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# Financial and Banking Reforms in India: Challenges and Opportunities

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**ABSTRACT**

*Financial sector reforms means gradual liberalization of financial market and its players are opening of all types of depository institutions and other non-depository financial institutions to the private sector. Financial sector is the backbone or engine sof growth of any economy whether developed or developing or in transitions or emerging. It mobilize and allocates financial resources most productively and efficiently and induces investment, increases employment opportunities and productivity, achieves growth targets and attains overall macro-economic development. The economic reforms initiated by the govt. of India about two and half decades ago have changed the landscape of several sectors of the Indian economy. The Indian banking sector is no exception. This sector is going through major changes because of economic reforms. The role of banking industry is very important as one of the leading and mostly essential service sector financial and banking reforms have already brought about significant improvement in monetary and credit aggregates in India. A financial sector reform has certainly had a noticeable impact on the cost of intermediation: real interest rates and gross interest margins. However, there is a scope for even more improvement over the next years as competition enhancing measures and administrative cost reduction interventions are adopted. Today the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India. The significant role of banking industry is essential to speed up the social economic development. Banks plays an important role in the economic development of developing countries like India.*

*The underlying objectives of reforms were to make the banking system more competitive and profitable with the ultimate goal of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening.. Indian banks especially the public sector banks and the old private banks are lagging behind their competitors in terms of both productivity and profitability with the exception of the state bank of India and its associates. The biggest opportunity for the Indian banking system today is the Indian consumers. The Indian consumer seeks to fulfill his lifestyle aspirations at younger age with an optimal combination of equity and debt to finance consumption and asset creation. This is leading to a growing demand for competitive, sophisticated retail banking services. The present study is based on the secondary sources of data, which is taken from various publications and related literature. This paper explains the changing banking scenario, the impact of economic reforms and analyses the challenges and opportunities of national and commercial banks.*

## INTRODUCTION

Financial sector is the backbone or engine of growth of any economy. It mobilizes and allocates financial resources most productively and efficiently and induces investment, increases employment opportunities and productivity, achieves growth targets and attains overall macro-economic development. Financial sector development has been accompanied by structural and institutional changes. Financial sector generally have long been recognized to play a crucial role in economic development of an economy. According to Mc-Kennan (1973) and Shaw, (1973), the financial sector could be a catalyst for economic growth. Over the past two decades, the Indian government has undertaken a series of reforms to strengthen and modernize the financial sector as part of the country's move towards a more open and market oriented economy. Many of these reforms have also been motivated by India's growing participation in international agreements and ongoing efforts to adopt international standards such as the Basel capital framework. Key reforms include a restructuring of the financial and banking system, a gradual opening to foreign investment, the partial privatization of state-owned banking institutions, and measures to strengthen the capitalization of Indian banks. In India the service sector is contributing half of the Indian GDP and the financial sector is most popular service sector in India.

The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past two and half decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits. Before the establishment of banks, the financial activities were handled by moneylenders and individuals. At that time, the interest rates were very high. Again, there were no security of public savings and no uniformity regarding loans. To overcome such problems the organized banking sector was established, which was fully regulated by the government. The organized banking sector works within the financial system to provide loans, accept deposits and provide other services to their customers.

Financial markets provide playing field to financial institutions and their customers (depositors, borrowers, investors etc.) with all types of financial instruments such as deposits, loans and advances, securities, insurance policies, corporate bonds etc. A modern financial sector provides electronic banking services (e-banking), ATM services, credit cards, debit cards, innovative insurance products and services, attractive pension schemes and derivatives, hedging and financial futures. It can provide a wider range of financial services at lower costs while minimizing financial risks to a large number of customers. In a highly developed and sound financial system, all types of customers, whether large or small, rich or poor, and local or foreigner get benefited with their suitable financial products and services and insurance policies. It helps the economy by mobilizing and allocating financial resources most productively and efficiently. It helps to induce investment, increase employment opportunities and productivity, achieve growth targets and attain overall macro-economic development.

