**INDIAN BANKING PROGRESSION AND LICENCES:AN ASSESSMENT**

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**ABSTRACT**

*This has been a once-in-a-decade phenomenon. Following the nationalization of 14 large banks in 1969 and six in 1980, RBI has so far given licences to only 12 banks in two phases, including the conversion of a cooperative bank into a commercial bank. In the first round, the banking regulator issued licences to 10 private sector banks in 1994, shortly after the nation embraced economic liberalization. In the second round, licences were issued to two banks like* [*Yes Bank Ltd*](http://www.livemint.com/Search/Link/Keyword/Yes%20Bank%20Ltd)*and*[*Kotak Mahindra Bank Ltd*](http://www.livemint.com/Search/Link/Keyword/Kotak%20Mahindra%20Bank%20Ltd) *in 2004.*

*In the past, RBI’s stated objective behind giving licences to new banks was to introduce competition in the sector, largely dominated by government-owned banks. This time, the prime focus is to promote so-called financial inclusion, or increasing the reach of financial services to the unbanked population. RBI would open up the sector and issue fresh licences with the objective of spreading banking services wider in a nation where roughly 50 percent of the adult population does not have access to them. RBI issued the guidelines on new banking licence in February 2013 and set a 1st July deadline for applications. Further this research paper discussed regarding growth of banks, Next regeneration financial sector reforms and new banking licenses and its guidelines.*

***Key words:*** *Bank, Licenses ,RBI .Application*

**INTRODUCTION**

The banking sector in India has undergone remarkable changes since the economic reforms initiated in 1991-92. The period has been marked by a slew of reforms in the sector, which provided the much needed impetus for the growth of the sector as a whole. The major reform initiatives during this period include deregulation of interest rates, adoption of prudential norms in terms of capital adequacy, asset classification and provisioning, lowering of reserve requirements in terms of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR), dilution of government equity holding in public sector banks, opening of the sector to private participation, permission to foreign banks to expand their operations through subsidiaries, introduction of universal banking, greater emphasis on risk management by allowing banks to participate in instruments such as interest rate swaps, cross country forward contracts, liquidity adjustment facility, liberalisation of FDI norms in banks and the introduction of Real Time Gross Settlement (RTGS), among others. Those measures along with Reserve Bank of India’s (RBI) efforts to adopt international banking standards and best practices as prescribed in the Basel Accords have no doubt helped enormously the banking industry to enter a new era. In February 2005, RBI had stated in its “Road Map for Presence of Foreign Banks in India” that it would revisit the policy in 2009 and explore allowing Foreign banks a larger play locally (giving national treatments and market access within WTO norms) subject to interests of all stakeholders. RBI has been much more liberal in its policies towards foreign banks vis-à-vis developed countries. However, RBI gave foreign banks a window of opportunity which they grabbed with both hands. In its move to encourage banks to open branches in under-banked areas, RBI recently allowed domestic banks to open branches in Tier-III to Tier-VI cities without prior approval. Foreign banks, too, are being encouraged to open shop in under-banked areas. Data from RBI clearly reflect the trend till April 1,2007, foreign banks had no branch in rural centres( population less than 9,999) and only two branches in semi-urban centres( population less than 99,999). Between April 1, 2009, foreign banks opened 16 branches, of which four were in rural areas and two in semi-urban areas. Further, the licensing norms, the new bank will have to be listed within three years, bringing down the promoters’ shareholding to 40%. Within 10 years, this holding must be further pared to 20%, and by the 12th year to 15%. It is for sure with armed with technology, the new banks will shift the playing field from the cities to rural India and add a new dimension to the rural consumption story.

**OBJECTIVES OF THE STUDY**

India’s banking sector is growing at a fast pace. It has become one of the most preferred banking destinations in the world. It is almost fifteen years since the Indian banking sector was liberalised paradigm shift has taken place, with the entry of private and foreign banks in terms of competition and profits. Further, IMF’s financial access survey of 2011 gives us a fair idea about how critical financial inclusion is in India. In every 1,000km stretch, India has 30.43 bank branches and 25.43 automated teller machines (ATMs). In contrast, China has 1,428.98 branches and 2,975.05 ATMs. Similarly, there are 10.64 bank branches and 8.9 ATMs for every 100,000 of the population in India. The comparable figures for China are 23.81 and 49.56. Finally, bank deposits in India constitute 68.43% of the nation’s gross domestic product (GDP) and credit 51.75% against China’s 433.96% and 287.89%, respectively. To expand banking services in a nation of 1.2 billion people.

