

Manuscript ID:  
IJEBAMPSR-2025-0202027

Volume: 2

Issue: 2

Month: April

Year: 2025

E-ISSN: 3065-9140

Submitted: 16-Jan-2025

Revised: 22-Feb-2025

Accepted: 25-Mar-2025

Published: 30-Apr-2025

**Address for correspondence:**

Dr. More Bhimrao Pandurang  
Vidya Pratishthan's Arts, Science  
and Commerce College, Baramati,  
Dist. Pune  
Email: [bpmore71@gmail.com](mailto:bpmore71@gmail.com)

DOI: 10.5281/zenodo.15833689

DOI Link:  
<https://doi.org/10.5281/zenodo.15833689>



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**How to Cite this Article:**

More, B. P., & Bhoite, A. P. (2025). A Study of Recent Trend in Banking Sector. *International Journal of Economics, Business, Accounting, Agriculture and Management Towards Paradigm Shift in Research (IJEBAMPSR)*, 2(2), 138–141. <https://doi.org/10.5281/zenodo.15833689>

# A Study of Recent Trend in Banking Sector

**Dr. More Bhimrao Pandurang<sup>1</sup>, Bhoite Ashwini Prabhakar<sup>2</sup>**

<sup>1</sup>Vidya Pratishthan's Arts, Science and Commerce College, Baramati, Dist. Pune

<sup>2</sup>Research Centre – Annasaheb Magar College, Hadapsar, Pune

## Abstract

*The Indian banking sector and the country's economy grow in tandem, as both are closely interdependent. The development of one directly influences the progress of the other. This study aims to explore recent trends in the Indian banking sector, with a focus on analyzing the impact of government policies aimed at banking development. It also examines the growing role of technology and innovation in transforming the banking landscape. This is a descriptive study that evaluates the sector's progress using key variables such as the availability and expansion of banking services, changing patterns in the demand and supply of financial services, the importance of bank account penetration, and the role of banks in promoting financial inclusion. The study highlights how policy reforms and digital initiatives have contributed to making banking services more accessible, efficient, and affordable, especially in rural and semi-urban areas. One of the key observations is the significant shift in consumer behavior—from traditional banking methods to modern digital platforms. There has been a noticeable transition from physical banking services, such as in-branch visits and reliance on passbooks, to digital tools like ATMs, mobile banking apps, and online payment systems. These changes reflect both increased consumer awareness and the effectiveness of financial literacy campaigns. In conclusion, the banking sector in India has experienced substantial growth over the years. With the aid of government reforms and technological advancements, financial services are now more inclusive, convenient, and responsive to the evolving needs of the population.*

**Keywords:** Banking sector, trends, banking penetration, digital payment, financial inclusion, Sustainable economic growth, inclusive growth.

## Introduction

India's banking system has steadily evolved into a strong and reliable component of the nation's financial infrastructure. It plays a vital role in economic growth by fulfilling the banking and credit needs of individuals, businesses, and institutions. Acting as financial intermediaries, banks mobilize savings from depositors and allocate them efficiently to borrowers, thereby boosting capital productivity and supporting entrepreneurial and industrial activities. The Indian banking structure is multilayered, comprising public and private sector banks, regional rural banks, cooperative banks, and small finance banks. Each category addresses the specific needs of different customer segments, from rural households and small businesses to large corporations. This diversity ensures financial services are accessible across all regions, including underserved areas. In recent years, the sector has embraced digital transformation, making services more efficient, secure, and user-friendly. Advancements such as online banking, mobile apps, and digital payment platforms have improved financial inclusion, enhanced customer experience, and aligned with government efforts to build a cashless and inclusive economy.

Overall, the Indian banking sector not only delivers essential financial services but also drives economic and social development by ensuring effective resource distribution and catering to the diverse financial needs of the population.

