spillover risks posed challenges to the Indian banking sector during 2012-13 and the growth of the Indian banking sector slowed down for the second consecutive year in 2012-13. However, the domestic macroeconomic environment has changed since then. The vulnerabilities have abated significantly on the back of improvement in growth outlook, fall in inflation, recovery in the external sector and political stability. The growth in the banking business and activity in primary capital markets, still, remained subdued due to moderate investment intentions. The growth of the Indian banking sector moderated further during 2013-14. Profitability declined on account of higher provisioning on banks' delinquent loans and lacklustre credit growth.

24.6 Despite improvement in growth outlook, growth in bank credit and deposits has been relatively low in the recent past. Slowdown in credit growth has been broad-based barring agriculture and allied activities. India being net importer of crude oil, fall in Global crude oil prices has contained inflation and contributed towards improving other parameters as well. External vulnerability has reduced with the containment of the current account deficit (CAD), improvement in capital inflows, and accretion to the foreign exchange reserves. Foreign portfolio investments (FPIs) into India were robust during 2014. However, Given the primacy of US based FPIs in India, unexpected changes in the US monetary policy could have adverse effects on FPI flows through direct and indirect channels.

24.7 **Development of Banking In India - Historical Perspective:** In India, the modern banking system was initiated with the establishment of the Presidency Bank of Bengal in 1806, and the Presidency bank of Madras in 1840.However, the post independence period witnessed the massive growth in the Indian banking sector. Reserve Bank of India, was nationalized on January 1, 1949 under the terms of the Reserve Bank of India Act,1948 . In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India to regularize, control and inspect the banks in India. The Banking Regulation Act also provided the number of new banks or branches of an existing bank would be opened with a license from the Reserve Bank of India.

24.8 The RBI acts as banker, both to the central government and state governments. It manages all the banking transactions of the government involving the receipt and payment of money. In addition, RBI remits exchange and performs other banking operations. RBI provides short-term credit to the central government. Such credit helps the government to meet any shortfalls in its receipts over its disbursements. RBI also provides short term credit to state governments as advances.

24.9 The issue department of RBI is dedicated to issuing currency. All the currency issued is the monetary liability of RBI that is backed by assets of equal value held by this department. Assets consist of gold, coin, bullion, foreign securities, rupee coins, and the government's rupee securities.

24.10 Before Nationalization of Banks, despite control and regulation by Reserve Bank of India, banks in India except the State Bank of India continued to be owned and operated by private personnel. But by that time the Indian Banking Industry had grown in size and employed a large number of people thus became an important tool for the development of Indian economy. In order to ensure more equitable and purposeful distribution of credit on July 19, 1969 the Government of India issued an ordinance and nationalized 14 largest commercial Banks. In April 1980 six more commercial banks were nationalized. With nationalization of these banks the Government of India controlled an overwhelming majority of the banking business in India.

24.11 Besides the above developments, financial institutions were established for meeting the specialized needs. These include Industrial Development Bank of India (IDBI), Industrial Credit and Investment Bank of India for meeting the long – term financial needs of the large scale operations. Similarly for meeting the requirements of the Small Scale Industries (SSIs), State Financial Corporation (SFC), Small Industries Development (SIDC) and Small Industries Development Bank of India (SIDBI) have been established. The National Bank for Agriculture and Rural Development (NABARD), Land Development Bank (LDB), Regional Rural Bank (RRB) etc. has been established for taking care of the credit needs in the agriculture sector.

24.12 During 1990s India started opening up with changes in the economic policies and introduction of new institutional mechanisms of economic liberalization and financial sector reforms. The government, initially licensed small number of private banks which increased over the years. Now, the next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions.

24.13 **Scheduled Commercial Banks:** The banks, which carry on business of banking in India and which are included in the second schedule to the Reserve Bank of India Act, 1934 are known as Scheduled Banks.