### 1.1. Objectives of the study

- ✓ To study the financial and banking reforms
- ✓ To study the Growth of Indian Banking & Insurance sector
- ✓ To study the challenges and opportunities of national and commercial banks in India

### 1.2. Methodology

This paper is the outcome of a secondary data on financial reforms and Banking Sector with special reference to Indian context. To complete this, annual reports, various books, journals and periodicals have been consulted, several reports on this particular area have been considered, and internet searching has been done.

## FINANCIAL REFORMS IN INDIA

Financial sector is the mainstay of any economy and it contributes immensely in the mobilization and distribution of resources. Financial sector reforms have long been viewed as significant part of the program for policy reform in developing nations. Earlier, it was thought that they were expected to increase the efficiency of resource mobilization and allocation in the real economy to generate higher rates of growth. Recently, they are also seen to be critical for macroeconomic stability. The elements of the financial sector are Banks, Financial Institutions, Instruments and markets which mobilise the resources from the surplus sector and channelize the same to the different needy sectors in the economy. An efficient banking system and a well-functioning capital market are essential to mobilize savings of the households and channel them to productive uses. The high rates of saving and productive investment are essential for economic growth. The process of accumulative capital growth through institutionalization of savings and investment fosters economic growth. Reform of the financial sector was recognized, from the very beginning, as an integral part of the economic reforms initiated in 1991. Prior to 1991 while the banking system and the capital market had shown impressive growth in the volume of operations, they suffered from many deficiencies with regard to their efficiency and the quality of their operations. The committee (1991) on financial sector reforms, headed by Narasimham, extensively analyzed the weaknesses of the banking system. The committee found that banking system was both over-regulated and under-regulated. Prior to 1991 system of multiple regulated interest rates prevailed. Besides, Government through high Statutory Liquidity Ratio (SLR) and a high Cash Reserve Ratio (CRR) preempted a large proportion of bank funds. As a result, there was a decrease in resources of the banks to provide loans to the private sector for investment. Further, the lack of transparency in the accounting practice of the banks and non-application of international norms by the banks meant that their balance sheets did not reflect their underlying financial position. Financial sector reforms aim at removing all these weaknesses of the financial system. Under these reforms, attempts have been made to make the Indian financial system more viable, operationally efficient, and more responsive and improve their allocative efficiency.Financial reforms have been undertaken in all the three segments of the financial system, namely banking, capital market and Government securities market.

### 2.1. Types of Financial Sector Reforms:

### A. Competition Enhancing Measures

- ➢ Granting of operational autonomy to public sector banks, reduction of public ownership in public sector banks by allowing them to raise capital from equity market up to 49 per cent of paid-up capital
- ➢ Transparent norms for entry of Indian private sector, foreign and joint-venture banks and insurance companies, permission for foreign investment in the financial sector in the form of Foreign Direct Investment (FDI) as well as portfolio investment, permission to banks to diversify product portfolio and business activities.
- ➢ Roadmap for presence of foreign banks and guidelines for mergers and amalgamation of private sector banks and banks and NBFCs

### B. Measures Enhancing Role of Market Forces

- Sharp reduction in pre-emption through reserve requirement, market determined pricing for government securities, disbanding of administered interest rates with a few exceptions and enhanced transparency and disclosure norms to facilitate market discipline
- Introduction of pure inter-bank call money market, auction-based repos-reverse repos for short-term liquidity management, facilitation of improved payments and settlement mechanism

**C. Prudential Measures**

- Introduction and phased implementation of international best practices and norms on risk-weighted capital adequacy requirement, accounting, income recognition, provisioning and exposure
- Know Your Customer' and 'Anti Money Laundering' guidelines, roadmap for Basel II, introduction of capital charge for market risk, higher graded provisioning for NPAs, guidelines for ownership and governance, securitisation and debt restructuring mechanisms norms, etc.

