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A BRIEF ANALYSIS OF THE BANKING INDUSTRY IN INDIA

Amrut Jakkali
Principal, KLE Society's Degree College, Gokak, Belagavi, Karnataka

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ABSTRACT

This research paper explores the evolution and current dynamics of the Indian banking sector, focusing on the role of digital transformation and the performance of public, private, and foreign banks. Focusing mainly on the decadal data from 2013 to 2023, the study analyzes the growth of bank assets, the Credit-Deposit (C-D) ratio, and the penetration rate of online banking. The findings demonstrate that the banking sector in India has undergone significant changes, with technological advancements driving increased efficiency and customer reach. Public sector banks faced challenges due to non-performing assets (NPAs), while private sector banks showed robust asset growth, recovering quickly from the economic impact of the COVID-19 pandemic. Foreign banks also displayed resilience, with steady growth in assets. The research highlights the critical role of digital banking in modern banking services, contributing to financial inclusion and economic growth.

KEY WORDS: *public, private, foreign, assets, Credit-Deposit ratio, online banking,*

JEL classification: G21

INTRODUCTION

A bank is a financial institution that is involved in the borrowing and lending of money. They not only keep deposits but use them to lend and thereby making profits but also finance businesses and enable economic growth (Bhandari, K., & Soni, H., 2016). India has quite a long history in terms of banking which began with the establishment of the Bank of Hindustan in 1770 while the earliest attempt at setting up a Central bank being in the year 1773. At the time of independence, in 1951, India had 566 private commercial banks with 4151 branches which were mainly confined to towns and cities (Saini, R., & Lodha, S., 2014). The Indian banking sector has transformed incredibly from a stage of stagnancy of the license raj to the dynamic and liberalised and technology oriented white elephant of India which has gradually emerged as the backbone of the Indian economy. It outperformed the majority of the banking indices of the world and even overcame the global financial crisis unscathed by its spillovers. This was mainly due to the ability of the banking sector to protect the asset health by means of prudent lending (Gauba, R., 2012). The Indian banking sector has been marked by nationalisation, liberalisation and technology advancement in the past decades also accompanied by the financial sector reforms (Bhandari, K., & Soni, H., 2016). The banking industry in India is thus making commitments to the improvement of the economy and has assisted to accomplish economic growth (Srishylam, N., 2021).

The banking sector in India has undergone major changes mainly as a consequence of economic reforms. The economic reforms have also led to the creation of an influential middle class and has also led to a heterogeneity of the banking sector with a new mix of players emerging viz., public sector banks, private banks, foreign banks etc. This has created new financial products and generated competition as well as new expectations from the existing as well as the potential customers (Purbey, D.U., 2020).

RESEARCH METHODOLOGY

This study employs a quantitative approach, using secondary data collected from sources such as Statista and financial reports. The data includes bank asset values, C-D ratios, market share distributions, and online banking penetration rates. The analysis spans from 2013 to 2024, focusing on public, private, and foreign banks in India. Key metrics such as the growth of total assets, C-D ratios, and market capitalization were used to analyze the financial performance of banks. Trend analysis and comparisons across different bank categories were used to interpret the data and draw meaningful conclusions. Additionally, a focus on digital banking metrics such as penetration rates is helpful in assessing the impact of technological adoption in the sector.

OBJECTIVES

- To evaluate the growth trends and financial performance of Indian banks
- To assess the impact of digital transformation on Indian banking sector

Table 1: Distribution of the banking market in India:

Sl. No	Type of bank	Market share (In Percentage)
1	Foreign banks	37.7
2	Regional Rural Banks	35.2
3	Private banks	17.21
4	Public banks	9.83

Source: Statista

This above data showcases the diverse structure of India's banking industry, highlighting the key roles played by foreign, rural, private, and public banks in catering to various market segments.

The distribution of the banking market in India reveals an interesting composition, with foreign banks holding the largest

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share at 37.7%. Regional Rural Banks (RRBs) come next with a substantial 35.2% market share, underscoring their critical role in rural financing and supporting agricultural and small-scale sectors.

Private banks, holding a 17.21% share, reflect their growing prominence, driven by innovation, customer-centric services, and digital banking initiatives. Finally, public banks account for 9.83% of the market, a smaller share relative to foreign and rural banks, possibly indicating increased competition from private and foreign players, as well as a shift towards more modern banking services.