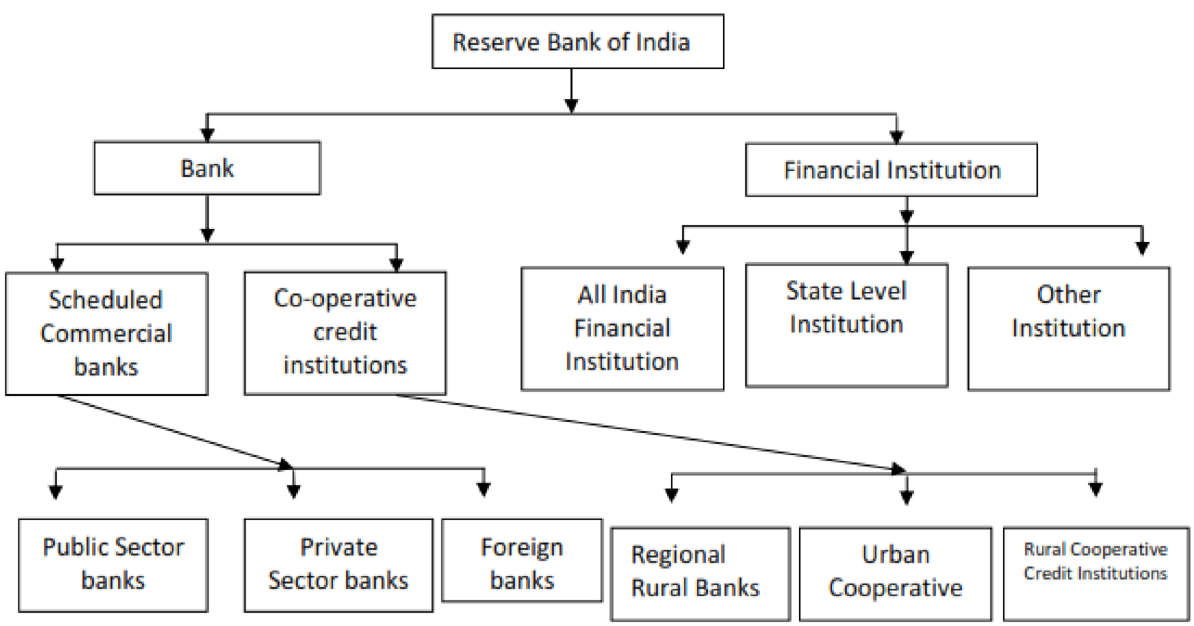
24.14 These include the State Bank of India, other Indian Banks and Foreign Banks.

**(i)** **State Bank of India:** The State Bank of India was formed in July, 1955 after the nationalization of the Imperial Bank of India.

**(ii)** **Other Indian Banks:** Indian banks are those who have their registered offices in India. These include Private Sector Banks, Associates of State Bank of India, 19 nationalized and Regional Rural Banks.

**(iii)** **Foreign Banks:** Foreign banks are those who have their registered offices outside India.

24.15 **Structure of Indian Banking Industry :**



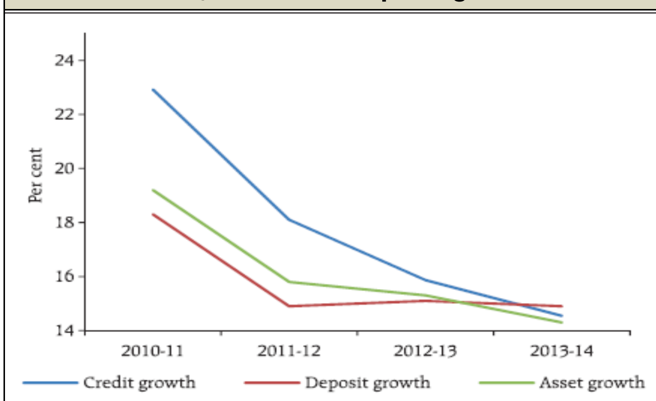

**Performance of Banking Sector in India :**

24.16 Given the sluggish demand for credit and concerns about asset quality, the Indian banking sector experienced relatively lower growth and dip in profitability in 2013-14. Profitability declined on account of higher provisioning on banks' delinquent loans and lacklustre credit growth. Scheduled commercial banks (SCBs) showed a moderation in balance sheet growth and a fall in net profits, while the trends were divergent amongst other banking institutions with urban co-operative banks and short-term rural credit co-operative institutions other than primary agriculture credit societies (PACS) showing an improvement in growth as well as health. Long-term credit co-operative institutions, however, continued to be a weak spot within the banking sector. The asset size of the non-banking financial companies (non-deposit taking systemically important) showed an expansion, asset quality deteriorated further during the period of review.

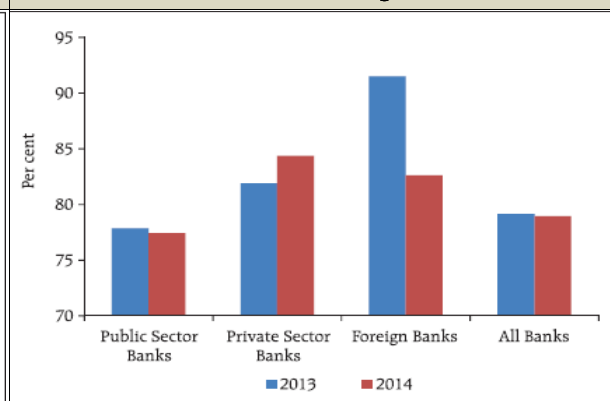
**Balance Sheet Operations of Scheduled Commercial Banks(SCBs):**