**D. Institutional and Legal Measures**

- Setting up of Lok Adalats (people's courts), debt recovery tribunals, asset reconstruction companies, settlement advisory committees, corporate debt restructuring mechanism, etc. for quicker recovery/ restructuring
- Promulgation of Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002 and its subsequent amendment to ensure creditor rights
- Setting up of Credit Information Bureau of India Limited (CIBIL) for information sharing on defaulters as also other borrowers, Setting up of Clearing Corporation of India Limited (CCIL)

**E. Supervisory Measures**

- Establishment of the Board for Financial Supervision as the apex supervisory authority for commercial banks, financial institutions and non-banking financial companies
- Introduction of CAMELS supervisory rating system, move towards risk-based supervision, consolidated supervision of financial conglomerates, strengthening of offsite surveillance
- Recasting of the role of statutory auditors, increased internal control through strengthening of internal audit, Strengthening corporate governance

**F. Technology Related Measures**

- Setting up of INFINET as the communication backbone for the financial sector, introduction of Negotiated Dealing System (NDS) for screen-based trading in government securities and Real Time Gross Settlement (RTGS) System

**A foreign bank may operate in India through any one of three channels, namely:**

- As branches of foreign banks,
- A wholly owned subsidiary of a foreign bank,
- A subsidiary with aggregate foreign investment up to the maximum of 74 per cent of the paid-up capital

Over past few years, government has taken many reformative steps to make financial sector even more robust. Although it will take quite a few years to see positive impact of these reforms, there is a consensus that these reforms will rewrite a chapter in Indian economy. More specifically, these reforms will open new stream of revenue and employment generation for the economy.

### 2.2. Evolution of Indian Banking Sector

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan, which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank, which was established in 1865, was for the first time completely run by Indians. Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to 22 forms the Imperial Bank of India, which was run by European Shareholders. After that, the Reserve Bank of India was established in April 1935.

In the evolution of this strategic industry spanning over two centuries, immense developments have been made in terms of the regulations governing it, the ownership structure, products and services offered and the technology deployed. The entire evolution can be classified into four distinct phases.

- Phase I- Pre-Nationalization Phase (prior to 1955)
- Phase II- Era of Nationalization and Consolidation (1955-1990)
- Phase III- Introduction of Indian Financial & Banking Sector Reforms and Partial Liberalization (1990-2004)
- Phase IV- Period of Increased Liberalization (2004 onwards)

### 2.3. The Structure of Indian Financial Sector

Financial Industry in India functions under the sunshade of Reserve Bank of India - the regulatory, central bank. Financial Industry mainly consists of:

- Banking sector
- Non-Banking financial services
- Insurance services
- Co-operatives
- Pension funds, Mutual funds, Equity Market etc