Table 2: Number of Banks Across India

Sl.no	Type of bank	Number of Banks
1	Rural co-operative banks	96,508
2	Urban co-operative banks	1,534
3	Foreign banks	46
4	Regional Rural banks (RRBs)	43
5	Private sector banks	21
6	Public sector banks	12

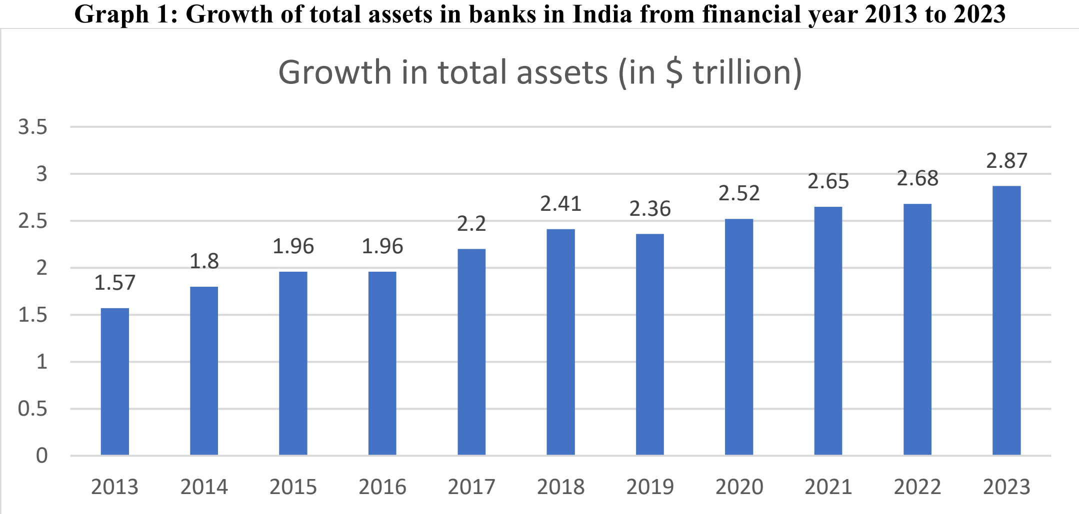
Source: Statista

India has 33 licensed banks in total as of November 2023, comprising 12 public sector banks and 21 private sector banks. 43 Regional Rural Banks (RRBs) and 46 foreign banks are also located in the nation. With 96,508 rural cooperative banks and 1,534 urban cooperative banks operating nationwide, the cooperative banking industry is large. In India, approximately 100,000 cooperative banks provide a range of financial services to both rural and urban populations.

Growth of the bank assets in Indian banks

The assets in the Indian banks amounted to nearly 2.9 trillion dollars as per the financial year 2023. The public sector banks accounted for the highest share in the assets in comparison private sector banks, during the period (Banking in India, Statista)SBI is the largest public sector bank with assets valuing worth Rs. 6,179,693 crores. Bank of Baroda and Punjab National Bank follow up with assets worth Rs. 1,585,797 and Rs. 1,561,835 respectively. With regards to the private sector, HDFC emerged as the bank with highest assets which were of the worth of Rs. 3,617,623 crores while ICICI Bank and Axis Bank followed with assets worth of Rs. 1,871,514 crores and 1,477,208 crores respectively.[1]

Graph 1: Growth of total assets in banks in India from financial year 2013 to 2023



Source: Statista

The total assets held by Indian banks increased steadily from $1.57 trillion in 2013 to $2.87 trillion in 2023, as shown in the above graph that charts this growth. Consistent growth was observed between 2013 and 2017, propelled by rising investments, increased lending, and economic expansion. But in 2016, the growth somewhat stalled at $1.96 trillion, most likely as a result of economic difficulties and an increase in non-performing assets (NPAs). Despite a slight decline in 2019, growth resumed in 2017 thanks to advances in digital banking, enhanced asset quality, and regulatory reforms. The total assets reached $2.87 trillion by 2023, demonstrating the banking sector's strong recovery and continued growth in India.