24.17 The consolidated balance sheet of SCBs in 2013-14 registered a decline in growth in total assets and credit for the fourth consecutive year .This decline could be attributed to a variety of factors ranging from slower economic growth, de-leveraging, persistent pressure on asset quality leading to increased risk aversion among banks and also increasing recourse by corporates to non-bank financing including commercial papers and external commercial borrowings . With both credit and deposit growth more or less same, the outstanding credit to deposit (C-D) ratio at the aggregate level remained unchanged at around 79 per cent

**Asset, credit and deposit growth**

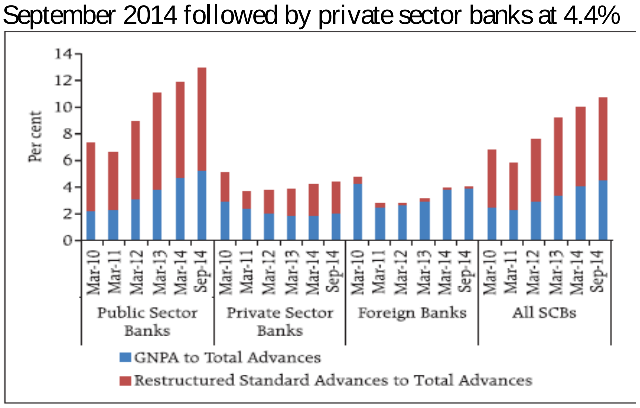



**Trends in outstanding C-D Ratio**



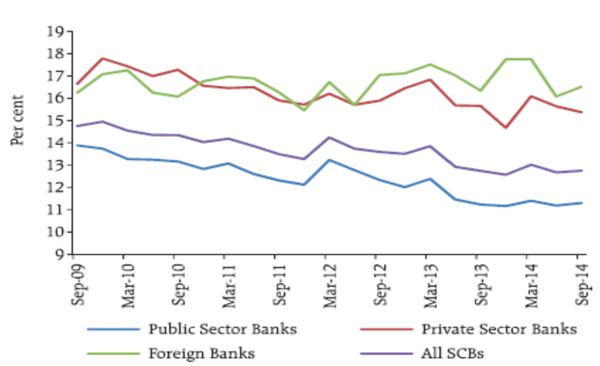

**Soundness Indicators : Asset Quality**

PSBs continued to record the highest level of stressed advances at 12.9 per cent of their total advances in September 2014 followed by private sector banks at 4.4%




**Capital Adequacy (CRAR)**

Capital to Risk Weighted Assets Ratio



24.18 **Profitability of SCBs:**

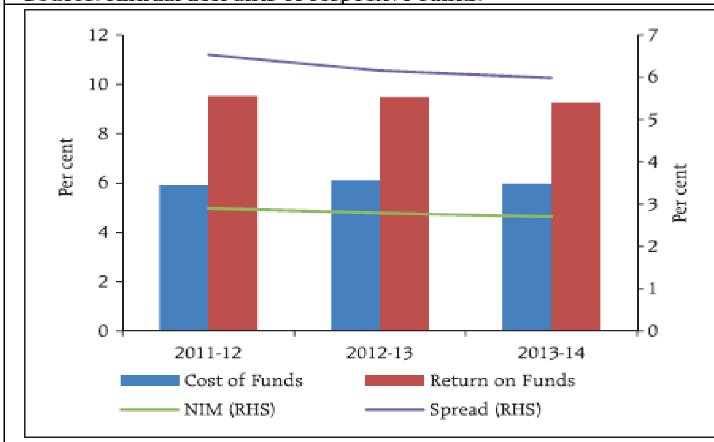
During 2013-14, the growth in net profits of SCBs, which had been on a declining trend since 2011-12, turned negative. SCBs as a whole reported net profits of about Rs 809 billion**,** indicating decline by 11.3 per cent compared to previous year. This decline in net profits was primarily the result of higher provisioning on banks' delinquent loans which registered an increase of nearly 34 per cent coupled with growth in the interest expenses of around 12 per cent during the year. This in turn impacted their return on assets (RoA) and return on equity (RoE).

The spread and net interest margin (NIM) of SCBs also witnessed a decline. Trends in Spread/NIM of SCBs is shown in the chart on the right.

(Per cent)

| Sr. No. | Bank Group/Year | Return on Assets | | Return on Equity | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| | | 2012-13 | 2013-14 | 2012-13 | 2013-14 |
| 1 | Public sector banks | 0.80 | 0.50 | 13.24 | 8.47 |
| 2 | Private sector banks | 1.63 | 1.65 | 16.46 | 16.22 |
| 3 | Foreign banks | 1.92 | 1.57 | 11.53 | 9.02 |
| | All SCBs | 1.04 | 0.81 | 13.84 | 10.68 |