**Figure 1: Financial Institutions in India**

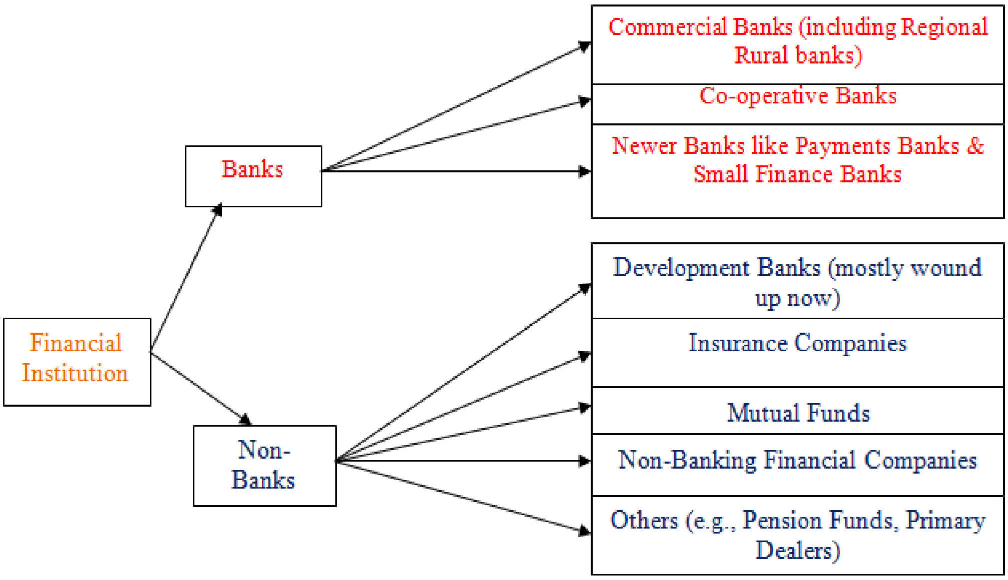
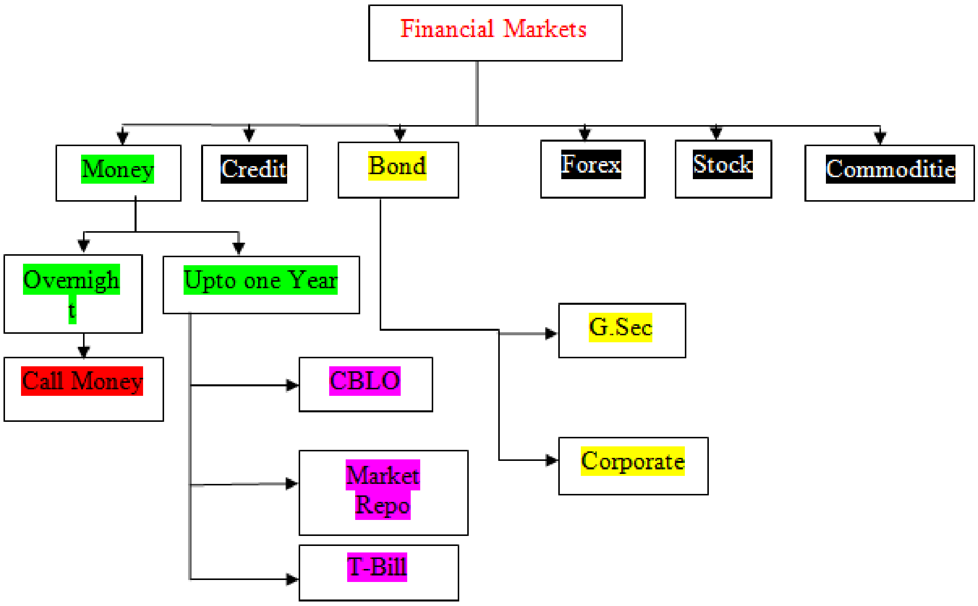



**Figure 2: Financial Markets in India**




Note: CBLO: Collateralized Borrowing and Lending Obligations; G-Sec: Government Securities; T-bill: Treasury bill

## GROWTH OF THE FINANCIAL & BANKING SECTOR

Today Indian economy is considered as the fastest growing economies in the world. Contributing to its high growth are many critical sectors, amongst which ‘financial services sector’ is unarguably one of the most distinguished sectors of Indian economy.

The role of financial sector in shaping fortunes for Indian economy has been even more critical. India’s watershed decision to nationalize 14 commercial banks in 1969 validated how critical was ‘financial sector’. Its importance after economic reforms of 1992 has grown only manifolds to the extent that today it presently contributes to over 6% of India’s GDP. It is the dynamic growth of financial services sector during post reform age that has helped it in assuming such an important place in Indian economy.

The biggest opportunity for the Indian banking system today is the Indian consumers. The Indian consumer seeks to fulfill his lifestyle aspirations at younger age with an optimal combination of equity and debt to finance consumption and asset creation. This is leading to a growing demand for competitive, sophisticated retail banking services.

India’s banking sector is expected to have one of the highest growth rates in Asia during the next few years due to the country’s continued economic expansion, rising household incomes, and relatively low penetration of existing banking services.

The growth of financial sector in India at present is nearly 8.5% per year. The rise in the growth rate suggests the growth of the economy. The financial policies and the monetary policies are able to sustain a stable growth rate. The reforms pertaining to the monetary policies and the macroeconomic policies over the last few years have influenced the Indian economy to the core.