### Objectives

1. To Study the recent trends and developments in banking sectors.
2. To evaluate the effect of government and RBI initiatives on growth of banking.
3. To study the role of technology and innovations

### Hypothesis

1. Development of banking sectors enhancing the financial inclusion
2. Technology and innovations play an important role in development in banking sector.

### Research Methodology

This is a descriptive study of development of banking sectors. So the data used for this study is based on secondary resources and collected from various websites including government websites, reports, magazines etc.

### History of banking sector

The Indian banking system has a rich and evolving history dating back to the 18th century. The first bank, Bank of Hindustan, was established in 1770 in Calcutta. During British rule, the East India Company laid the foundation of modern banking by setting up three Presidency banks—Bank of Calcutta, Bank of Bombay, and Bank of Madras. Between 1906 and 1913, 98 banks were launched, but poor governance led to the collapse of 87 of them. In 1921, the three Presidency banks were merged to form the Imperial Bank of India, which served as a quasi-central bank under British control. Recognizing the need for a regulatory authority, the Reserve Bank of India (RBI) was established in 1935. Post-independence, the Indian government took major steps to nationalize the banking sector. The Banking Regulation Act of 1949 gave the RBI powers to license banks, regulate interest rates, and oversee banking operations. A 1961 amendment further empowered RBI to merge banks without consultation. In 1955, the Imperial Bank was transformed into the State Bank of India (SBI), with the RBI holding 92.1% of the shares, making it a government-owned

entity. Major nationalization waves occurred in 1969 and

1980, when 14 and 6 banks were nationalized respectively to meet economic and social goals. After the 1991 financial crisis, India adopted Liberalization, Privatization, and Globalization (LPG) policies. This allowed the entry of private banks from 1993 and the partial privatization of public banks. The Narasimham Committees (1991 & 1997) recommended critical reforms such as reducing CRR and SLR, introducing a four-tier banking system, creating Asset Reconstruction Funds, and allowing closure of weak banks instead of forced mergers. They also suggested reducing priority sector lending targets. Post-1991 reforms reshaped Indian banking, with increased FDI limits (up to 74%), legal measures to tackle NPAs, and a stronger role for private and foreign banks, making the sector more competitive and efficient

### Functions of banking

As banks play an important role as facility of flow of money. Some major functions of banking services mentioned below:

1. **Accepting Deposits:** Bank provide safety for money of individual and business by accepting deposits with the condition of withdrawal of money when required.
2. **Provide loans:** All kinds of capital need of individual as well as business fulfill by banks in the form of short or long term loans. These loan provided against collaterals.
3. **Payment and settlement:** Bank play role of representative of account holder for various kinds of payments and transaction include credit or debit card payments, cheque clearance, electronic transfer etc.
4. **Currency exchange:** Many banks provide currency exchange services. Such as rupees to dollars for buy and sell of foreign products, international trip, international transactions etc.
5. **Investment services:** Banks provide consultancy services for investments to account holder. Such as investment in mutual fund, stocks, bonds etc.

### Findings - Development in banking sector

This section examines the development of banking sector with the help of some variables. Such as recent number of banks in economy, growth in demand of banking services, growth in supply of banking services, banking penetration,

trend of digital payment etc. And its impact on financial inclusion.

### **Number of Banks in Service**

Banking system in India developed over several decades. As per second schedule of RBI act 1935 banks classified as scheduled and non-scheduled bank. Right now there is total 135 scheduled banks provide banking services in India. These schedule banks again classified on the basis of functions and ownership. The government owned banks known as public sector banks, after the privations policy number of public sector banks lowered and now only 12 public banks are in service. Private sector and foreign banks also contributed in banking system on India and presently 21 private banks and 44 foreign banks are available in system. To focus on lending to small farmers and rural areas there is 43 regional rural banks (RRBs) and 11 small finance banks. To overcome the burden from banks and leading to specific sectors there is provisions of 4 payment banks and 9306 non-banking financial companies (NBFCs).