The present study will be conducted with the following objectives:

1. To study and analyse the growth of Indian banking sector;
2. To discuss the next generation financial sector reforms;
3. To examine the new banking licenses and its guidelines.

**REVIEW OF LITERATURE**

The ongoing reforms process has seen several major positive changes in the Indian banking sector. Deregulation has enabled banks in India to improve their financial health in terms of capital adequacy, asset quality, profitability and provisioning. This is an encouraging sign as the Indian banking industry has for long been suffering from the chronic problem of NPAs.

Singh and Sharma (2012) stated about reforms in banking sector impacts upon foreign banks operating in India. The performance of foreign banks improved after reforms in terms of numbers, size, profitability and efficiency. As a result of the reforms, the number of foreign banks increased rapidly.

 Verma and Bodla(2011) attempt to evaluate the productive efficiency of Scheduled Commercial Banks(SCBs) operating in India from the year 1998-99 to 2007-08. The study indicate that the Scheduled Commercial Banks need a lot of improvement in their efficiency level, as at the most only 42.9 percent foreign banks, 42.9 percent public sector banks and 40 percent private sector banks in India.

 Wanniarachchige, M.K and Ritsumeikan ; Y.S.(2011) stated how state-owned, nationalized and domestic private banks are behind foreign banks using data envelopment analysis together with three supplementary measures of performance from 2002-2009. But the performance of domestic banks has not yet reached the level of foreign banks in terms of both cost and revenue efficiencies.

 Sinha, Siddharth. (2012) stated that there has been a significant growth in bank advances and deposits during the period 2005-06 to 2010-11. The CAGR for SBI and new private sector banks are similar. However there is a sharp difference among the bank groups in their response to the financial crisis. The ROA of private sector banks have consistently been higher than that of PSBs. Overall the NPAs of the private sector banks are significantly lower than those of the PSBs in 2010-11.

 Varadharajan,p. and Vikkraman,p. (2011) focus of the study was to measure the efficiency levels of the 15 private sector banks taken for the study. The range of efficiency falls between 149% (Lakshmi Vilas Bank) to 737 %(Kaur Vysya bank). The mean score of all fifteen banks is 350%. The other banks which have performed quite well are Federal Bank (560%), HDFC Bank (550%) and Bank of Rajasthan (513%) and poor level of efficiency are ICICI Bank and Development Credit Bank with scores of 159% and 186% respectively. Singh, D. and Kohli, G. (2006) stated the SWOT analysis of 20 old and 10 new private sector banks. These banks have also been ranked on the basis of financial data for the years 2003-04, 2004-05 and 2005-06. The study has been used CAMEL model for evaluating these banks. The study shows Centurion bank was at the top position in terms of capital adequacy YES bank was at the top on the basis of management, Tamilnadu merchantile bank was at the top in terms of earnings and Ratnakar Bank was at the top in terms of liquidity.

Bhaarathi,N.(2010) Banks play an active role in the economic development of a country. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. These banks mostly deal with money collected in the form of deposits along with their own funds in the form of share capital and resources constituting around 5% of the total resources of the banks. So the banks have the obligation of meeting the demand of the customers promptly, paying interest for the amount and meeting the expenses to carry out its activities. This necessitates the banks to maintain adequate liquidity and earn required profit from their activities. Maintenance of liquidity and profitability are contradictory in nature. (Therefore, the banks have to perform the difficult task of maintaining equilibrium between liquidity and profitability).

Ramachandran, A. and Kavitha,N.(2008) stated during industrialization, finance was considered as the major input for achieving industrial growth. Banking industry is playing a role of a catalyst by providing financial assistance to various sectors of economy viz., agriculture, industry and service. The recent past has witnessed drastic changes in the Indian economy. When the economy is witnessing sea change, obviously the banking sector is bound to change in tandem.

**DISCUSSION OF THE PAPER**

**GROWTH OF INDIAN BANKING SECTOR**

India has 27 public sector banks, 22 private sector banks. In the past 20 years, the RBI has licensed only 12 banks in the private sector in two phases. Ten has already in 1993.
The guidelines were revised in January 2001, based on the experience gained from the functioning of these banks, and fresh applications were invited. Kotak Mahindra Bank and Yes Bank were the last two entities to get banking licences from RBI in 2003-04.