The major step towards opening up of the financial market further was the nullification of the regulations restricting the growth of the financial sector in India. To maintain such a growth for a long term the inflation has to come down further.

The financial sector in India had an overall growth of 15%, which has exhibited stability over the last few years although several other markets across the Asian region were going through turmoil. The development of the system pertaining to the financial sector was the key to the growth of the same. With the opening of the financial market variety of products and services were introduced to suit the need of the customer.

The Reserve Bank of India (RBI) played a dynamic role in the growth of the financial and banking sector of Indian economy. Financial sector's contribution comes across even more strong when we look at sheer number of employment and tax revenue it generates. Especially employment generated by banking and insurance sector every year runs in millions. The growth of financial sector in India was due to the development in sectors:

**3.1. Growth of the banking sector in India**:

The banking system in India is the most extensive. The total asset value of the entire banking sector in India is nearly US$ 270 billion.

The total deposits are nearly US$ 220 billion. Banking sector in India has been transformed completely. Presently the latest inclusions such as Internet banking and Core banking have made banking operations more users friendly and easy.

**Table 1: Indian Banking Sector at a Glance (Billion)**

| Items | Amount Outstanding | | | |
|---|---|---|---|---|
| **Balance Sheet Operations** | **2012-2013** | **2013-2014** | **2014-2015** | **2015-2016** |
| Total Assets | 95900 | 109759 | 120370 | 129589 |
| Deposits | 74297 | 85332 | 94338 | 100927 |
| Borrowings | 10104 | 11013 | 11499 | 12835 |
| Investments | 26131 | 28833 | 29776 | 31740 |
| **Profitability** | | | | |
| Net Profit | 912 | 809 | 891 | 341 |
| Return on Asset (%) | 1 | 0.8 | 0.8 | 0.3 |
| Return on Equity (%) | 13.8 | 13.7 | 10.4 | 3.6 |
| **Asset Quality** | | | | |
| Gross NPAs | 1941 | 2644 | 3233 | 6120 |
| Net NPAs | 987 | 1426 | 1754 | 3498 |
| Gross NPAs Ratio (%) | 3.2 | 3.8 | 4.3 | 7.5 |
| **Financial Inclusion** | | | | |
| Credit Deposit Ratio (%) | 79.1 | 78.8 | 78.9 | 78.2 |
| Number of New Bank Branches Opened | 7757 | 11315 | 8598 | 6693 |
| Number of Banking Outlets In Villages | 268454 | 383804 | 553713 | 586307 |
| **Technological Development** | | | | |
| Total Number of Credit Cards (Million) | 20 | 19 | 21 | 25 |
| Total Number of Dedit Cards (Million) | 331 | 394 | 553 | 662 |
| Number of ATMs | 114014 | 161750 | 189279 | 212061 |

**Source: Reserve Bank of India**
**Compiled by Researcher (Kailash Bharti Goswami)**

**Table 2: Group Wise Number of Offices Opened By Commercial Banks**

| Banks Group | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|
| SBI & its Associates | 1252 | 1648 | 863 | 490 |
| Nationalized Banks | 3812 | 5954 | 4471 | 2395 |
| Regional Rural Banks | 949 | 1151 | 1014 | 731 |
| Private Sector Banks | 2091 | 2498 | 1956 | 2839 |
| Foreign Banks | 13 | 4 | 9 | 4 |