Table no.3: Assets of the public sector banks in India:

Financial year	Assets (In Trillion Dollars)
2013	1.14
2014	1.31
2015	1.42
2016	1.35
2017	1.52
2018	1.56
2019	1.45
2020	1.35
2021	1.47
2022	1.59
2023	1.69

Source: Statista

[1] *https://ddnews.gov.in/en/indian-banks-a-snapshot-of-market-capitalization-and-assets/#:~:text=TOTAL%20ASSETS%20OF%20BANKS%3A%20SBI,crore%20and%20Rs%201%2C391%2C957%20crore.*

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The above table shows the asset sizes of Indian public sector banks from 2013 to 2023. It also shows the financial trends of the banks during that time. PSB assets, which were valued at $1.14 trillion in 2013, grew steadily to $1.42 trillion by the year 2015, driven by increased lending and expansion initiatives. However, there was a decline to $1.35 trillion in 2016, most likely as a result of growing non-performing assets (NPAs) and economic challenges having an effect on the asset base. In the years that followed, assets varied, peaking at $1.52 trillion in 2017 and then marginally falling to $1.45 trillion in 2019. During this time, the government worked to recapitalise banks and address the NPA crisis.

In 2020, the assets dropped to $1.35 trillion due to the COVID-19 pandemic's economic effects and the ensuing strain on the banking sector. However, a revitalisation started in 2021, and by 2023, assets had risen to $1.69 trillion. Thanks to continued reforms in the public sector banking industry, improved asset quality, and improved financial performance, PSBs' increased asset base in India has stabilised and grown.

Table No.4: Value of the assets of Private sector banks in India (in billion dollars)

Sl.no	Financial Year	Assets (In Billion Dollars)
1	2013	325.9
2	2014	369.9
3	2015	415.1
4	2016	488.1
5	2017	558.92
6	2018	721.34
7	2019	758.04
8	2020	731.85
9	2021	805.84
10	2022	925.05
11	2023	1,016.93

Source: Statista

The data on the value of assets of private sector banks in India from 2013 to 2023 reflects a consistent upward trajectory, indicating the sector's robust growth. Beginning at $325.9 billion in 2013, the assets grew steadily, reaching $558.92 billion by 2017, which signifies strong banking sector expansion over this period. A significant jump occurred in 2018, with assets soaring to $721.34 billion, followed by a peak of $758.04 billion in 2019.

A slight dip was observed in 2020, possibly due to the economic impacts of the COVID-19 pandemic, bringing the asset value down to $731.85 billion. However, the recovery was swift, with asset values rebounding to $805.84 billion in 2021 and continuing to rise to $1,016.93 billion by 2023.

This trend suggests the growing importance of private sector banks in India's financial system, driven by technological advancements, enhanced customer outreach, and a recovering post-pandemic economy.

Table no.5: Assets of the Foreign banks in India:

Sl.no	Financial year	Assets (In Billion Dollars)
1	2013	104.5
2	2014	122.6
3	2015	123.5
4	2016	121.1
5	2017	125.52
6	2018	135.3
7	2019	151.2
8	2020	132.61
9	2021	158.75
10	2022	158.65
11	2023	164.78

Source: Statista

The assets of foreign banks in India from 2013 to 2023 show a fluctuating but overall upward trend. In 2013, the total assets stood at $104.5 billion and saw a steady increase over the next few years, reaching $135.3 billion by 2018. There was a notable peak in 2019 at $151.2 billion, followed by a slight decline to $132.61 billion in 2020, likely impacted by global economic disruptions such as the COVID-19 pandemic. However, foreign banks quickly rebounded, with assets growing to $158.75 billion in 2021 and stabilizing around $158.65 billion in 2022. By 2023, the assets had risen to $164.78 billion.

This data reflects the resilience and adaptability of foreign banks in India, despite short-term volatility, and highlights their strong recovery post-pandemic

Credit to deposit ratio (CDR) of Indian banks

The Credit-Deposit ratio acts as an indicator of the progress for any financial institution. It indicates the proportion of credit deployment of banks in relation to the amount of deposits maintained by them (Nayan, K., 2020). Since it indicates the proportion of a bank's core funds that are being used for lending, the credit to deposit ratio is a crucial initial indicator of the health of the bank. It serves as a liquidity indicator for banks. A very low ratio may suggest that the bank is not making the best use of its resources, while a very high ratio may point to pressure on resources as well as capital adequacy concerns.