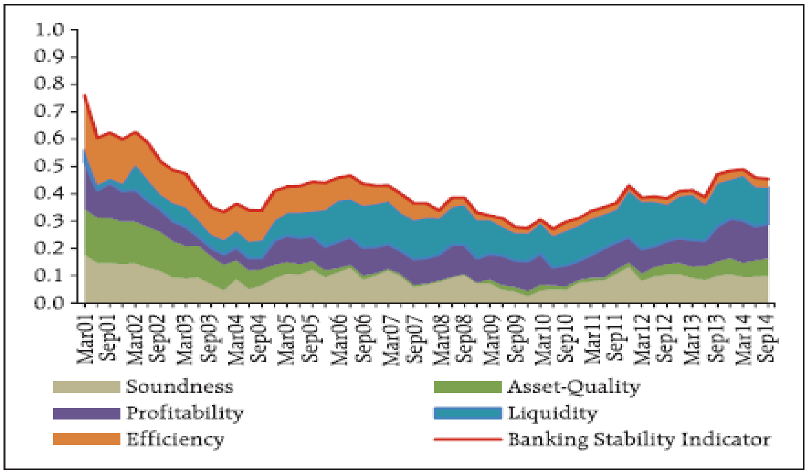
Notes: Return on Assets = Net profit/Average total assets.
Return on Equity = Net profit/Average total equity.
Source: Annual accounts of respective banks.




Note: Cost of Funds = (IPD + IPB) / (Deposits + Borrowings)
Return on Funds = (IEA + IEI) / (Advances + Investments)
Net interest margin = Net Interest Income / Total Assets
Spread = difference between return on and cost of funds, where:
IPD = Interest paid on deposits.
IPB = Interest paid on borrowings from RBI and other agencies.
IEA = Interest earned on advances and bills.
IEI = Interest earned on investments.
Source: Banks' annual accounts.

24.19 **The Banking Stability Indicator (BSI)** showed a continuous increase in vulnerability in the banking sector over the past few years. The factors contributing towards increase in risks, in the order of their share, are liquidity, profitability, soundness and asset quality. Though the liquidity position improved in the system during March and September 2014, concerns remain over deterioration in asset quality and soundness. Profitability improved but remained sluggish.

Banking Stability Indicator




Note: Increase in indicator value shows lower stability. The width for each dimension signifies its contribution towards risk.

24.20 **Credit & Deposits of SCBs:** At the end of March 2014 gross outstanding credit of scheduled commercial banks amounted to Rs 62,821 billion registering an increase of 13.7 per cent during the year as against an increase of 15.0 per cent in the previous year. Bank credit to 'Agriculture' sector witnessed a higher growth of 24.5 per cent in 2014 as compared to 20.3 per cent in 2013 whereas bank credit to 'Industry' sector recorded a lower growth of 13.0 per cent as compared to 19.3 per cent in 2013. 'Personal Housing Loans' witnessed lower growth at 14.2 per cent in 2014 as against 22.7 per cent in 2013. Aggregate deposits amounted to Rs 79,557 billion, registering a growth of 13.4 per cent in 2014 as against 15.4 per cent in the previous year. Savings deposits grew at the rate of 14.2 per cent as compared to 14.7 per cent in the previous year. Current deposits registered a lower growth of 2.8 per cent as against 6.6 per cent in 2013. Growth in Term deposits also declined to 14.8 per cent from 17.1 per cent in 2013. The All-India C-D ratio was at 79.0 per cent in 2014, which was marginally higher than 78.8 per cent in 2013.

**Deposit and Credit of Scheduled Commercial Banks (March 2014)**

(Amount in ₹ Million)

| BANK GROUP | No. of Offices | DEPOSITS | | CREDIT | |
|---|---|---|---|---|---|
| | | No. of Accounts | Amount | No. of Accounts | Amount Outstanding |
| | 1 | 2 | 3 | 4 | 5 |
| STATE BANK OF INDIA AND ITS ASSOCIATES | 22,893<br>(18.9) | 318,212,117<br>(25.9) | 17116908.6<br>(21.5) | 27,023,883<br>(19.5) | 13905695.8<br>(22.1) |
| NATIONALISED BANKS | 60,825<br>(50.3) | 613,103,772<br>(50.0) | 41685282.1<br>(52.4) | 49,760,544<br>(35.9) | 32075065.4<br>(51.1) |
| FOREIGN BANKS | 315<br>(0.3) | 3,661,272<br>(0.3) | 3454359.0<br>(4.3) | 5,103,947<br>(3.7) | 3037902.9<br>(4.8) |
| REGIONAL RURAL BANKS | 18,539<br>(15.3) | 150,562,832<br>(12.3) | 2332723.4<br>(2.9) | 21,483,349<br>(15.5) | 1588818.8<br>(2.5) |
| PRIVATE SECTOR BANKS | 18,393<br>(15.2) | 141,170,178<br>(11.5) | 14967939.0<br>(18.8) | 35,379,159<br>(25.5) | 12213341.4<br>(19.4) |
| ALL SCHEDULED COMMERCIAL BANKS | **120,965**<br>**(100.0)** | **1,226,710,171**<br>**(100.0)** | **79557212.2**<br>**(100.0)** | **138,750,882**<br>**(100.0)** | **62820824.3**<br>**(100.0)** |