**Source: Reserve Bank of India**
**Compiled by Researcher (Kailash Bharti Goswami)**

**Table 3: Provisions & Contingencies of Schedule Commercial Banks (In Millions)**

| | Banks Group | Taxation | NPA | Investments |
|---|---|---|---|---|
| **2013** | | | | |
| | SBI & its Associates | 72367 | 132091 | -9619 |
| | Nationalized Banks | 73891 | 298539 | 1512 |
| | Private Sector Banks | 121562 | 54747 | -101 |
| | Foreign Banks | 84308 | 10479 | -8927 |
| **2014** | | | | |
| | SBI & its Associates | 64119 | 179371 | 8302 |
| | Nationalized Banks | 63004 | 375132 | 47118 |
| | Private Sector Banks | 155904 | 72613 | 7760 |
| | Foreign Banks | 80144 | 39330 | -11 |
| **2015** | | | | |
| | SBI & its Associates | 78317 | 208759 | -6833 |
| | Nationalized Banks | 95341 | 474997 | -23830 |
| | Private Sector Banks | 180475 | 99623 | -3272 |
| | Foreign Banks | 96372 | 21448 | -1625 |
| **2016** | | | | |
| | SBI & its Associates | 47323 | 379252 | 3608 |
| | Nationalized Banks | -108645 | 1159588 | 36780 |
| | Private Sector Banks | 184611 | 180042 | 5692 |
| | Foreign Banks | 81991 | 47708 | 475 |

**Source: Reserve Bank of India**
**Compiled by Researcher (Kailash Bharti Goswami)**

From the table 1st, it is clear that the total assets increased from 95900 US$ Billion in 2012-2013 to 129589 US$ Billion in 2015-2016. There was a 25% increase in total assets of banking sector in India. The net profit of banking sector decreased from 912 US$ Billion in 2012-2013 to 341 US$ Billion, which was decreased by 61% during the period. In the table, it is shown that the total number of credit cards and debit cards are increased by 25% and 100% respectively. The number of ATMs also increased by 85% from 2012-2013 to 2015-2016.

In second table, it is shown that every year the number of offices opened by different commercial banks increased and the banking sector spreads in semi-urban and rural areas.

Table third shows that the value of NPA of all sector banks is increasing year by year. The NPA of SBI & its associates increased from 132091 US$ million in 2013 to 379252 US$ million in 2016. It was increased by 187% from 2013 to 2016. The NPA of Nationalized banks, private sector banks was increased from 298539 US$ million to 1159588 US$ million and 54747 US$ million to 180042 US$ million from 2013 to 2016 respectively.

### 3.2. Growth in the Insurance sector in India

With the enactment of the IRDA Act, 1999, the monopoly conferred to the Life Insurance Corporation in 1956 and to the General Insurance Corporation in 1972 was repealed, allowing private sector players to enter the insurance sector. A recent development in the insurance sector has been enhancement of the limit of foreign investment in insurance sector from 26 to 49 percent under the automatic route.

With about 360 million policies, India's life insurance sector is perhaps the biggest in the world in terms of number—reflecting India's population size, which is expected to increase at a compound Annual Growth Rate (CAGR) of 12-15 percent over the next five years. The general insurance business in India is currently at Rs. 847 billion in 2014–15 or about 0.7 percent of GDP. In 2014, with a share of 2.1 percent in the global life insurance business, India has been ranked 11th among the 88 countries in life insurance business (Swiss Re, 2015). In non-life insurance while vehicle insurance accounted for nearly 40 percent of the gross direct premiums earned in 2015–16, penetration of health insurance is rather poor. In fact, despite the absolute size of the insurance sector, penetration in this sector leaves much to be desired. Illustratively, while the rate of insurance penetration in life segment (measured by the ratio of premium to GDP) of India decreased from 3.2 percent in 2012-13 to 2.6 percent in 2014-15 and then increased to 2.8 in 2015-16.

Though its share in total business has indeed come down, the insurance sector is still dominated by the public sector. Illustratively, in 2015–16, the share of LIC in total premium was around 73 percent, in case of non-life insurance business, the private and public sector companies have approximately equal share. The share of the life insurance fund as a proportion of changes in gross financial assets of the household sector have gone up significantly and tended to hover around 20 percent recent years. The total market size of the insurance sector in India is projected to touch US$ 350-400 Billion by 2020. The number of lives covered under health Insurance policies during 2015-16 was 36 crore which is approximately 30 percent of India's population.