Table no. 6: C-D Ratio of Public sector banks

Sl.no	Financial year	C-D ratio
1	2012	75.14
2	2013	77.85
3	2014	77.42
4	2015	76.12
5	2016	74.63
6	2017	68.78
7	2018	68.96
8	2019	69.43
9	2020	68.06
10	2021	64.11
11	2022	65.72
12	2023	70.74

Source: Statista

The relationship between bank loans and deposits is depicted in the above table, which shows the Indian public sector banks' (PSBs') Credit to Deposit (CD) ratio from 2012 to 2023. From

2012 to 2015, the CD ratio fluctuated between the mid-70% and a high of 77.85% in 2013, indicating that a significant portion of the deposits were being used to provide credit and that lending activity was active during that time.

Nevertheless, the CD ratio started to drop in 2016, dropping to 68.78% in 2017 and then to 64.11% by 2021 as a result of factors like an increase in non-performing assets (NPAs), which caused PSBs to become more cautious when making loans. The reasons for the lower CD ratios were stringent regulations, a slowdown in economic growth, and a rise in deposit inflows without a corresponding increase in credit demand. The trend started to change in 2022, though, and by 2023 the CD ratio had risen from 65.72% to 70.74%. The recovery suggests a rise in credit demand, which was most likely fuelled by better asset quality, a more robust banking system, and the post-pandemic economic recovery.

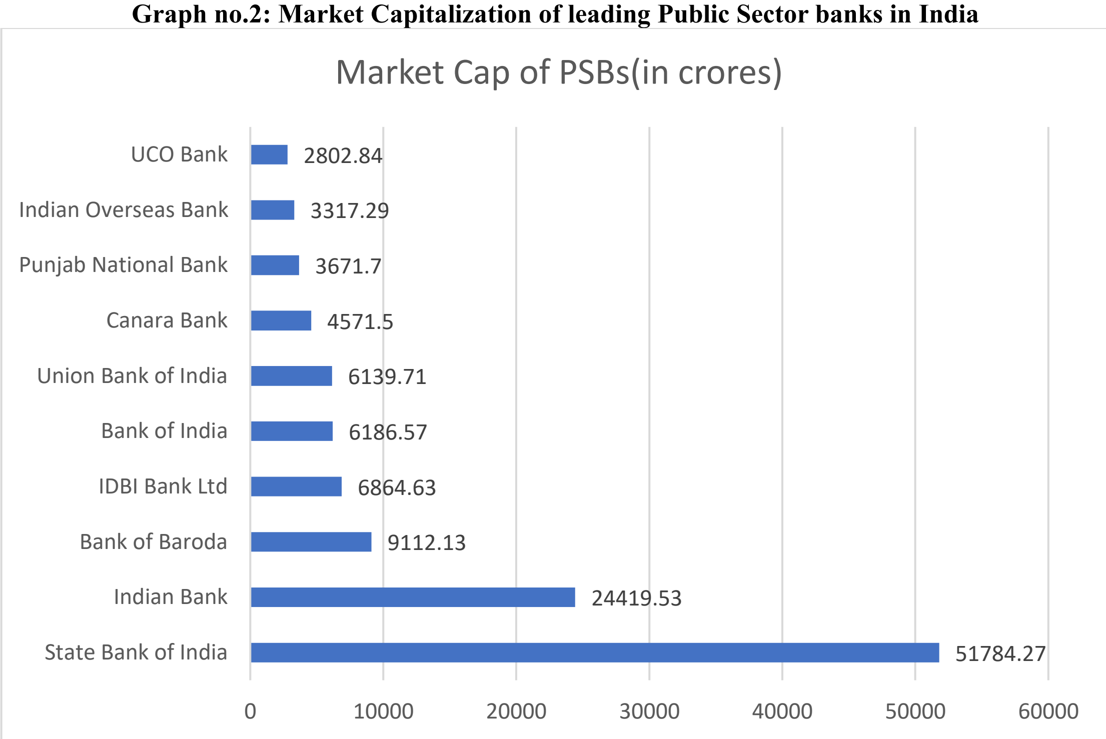
Table no.7: Credit-Deposit Ratio of Private sector banks in India:

Sl.no	Financial year	C-D ratio
1	2017	86.54
2	2018	86.91
3	2019	88.26
4	2020	87.16
5	2021	82.01
6	2022	83.5
7	2023	85.19

Source: Statista

The above data indicates the C-D ratio of the Private sector banks in India. From 2017 to 2023, the Credit-Deposit (C-D) ratio of India's private sector banks demonstrates a generally stable trend with sporadic fluctuations. It reached its highest point in 2019 at 88.26, indicating robust lending activity. However, because of cautious lending during the COVID-19 pandemic, it fell to 87.16 in 2020 and then to 82.01 in 2021. As economic conditions improved, the ratio gradually returned to normal lending operations, reaching 83.5 and 85.19 in 2022 and 2023.