## 24.21 Progress of Commercial Banking at a Glance

| IMPORTANT INDICATORS | June 1969 | March 2006 | March 2007 | March 2008 | March 2009 | March 2010 | March 2011 | March 2012 | March 2013 | March 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| No. of Commercial Banks | 89 | 222 | 183 | 175 | 170 | 169 | 169 | 173 | 155 | 151 |
| (a) Scheduled Commercial Banks | 73 | 218 | 179 | 171 | 166 | 165 | 165 | 169 | 151 | 146 |
| *Of which:* Regional Rural Banks | - | 133 | 96 | 91 | 86 | 82 | 82 | 82 | 64 | 57 |
| (b) Non-Scheduled Commercial Banks | 16 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 |
| Number of Offices of Scheduled Commercial Banks in India ^ | 8262 | 69471 | 71839 | 76050 | 80547 | 85393 | 90263 | 98330 | 105437 | 117280 |
| (a) Rural | 1833 | 30579 | 30551 | 31076 | 31667 | 32624 | 33683 | 36356 | 39195 | 45177 |
| (b) Semi-Urban | 3342 | 15556 | 16361 | 17675 | 18969 | 20740 | 22843 | 25797 | 28165 | 31442 |
| (c) Urban | 1584 | 12032 | 12970 | 14391 | 15733 | 17003 | 17490 | 18781 | 19902 | 21448 |
| (d) Metropolitan | 1503 | 11304 | 11957 | 12908 | 14178 | 15026 | 16247 | 17396 | 18175 | 19213 |
| Population per office (in thousands) | 64.0 | 16.0 | 15.0 | 15.0 | 14.5 | 13.8 | 13.4 | 12.3 | 11.9 | 10.8 |
| Deposits of Scheduled Commercial Banks in India ( ₹ Billion ) | 46.46 | 21090.49 | 26119.33 | 31969.39 | 38341.10 | 44928.26 | 52079.69 | 59090.82 | 69342.80 | 79134.43 |
| *of which:* (a) Demand | 21.04 | 3646.40 | 4297.31 | 5243.10 | 5230.85 | 6456.10 | 6417.05 | 6253.30 | 7671.61 | 8272.11 |
| (b) Time | 25.42 | 17444.09 | 21822.03 | 26726.30 | 33110.25 | 38472.16 | 45662.64 | 52837.52 | 61671.19 | 70862.32 |
| Credit of Scheduled Commercial Banks in India ( ₹ Billion ) | 36 | 15070.77 | 19311.89 | 23619.14 | 27755.49 | 32447.88 | 39420.82 | 46118.52 | 53931.58 | 61390.45 |
| Deposits of Scheduled Commercial Banks per office (₹ Million) | 5.6 | 303.6 | 363.1 | 420.4 | 476.0 | 526.1 | 577.0 | 600.9 | 657.7 | 674.7 |
| Credit of Scheduled Commercial Banks per office (₹ Million) | 4.4 | 216.9 | 268.5 | 310.6 | 344.6 | 380.0 | 436.7 | 469.0 | 511.5 | 523.5 |
| Per Capita Deposits of Scheduled Commercial Banks (₹) | 88 | 19276 | 23468 | 28327 | 33471 | 38062 | 43034 | 48732 | 55445 | 62252 |
| Per Capita Credit of Scheduled Commercial Banks (₹) | 68 | 13774 | 17355 | 20928 | 24230 | 27489 | 32574 | 38033 | 43123 | 48294 |
| Deposits of Scheduled Commercial Banks as percentage of National Income (NNP at Factor Cost, at current prices) | 15.5 | 73.8 | 79.1 | 84.4 | 88.1 | 86.6 | 82.3 | 81.1 | 84.0 | 86.3 |
| Scheduled Commercial Banks' Advances to Priority Sector (₹ Billion) | 5 | 5468 | 7038 | 8248 | 9674 | 11384 | 13373 | 14909 | 18180 | 21549 |
| Share of Priority Sector Advances in Total Credit of Scheduled Commercial Banks (per cent) | 14.0 | 37.2 | 36.5 | 34.9 | 34.8 | 35.1 | 33.9 | 32.3 | 33.7 | 35.1 |
| Share of Priority Sector Advances in Total Non-Food Credit of Scheduled Commercial Banks (per cent) | 15.0 | 38.2 | 37.4 | 35.6 | 35.4 | 35.6 | 34.5 | 32.9 | 34.3 | 35.7 |
| Credit Deposit Ratio | 77.5 | 71.5 | 73.9 | 73.9 | 72.4 | 72.2 | 75.7 | 78.0 | 77.8 | 77.6 |
| Investment Deposit Ratio | 29.3 | 35.5 | 30.3 | 30.4 | 30.4 | 30.8 | 28.8 | 29.4 | 28.8 | 28.3 |
| Cash Deposit Ratio | 8.2 | 6.6 | 7.5 | 8.6 | 6.7 | 6.8 | 6.7 | 6.1 | 5.6 | 5.4 |