 **TABLE NO 1 : Performance of Private Sector Banks during 2005-06 to 2009-10.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Items** | **2005-06** | **2006-07** | **2007-08** | **2008-09** | **2009-10** |
| No.of offices | 6835 | 7424 | 8322 | 9236 | 10387 |
| No. of employees | 110505 | 137284 | 158823 | 176339 | 182284 |
| Business per employees(in lakh) | 670.94 | 704.19 | 751.42 | 743.85 | 798.37 |
| Profit per employee(in lakh) | 4.50 | 4.71 | 6.00 | 6.16 | 7.19 |
| Capital and Reserves & surplus | 43823 | 50473 | 91371 | 99669 | 119984 |
| Deposits | 428456 | 551987 | 675033 | 736378 | 822801 |
| Investments | 180568 | 214655 | 278578 | 306531 | 354117 |
| Advances | 312962 | 414751 | 518402 | 575328 | 632494 |
| Interest income | 35223 | 49567 | 70991 | 85071 | 82874 |
| Other income | 8091 | 12313 | 17006 | 17860 | 20180 |
| Interest expended | 21507 | 32856 | 48495 | 56957 | 51206 |
| Operating expenses | 12038 | 15320 | 20267 | 21779 | 22676 |
| Cost of funds(CoF) | 4.35 | 5.18 | 6.13 | 6.18 | 4.83 |
| Return on advances adjusted to CoF | 4.41 | 4.38 | 4.88 | 5.23 | 5.06 |
| Wages as % to total expenses | 12.15 | 10.93 | 10.35 | 10.83 | 12.76 |
| Return on assets | 1.07 | 1.02 | 1.13 | 1.13 | 1.28 |
| CRAR | 12.42 | 12.10 | 14.34 | 15.23 | 17.45 |
| Net NPA ratio | 1.01 | 0.97 | 1.09 | 1.29 | 1.03 |

The Table 01 depicts the performance of private sector banks operation during 2005-06 to 2009-10. The number of offices has been increased 6835 in 2005-06 to 10387 in 2010-11 with relative aspect to employees, business per employees( in lakhs), capital and reserve and surplus, deposits, investments and advances also.

**TABLE NO 2 : Performance of Foreign Banks during 2005-06 to 2009-10.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Items** | **2005-06** | **2006-07** | **2007-08** | **2008-09** | **2009-10** |
| No. of offices | 259 | 272 | 279 | 295 | 310 |
| No. of employees | 22117 | 28426 | 33969 | 29582 | 27742 |
| Business per employees(in lakh) | 955.41 | 974.77 | 1037.10 | 1282.74 | 1445.87 |
| Profit per employee(in lakh) | 13.87 | 16.13 | 19.47 | 25.39 | 17.09 |
| Capital and Reserves & surplus | 24314 | 33075 | 49332 | 59937 | 69061 |
| Deposits | 113745 | 150750 | 191161 | 214076 | 237853 |
| Investments | 52384 | 71471 | 98910 | 130354 | 159286 |
| Advances | 97562 | 126339 | 161133 | 165385 | 163260 |
| Interest income | 12291 | 17924 | 24417 | 30322 | 26389 |
| Other income | 5371 | 7044 | 10588 | 14894 | 9951 |
| Interest expended | 5149 | 7603 | 10604 | 12819 | 8938 |
| Operating expenses | 5854 | 7745 | 10353 | 12298 | 11102 |
| Cost of funds(CoF) | 3.63 | 4.03 | 4.33 | 4.46 | 2.82 |
| Return on advances adjusted to CoF | 4.90 | 5.74 | 6.60 | 8.14 | 7.17 |
| Wages as % to total expenses | 18.22 | 20.08 | 19.95 | 19.44 | 23.48 |
| Return on assets | 2.08 | 2.28 | 2.09 | 1.99 | 1.26 |
| CRAR | 13.02 | 12.39 | 13.08 | 14.32 | 17.25 |
| Net NPA ratio | 0.83 | 0.73 | 0.77 | 1.81 | 1.82 |

The Table 02 depicts the performance of foreign banks operation during 2005-06 to 2009-10. The number of offices has been increased during 2010-11 with relative aspect to employees, business per employees( in lakhs), capital and reserve and surplus, deposits, investments and advances also.