**Table 4: Insurance Sector in India**

| Year | Life Insurance Sector | | Non Life Insurance Sector | |
|---|---|---|---|---|
| | No. of Companies | No. of branches | No. of Companies | No. of branches |
| 2012-13 | 24 | 10285 | 28 | 8099 |
| 2013-14 | 24 | 11032 | 29 | 9872 |
| 2014-15 | 24 | 11033 | 29 | 10407 |
| 2015-16 | 24 | 11042 | 29 | 10603 |

**Source: Handbook on Indian Insurance Statistics 2014-15 & 2015-16, Insurance Regulatory and Development Authority of India**
**Compiled by Researcher (Kailash Bharti Goswami)**

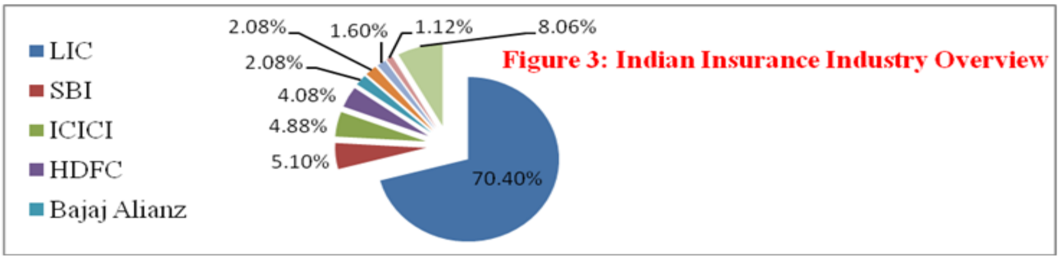



**Figure 3: Indian Insurance Industry Overview**

*Source: Tech Science Research, LIC – Life Insurance Corporation of India*

Table 4 shows the insurance sector in India, from the table, in 2012-2013, there were 52 insurance companies, out of 52, 24 were from life insurance sector and 28 from non life insurance sector. The numbers of companies were increased to 53 in 2015-2016. In 2015-2016, total numbers of branches were 21645, in which 11042 were of life insurance and 10603 of non-life insurance sector.

## CHALLENGES

- **Asset quality:**

The biggest risk to India's banks is the rise in bad loans. The slowdown in the economy in the last few years led to a rise in bad loans or non-performing assets (NPAs). These are loans which are not repaid back by the borrower. They are, thus, a loss for the bank. Net NPAs amount to only 2.36% of the total loans in the banking system. This may not seem like an alarming figure. However, it does not take into restructured assets - when a borrower is unable to pay back and the bank makes the loan more flexible to be paid back over a longer period. Restructured assets to put pressure on a bank's profitability. Together, such stressed assets account for 10.9% of the total loans in the system. In addition, these are just loans, which are identified as stressed assets. 36.9% of the total debt in India is at risk, according to an IMF report. Yet, banks have capacity to absorb only 7.9% loss. So, if these debts turn bad too, banks will face major losses.

- **Capital adequacy:**

One way a bank tries to ensure it is protected from bad loans is by setting aside money as a 'provision'. This money cannot be used for any other purposes including lending. As a result, banks have lower capital available to use for its various operations. The Capital Adequacy Ratio measures how much capital a bank has. When this falls, the bank has to borrow money or use depositors' money to lend. This money, however, is riskier and costlier than the bank's own capital. For example, a depositor can withdraw his/her money any time they want. So, a fall in CAR (often called as CRAR or Capital to Risk Assets Ratio) is worrisome. In the last few years, CRAR has declined steadily for Indian banks, especially for public-sector banks. Moreover, banks are not able to raise money easily, especially public-sector banks which have higher number of bad loans. If banks do not shore up their capital soon, some could fail to meet the minimum capital requirement set by the RBI. In such a case, they could face severe issues.

- **Unhedged forex exposure:**

"The wild gyrations in the forex market have the potential to inflict significant stress in the books of Indian companies who have heavily borrowed abroad," Mundra said in his speech. This stress can affect their ability to pay back debt to Indian banks. As a result, the RBI wants banks to ensure companies they lend to do not expose themselves to unnecessary debt in dollars.