**24.22 Assets & Liabilities of Banks :** Since the introduction of financial sector reforms about two decades ago, Indian Banking Industry has grown tremendously in volume & has become increasingly competitive. Considering assets & liabilities as an indicator of the scale of operations, impressive growth has been seen during the last decade except for the Financial Corporations.

| Assets & Liabilities of banks (Rs thousand Crores) (As on 31st March) | 2001 | 2011 | Increase | 2013 | 2014 | Increase |
|---|---|---|---|---|---|---|
| Reserve Bank of India , RBI (Banking Deptt) | 181 | 835 | 361% | 1189 | 1280 | 7.7% |
| SCBs (Excluding Regional Rural Banks) | 1295.0 | 7183.4 | 82% | 9590 | 10963.5 | 14.3% |
| Industrial Finance Corporation of India, IFCI | 22.8 | 26.4 | 15.8% | 29.3 | 35.3 | 20.7% |
| State Financial Corporations | 16.6 | 19.1 | 15.1% | 19.9 | 20.8 | 4.4% |
| Industrial Development Bank of India, IDBI | 71.8 | 253.4 | 253% | 290.8 | 322.8 | 11% |

24.23 Number of **foreign banks** decreased from about 42 in 2001 to 34 in 2011. However, the value of their deposits in India increased by more than three times from Rs 5919078 Cr during 2001 to 2,40,667 Cr in 2011. In the same period value of their investment in India also increased by more than 3.5 times from Rs 35,761 Cr to 1,65,499 Cr. Number of foreign Banks has remained unchanged during 2013 & 2014 (as on 31st march) with 43 banks operating in the country and their deposits in India increasing to Rs 2,88,144 Cr and Rs 3,52,424 Cr respectively . The investments of foreign banks crossed Rs 2000 billion in 2012 and stood at Rs 2605 billion as on 31st March 2014.

## 24.24 Technological Developments in Scheduled Commercial Banks:

The penetration of ATMs across the country increased in 2012-13 with the total number of ATMs crossing 1,00,000, clocking a double digit growth during the year. This growth was driven primarily by private sector banks, with their share in total ATMs picking up rapidly to about 39 per cent. However since 2013-14 the percent share of Public sector banks in total ATMs has been increasing.

**Growth & Composition of ATMs**

| As on | Public Sector Banks | SCBs |
|---|---|---|
| 30.04.2011 | 50233 | 75645 |
| 31.03.2012 | 58193 | 95686 |
| 31.03.2013 | 69652 | 114014 |
| 31.03.2014 | 110424 | 160055 |
| 31.03.2015 | 128665 | 181252 |
| 30.06.2015(p) | 131224 | 184221 |

Debit cards were a more popular mode of electronic money than credit cards. While public sector banks have been frontrunners in issuing debit cards, new private sector banks lead in the number of credit cards issued.

**Progress of Debit & Credit Cards**

| As on | Cards Outstanding (Millions) | |
|---|---|---|
| | **Credit Card** | **Debit Card** |
| Mar-15 | 21.11 | 553.45 |
| Mar-14 | 19.18 | 394.42 |
| Mar-13 | 19.55 | 331.2 |
| Mar-12 | 17.65 | 278.28 |
| Mar-11 | 18.04 | 227.84 |
| Apr-10 | 19.29 | 184.79 |

Sustained growth was witnessed in electronic clearance and Payments. Both RTGS (meant for large value payments system, processing both customer and inter-bank transactions of `2,00,000 and above) and NEFT (a retail system) consistently posted double digit growth in terms of the volume of transactions routed through these systems.

| **Type of Transaction** | Volume (Million) | | | | Value (Rs Billion) | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010-11** | **2012-13** | **2013-14** | **2014-15** | **2010-11** | **2012-13** | **2013-14** | **2014-15** |
| **RTGS** | 49 | 69 | 81 | 93 | 484872 | 676841 | 734252 | 754032 |
| ECS DR | 157 | 177 | 193 | 226 | 736 | 1083 | 1268 | 1740 |
| ECS CR (Incl NECS) | 117 | 122 | 153 | 115 | 1817 | 1771 | 2492 | 2019 |
| EFT/ NEFT | 132 | 394 | 661 | 928 | 9391 | 29022 | 43786 | 59804 |
| Credit Cards | 265 | 397 | 509 | 615 | 755 | 1230 | 1540 | 1899 |
| Debit Cards | 237 | 467 | 619 | 808 | 387 | 743 | 955 | 1213 |