**TABLE NO 3 : Performance of Public Sector Banks during 2005-06 to 2009-10.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Items** | **2005-06** | **2006-07** | **2007-08** | **2008-09** | **2009-10** |
| No. of offices | 50168 | 52104 | 55080 | 57732 | 61301 |
| No. of employees | 744333 | 728878 | 708429 | 731524 | 734594 |
| Business per employees(in lakh) | 366.61 | 471.18 | 600.10 | 734.35 | 870.29 |
| Profit per employee(in lakh) | 2.22 | 2.76 | 3.75 | 4.70 | 5.34 |
| Capital and Reserves & surplus | 115044 | 135630 | 174785 | 208342 | 241001 |
| Deposits | 1622481 | 1994200 | 2453868 | 3112747 | 3691802 |
| Investments | 633557 | 664856 | 799841 | 1012666 | 1205783 |
| Advances | 1106288 | 1440146 | 1797401 | 2259212 | 2701300 |
| Interest income | 137874 | 164185 | 213075 | 273088 | 306488 |
| Other income | 21905 | 23684 | 32797 | 42466 | 48388 |
| Interest expended | 80504 | 101960 | 148902 | 193447 | 211940 |
| Operating expenses | 41308 | 43255 | 46663 | 55504 | 65991 |
| Cost of funds(CoF) | 4.46 | 4.79 | 5.85 | 6.04 | 5.34 |
| Return on advances adjusted to CoF | 3.55 | 3.90 | 3.67 | 4.04 | 3.76 |
| Wages as % to total expenses | 22.48 | 19.15 | 14.66 | 13.88 | 14.76 |
| Return on assets | 0.88 | 0.92 | 1.00 | 1.03 | 0.97 |
| CRAR | 12.17  | 12.36 | 12.51 | 13.49 | 13.32 |
| Net NPA ratio | 1.32 | 1.06 | 0.99 | 0.94 | 1.10 |

The Table 023 depicts the performance of public sector banks operation during 2005-06 to 2009-10. The number of offices has been increased during 2010-11 with relative aspect to employees, business per employees( in lakhs), capital and reserve and surplus, deposits, investments and advances also. Further net NPA position has increased in the year 2009-10.

**NEXT-GENERATION FINANCIAL SECTOR REFORMS**

The Planning Commission had in August 2007 constituted this committee, which was headed by Mr Raghuram Rajan, Professor, Graduate School of Business, University of Chicago. The Raghuram Rajan committee, whose report was titled ‘A Hundred Small Steps’, was tasked with proposing the next generation of reforms for the Indian financial sector. Though India has 87 commercial banks, an estimated 40% of the adult population does not have access to banking services. The country has 87 scheduled commercial banks with deposits of Rs.71.6 trillion on 31 May. Of this, 26 are public sector banks, which control over 70% of India’s banking sector, 20 are private banks and 41 are foreign banks. The five topics the RBI plans are: (a) Expanding the scope for foreign institutional investors (FII) investment in sovereign debt,(b) Financial market regulations in the context of financial stability,(c) Branch authorisation,(d) Further initiatives in corporate bond market, and Debt management office. Further, it includes consolidation of some large banks to create two-three global ones, the setting up of smaller banks, separate licences for specific banking operations instead of a single universal one, continuous licensing for new banks and conversion of some urban cooperative banks into full-fledged commercial banks, according to persons familiar with the development who did not want to be named.

**NEW BANKING LICENSES AND GUIDELINES**

 The rush to apply for bank [licences](http://www.business-standard.com/search?type=news&q=Licences) when the window of opportunity opened a year after a decade. Corporations, gold loan companies, financial services conglomerates, real estate tycoons, grassroots activists and quasi-public sector organisations, all created war rooms to meet the stiff deadline of July 1, 2013. After some confusion, onepost-facto addition and two withdrawals, 25 applicants stay in the fray. Against the backdrop of the withdrawal of the application by [Tata Sons](http://www.business-standard.com/search?type=news&q=Tata+Sons) and as the promised delivery date for the first in-principle approvals approaches at the turn of the calendar, the following questions are likely to play on the minds of applicants. New banks will help in improving the productivity of the banking sector, which has stagnated over the last few years. In addition, if the right candidates are selected, they will be able to bring in significant amounts of capital to not only meet Basel III requirements but also to help in growing the books. RBI is currently scrutinising various aspects of applications made by the 25 entities for new bank licences expected to be given by the end of March, 2014.

**CONCLUSION**

licences were issued to two banks like [Yes Bank Ltd](http://www.livemint.com/Search/Link/Keyword/Yes%20Bank%20Ltd) and [Kotak Mahindra Bank Ltd](http://www.livemint.com/Search/Link/Keyword/Kotak%20Mahindra%20Bank%20Ltd) in 2004. In the past, RBI’s stated objective behind giving licences to new banks was to introduce competition in the sector, largely dominated by government-owned banks. This time, the prime focus is to promote so-called financial inclusion, or increasing the reach of financial services to the unbanked population. RBI would open up the sector and issue fresh licences with the objective of spreading banking services wider in a nation where roughly 50 percent of the adult population does not have access to them. RBI issued the guidelines on new banking licence in February 2013 and set a 1st July deadline for applications. RBI is currently scrutinising various aspects of applications made by the 25 entities for new bank licences expected to be given by the end of March, 2014.

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