Graph no.2: Market Capitalization of leading Public Sector banks in India



Source: http://www.bsepsu.com/mkt_capt.asp

The above graph displays the market capitalisation of India's largest public sector banks. State Bank of India (SBI) tops the list by a wide margin with ₹51,784.27 crores, indicating its dominance in the country's banking industry. The market capitalisation of Indian Bank, which comes in second with ₹24,419.53 crores, reinforces SBI's position. At the middle with market capitalisations of ₹9,112.13 crores, ₹6,864.63 crores, and ₹6,186.57 crores, are Bank of Baroda, IDBI Bank Ltd, and Bank of India respectively. Canara Bank and Union Bank of India, two other prominent banks, have comparable market values of ₹4,571.5 crores and ₹6,139.71 crores, respectively. With a market valuation of ₹3,671.7 crores, Punjab National Bank (PNB), a prominent participant in the banking industry, is relatively smaller than its peers. With smaller market capitalisations of ₹3,317.29 crores and ₹2,802.84 crores, respectively, Indian Overseas Bank and UCO Bank round out the list, representing their comparatively smaller size and market presence.

Online banking in India

Online banking, also synonymously referred to as E-banking, virtual banking, or internet banking, is a system that uses the internet to facilitate virtual cash deposits and withdrawals, loan and EMI payments, and fund transfers. A key component of modern banking functionality is e-banking (Smriti, M.A., et al., 2021).

Table no.8: Penetration rate of Online banking in India

Sl.no	Financial year	Penetration rate (In Percentage)
1	2014	5.27
2	2015	6.91
3	2016	8.52
4	2017	11.37
5	2018	14.34
6	2019	19.84
7	2020	24.96
8	2021	30
9	2022	35.08
10	2023	40.1
11	2024	45.02

Source: Statista

India's online banking penetration rate increased steadily from 5.27% in 2014 to a predicted 45.02% in 2024. This steady increase is a result of the nation's quick adoption of digital banking services. Important benchmarks include rising above 19.84% in 2019 due to technology developments and the growing acceptance of online and mobile banking, as well as the spike in demand during the COVID-19 pandemic, which will cause the rate to reach 30% by 2021. The penetration rate increased to 40.1% by 2023, indicating a major advancement in the digital transformation of the Indian banking industry.

FINDINGS

The major findings of the study highlight several important trends in the Indian banking sector:

- Growth in Bank Assets: The total assets of Indian banks grew steadily from $1.57 trillion in 2013 to $2.87 trillion in 2023, with public sector banks accounting for the highest share, although private banks showed the fastest growth.
- Private Sector Banks: Private banks demonstrated resilience, with assets growing from $325.9 billion in 2013 to $1.016 trillion in 2023, indicating their expanding role in India's financial system.
- Foreign Banks: Foreign banks experienced fluctuations, but overall, their assets grew from $104.5 billion in 2013 to $164.78 billion in 2023, showing recovery post-pandemic.
- Credit-Deposit Ratio: The C-D ratio of public sector banks showed a declining trend from 77.85% in 2013 to a low of 64.11% in 2021, reflecting cautious lending practices due to rising NPAs. However, a recovery to 70.74% was observed in 2023. Private banks maintained a higher C-D ratio, peaking at 88.26% in 2019, despite a drop during the pandemic.
- Digital Banking Penetration: The penetration rate of online banking grew steadily, from 5.27% in 2014 to a projected 45.02% in 2024. This reflects the rapid adoption of digital banking services, accelerated by technological advancements and the COVID-19 pandemic.

CONCLUSION

The Indian banking sector has shown considerable growth and transformation over the past decade, with technology playing a key role in its modernization. Public sector banks, while challenged by NPAs and slower asset growth, remain integral to the economy. Private sector banks have emerged as key players, leveraging digital technologies to drive customer engagement and asset growth. Foreign banks, despite external economic shocks, have maintained a steady presence in the market. The rise in the online banking penetration rate underscores the sector's shift towards digitalization, improving accessibility and financial inclusion. The study concludes that continued digital innovation and reforms will be essential for sustaining the growth and stability of the Indian banking sector in the coming years.

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