Volume and Value of Transactions by SCBs
(Card usage in the above table is at Point of Sale)

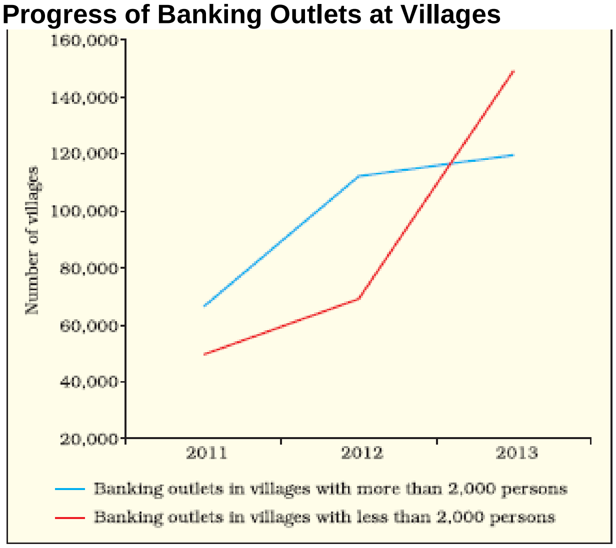
24.25 **Financial Inclusion :** Financial Inclusion is an important priority of the Government. The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

**Position of households availing banking services**:

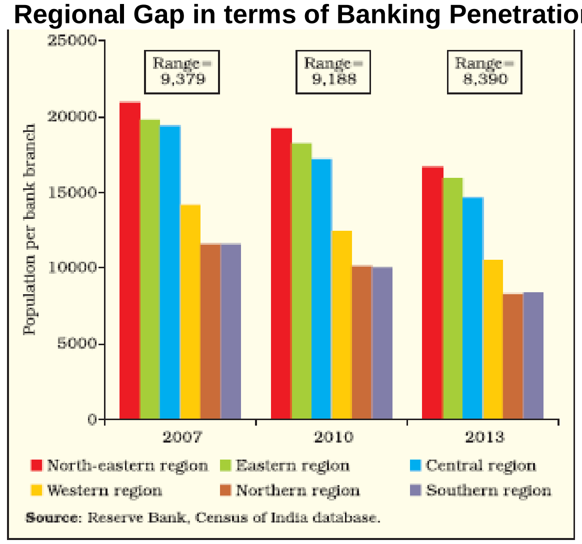
| | | As per Census 2001 | | As per Census 2011 | | |
|---|---|---|---|---|---|---|
| **Households** | **Total number of households** | **Number of households availing bankingservices** | **Percent** | **Number of households availing banking services** | **Number** | **Percent** |
| Rural | 138,271,559 | 41,639,949 | 30.1 | 167,826,730 | 91,369,805 | 54.4 |
| Urban | 53,692,376 | 26,590,693 | 49.5 | 78,865,937 | 53,444,983 | 67.8 |
| **Total** | **191,963,935** | **68,230,642** | **35.5** | **246,692,667** | **144,814,788** | **58.7** |

24.26 Considerable progress has been after the completion of the three-year Financial Inclusion Plan was adopted by SCBs in 2010 .There has been rise in the number of newly opened branches at Tier 5 and 6 /rural centres and growing proportion of newly opened branches are at unbanked centres across all regions. There are Signs of narrowing of regional gap in terms of banking penetration.

**Progress of Banking Outlets at Villages**




**Regional Gap in terms of Banking Penetration**




24.27 Several initiatives are being taken by the Government towards financial inclusion

**(i) Swabhimaan Scheme:** Earlier, under the Swabhimaan campaign, the Banks were advised to provide appropriate banking facilities to habitations having a population in excess of 2000 (as per 2001 census) by March 2012. The banks identified approximately 74000 habitations across the country having a population of over 2000 for providing banking facilities. As per reports received from Banks, 74351 villages with population of above 2000 have been covered with banking facilities by branches; Business Correspondents, mobile banking etc. by March 31, 2012.

**(ii) Direct Benefit Transfer (DBT)**: The scheme was launched in the country from January, 2013 and was rolled out in a phased manner, starting with 25 welfare schemes, in 43 districts and extended to additional 78 districts and additional 3 schemes from 1st July, 2013. Presently DBT in 35 schemes have been expanded across the entire country.

**(iii) Pradhan Mantri Jan-Dhan Yojana (PMJDY)** Pradhan Mantri Jan-Dhan Yojana (PMJDY) was formally launched on 28th August, 2014. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension. The beneficiaries would get a RuPay Debit Card having inbuilt accident insurance cover of Rs.1.00 lakh.