- **Employee and technology:**

Public-sector banks are seeing more employees retire these days. So, younger employees are replacing the elder, more-experienced employees. This, however, happens at junior levels. As a result, there would be a virtual vacuum at the middle and senior level. "The absence of middle management could lead to adverse impact on banks' decision making process as this segment of officers played a critical role in translating the top management's strategy into workable action plans," the deputy governor said. Moreover, banks - especially government-owned banks - need to embrace technology to offer better products. This will also help make banks more efficient.

- Balance Sheet management
- Competition from Non-Banking Financial Institution & Foreign Banks
- Political Pressures etc

## OPPORTUNTIES

Financial Services are terribly under penetrated services in India Therein lies the opportunity for high growth.

Rapidly Changing Landscape What was available in only Mumbai and Delhi a few years back is today commonplace in small towns and villages in India. ATMs Credit card Mobile payment options have been introduced Cash cards Good quality internet access has already spread beyond the major metros and with the introduction of broadband will be available in every nook and corner of the country. Advances in technologies have tended to benefit the better-off more than those at the bottom of the pyramid developed in the West introduced into India almost as-is Difficult to profitably service the masses Innovations under way are likely to change the lives of the masses.

Rapidly Changing Landscape Financial organizations have only been able to penetrate larger cities and metros with a range of financial services. The better educated are much more likely to try new instruments when offered Rising educational attainment and incomes of the masses greater surpluses to invest greater willingness to try out New services greater private sector activity Technology innovation Mainstays: savings bank deposits post office savings life insurance informal instruments Under penetrated: Mutual funds equity shares gold The promise of growth.

## FINDINGS AND SUGGESTIONS

The implementation of financial reforms has already caused major improvements in monetary and credit aggregates in the banking sector in India. However, there appear to be plenty of room for even more improvements over the next few years. Financial reform in the India has definitely had a noticeable impact on the cost of intermediation as manifested by real interest rates and gross interest margins. However, there is scope for even more improvements over the next years as competition enhancing measures and administrative costs reduction interventions are further adopted.

Howbeit, the financial & Banking system in India still remains fragile and vulnerable to several external risks, including (i) the economy's high dependence on volatile oil proceeds; (ii) economic mismanagement, in particular fiscal imprudence; and (iii) political factors. Given the large size and role of the government in economic activity and its virtual monopoly over the country's export earnings, fiscal indiscipline is the single most important threat to the economy, the financial & banking sector today. Adopting a prudent, medium term oriented fiscal policy and introducing more market-based mechanisms in the foreign exchange market and the domestic money market would help to reduce vulnerabilities, remove distortions, and, hence, improve the efficiency of the financial and banking system. In managing financial crises, bank restructuring is an essential prerequisite for, but also highly dependent on macroeconomic stabilization. Given their interdependence, restructuring and stabilization need to be pursued in parallel. The formulation and implementation of a credible and comprehensive stabilization and structural reform program are also needed for stable prices, interest rates, and exchange rates, which are prerequisites for market participants to value firms and assets, and execute transactions.

Banks are expected to imbibe best-practice, corporate governance, improve on self-regulation, enhance the capital base, institute IT-driven culture, and seek to be competitive in today's globalizing world. Diversification of the productive base of the economy remains a fundamental challenge of economic management, and banks will increasingly be challenged to become more innovative in their intermediation function, and especially to increase financing to the productive sectors. The regulatory authorities, on their part, should further streamline the regulatory framework and strengthen the supervisory capacity to ensure a sound and efficient system.

Financial stability also depends on policy credibility, founded upon a reliable judicial system, transparency, and well-defined institutional responsibilities. Strong and reliable legal and regulatory frameworks are the foundations upon which policy credibility and financial stability rest. In their absence, economic and financial policies cannot be implemented. Legal and regulatory enforcement is needed to ensure action is taken against those that violate their prudential and financial obligations, and to act as a credible deterrent for all market participants.

*Note: This paper was presented in International Conference (ICDAED 2017) held at Babasaheb Bhimrao Ambedkar University, Lucknow, Uttar Pradesh, India by Kailash Bharti Goswami on 26th October 2017.*

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