**24.28 Changing Face of Indian Banking :** From traditional banking practices during the British Rule to reforms period , nationalization to privatization and to the present trend of increasing number of foreign banks, Indian banking sector has undergone significant transformation. The move from old to new business environment has created newer demands on Indian bank like enhanced work flow, full customer access to banking transactions through electronic mode etc. In the emerging scenario of fierce competition backed by twin force of deregulation and technology, the degree of competition in the Indian financial Sector has increased to unprecedented level. Hence the operational efficiency of banks has achieved immense significance for their survival in the present scenario. In contrast to earlier 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning, modern outlook and tech-savvy methods of working for traditional banks has been ushered. All this has led to the retail boom in India. People are not just demanding more from their banks but also receiving more. With easy credit facilities the banks are transforming the consuming propensity of Indians with everything from microwave owens to houses on sale at easy monthly installments EMIs. Using information technology, banks have upgraded their systems to provide better customer services. Automatic Teller Machines (ATMs ) dispensing any time money are visible in most localities of big cities and consumers are increasingly responding to banking transactions without visiting the banks. Online and mobile banking has brought the banks virtually to their doorsteps. However, all this has exposed the banks to new kinds of risks. The familiarity between bank employees and customers has become increasingly remote. Though the banks distribute various back end and front end operations to minimize risk and use highly secure socket layers SSLs, digital certificates and facilities like virtual key boards to reduce the risks in online transactions, attacks like phishing and pharming have been on the rise .

**Challenges & Opportunities Before the Banking Sector :**

24.29 **Rural Markets:** Large number of people do not have access to banking facilities due to scattered and fragmented locations. Significant proportion of the same lies in rural areas where private banks have little incentive to invest. As per Census 2011 about 58.7 per cent households in India avail banking facilities. The proportion is less than 50 per cent in case of States like Bihar, Chhattisgarh, Odisha, West Bengal & North Eastern states like Manipur & Nagaland, Assam & Meghalaya. However, with increasing consumption levels of rural India & cut throat competition in urban markets, rural areas are gaining increasing importance. One example of the trend was the recent merger of Bank of Rajasthan with ICICI Bank Ltd which the latter resorted to in order to increase its reach in rural market and market share significantly.

24.30 **Increased competition:** Profits of banks are being affected by increased competition, with different public and private sector banks vying for increased share of customers. But increased competition has also resulted in increased efficiency, improved customer services and profitability in terms of returns on both equity and assets. Banks, now have to continuously innovate their practices to stay ahead in the market. Increasing competition, however, might also induce the banks to higher risk taking strategies.

24.31 **Management of Risks:** Researchers have found that Indian banks risk management capabilities has been improving over time. However cyber banking, global banking scenario in recent past etc have introduced newer types of risk. International regulatory norms have become more stringent in view of failure of many financial institutions.

24.32 **Compliance with International Requirements :** In the background of recent global regulatory developments , **Basel III** largely aiming at higher and better quality capital; an internationally harmonised leverage ratio to constrain excessive risk taking; capital buffers which would be built up in good times so that they can be drawn down in times of stress; minimum global liquidity standards; and stronger standards for supervision, public disclosure and risk management, was introduced. A few individual banks may fall short of the Basel III norms and will have to augment their capital. Banks will also face challenges of upgrading risk management systems and meeting the credit needs of a rapidly growing economy even while adjusting to a more demanding regulatory regime. Introduction of **International Financial Reporting System (IFRS)** to facilitate comparability between enterprises operating in different jurisdictions, has also placed additional demands on Indian banks . In order to make the transition to IFRS they would have to handle accounting issues and upgrade their infrastructure including IT & human resource.

**Source of Data on Banking Statistics :**

24.33 **Reserve Bank of India(RBI) :** Most of the Banking Sector Statistics flow from Reserve Bank of India, RBI. The database maintained by RBI includes weekly information on Forex reserve, Reserve Money & Bank Money, fortnightly information on Scheduled Banks statement of position in India, quarterly information on Balance of Payments, Banking Statistics – deposits & credits , Statewise & Region wise deployment of ATM's , Annual accounts data of scheduled commercial banks, branch banking statistics, profile of banks etc besides other occasional subjects. RBI brings out various reports on annual ( Trend & Progress of Banking in India, Currency & Finance etc) , half yearly (Financial Stability Reports, Macro Economic & Monetary Developments and Report on Forex reserves),quarterly, monthly (RBI Bulletin) & weekly Basis( Weekly Statistical Supplement) .

24.34 The information on performance of State Financial Corporations is maintained by **Small Industries Development Bank of India , SIDBI** . Even though organizations like IFCI, IDBI maintain their own statistics , usually , the consolidated information is usually available with RBI. **National Bank for Agriculture & Rural Development (NABARD)** maintains information on rural credit .

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