### **Growth in demand of banking services**

Increase in demand of banking services is the positive sign of development of economy as use of bank accounts to receive government benefits, habit of savings and investments etc. According to database provided by RBI there is nearly 2.5 billion banks accounts held by individuals including multiple banks accounts of single individual. But still there is presence of gender inequality as Indian men hold 50% more banks accounts than female. The value of deposits submitted by individuals in banks for the purpose of savings also raised continuously. Recently total deposits in banks raised by 13.4% over the previous year.

### **Growth in supply of banking services**

Growth in supply of banking services indicates the improvement in financial services in Indian economy. As establishment of ATMs and bank branches in rural and backward areas help to provide access of financial services in those areas. Also increase in value of loan express the supply of capital for individuals and corporates. This loan growth in India averaged 11.83% from 2012 until 2025 reaching in all time high of 20.80% in december 2023 and record low of 4.10% in march of 2017. The commercial bank branches and ATMs per 1 lac adults also improved over the years.

### **Banking Penetration**

Bank account penetration is the important indicator of development of economy as well as standard of living. It refers the percentage of individuals in a population have access of banking services. This banking penetration is important for improving the saving habits, access to credit and insurance services, reducing dependency on exploited lending services. Also supported to get direct benefits from government schemes. After the government initiatives of Jan Dhan Yojana there is boost for banking penetration. Indian National family Health Survey found the half of Indian households having bank accounts in 2006 to increased as 96% of household have bank accounts in 2021.

### **Digital Payment access**

After the demonitization policy there is accelerated growth in digital payments in India. The growth of digital ecosystem in India has been driven by a number of factors, including the government's push towards digitalization, an increase in internet and smartphone penetration, and the rise of e-commerce. The Indian government has been actively promoting the use of digital technologies through various initiatives such as Digital India, Make in India, and Startup India. These initiatives aim to increase the use of digital technologies in various sectors such as healthcare, education, and agriculture, and also to create a conducive environment for start-ups to flourish. The increase in internet and smartphone penetration in India has also played a major role in the growth of the digital ecosystem. UPI (Unified Payments Interface) is in trend since the launch in 2016. This UPI payment transaction raised as 1.49 billion transactions in 2021 from 100 million transactions in 2017.

### **Financial Inclusion**

Inclusive economic growth is the trading topic to achieve economic growth with reducing inequality with financial literacy and self-reliance. Financial inclusion helps to ensuring access of affordable and adequate financial services for all individuals and business. This financial services include savings accounts, credit, insurance, remittance and pension product through banks and NBFCs. For this financial inclusion government take number of initiatives as Pradhan Mantri Jan Dhan Yojana (PMJDY) to access of banks accounts, government digital payment platform as

UPI payment, awareness about self help groups and micro finance institutions.

### Conclusion

The banking sector in India serves as the backbone of the nation's economy. It has evolved significantly—from traditional moneylenders (Sahukar) to a modern, tech-driven financial system offering digital payment solutions. Over time, the sector has seen continuous development, fueled by various government initiatives aimed at promoting financial inclusion, enhancing financial literacy, and extending banking services to rural and underserved areas. Efforts like expanding digital payment platforms and improving access to formal financial systems have contributed to more inclusive economic growth. These measures have increased the overall demand for financial services across the country. However, despite progress, challenges remain—particularly the need to raise awareness about banking among women, as gender disparities in account ownership still exist. In recent years, India's banking landscape has undergone notable transformations. These include the rapid adoption of digital technologies, the rise of private credit markets, and the introduction of the Digital Rupee by the Reserve Bank of India. These developments reflect a shift toward a more efficient, inclusive, and future-ready banking environment that supports the broader goals of sustainable economic development.

### Acknowledgement

I would like to express my sincere gratitude to all those who supported me throughout the course of this research paper on the A Study of Recent Trend in banking sector. First and foremost, I extend my heartfelt thanks to my guide Dr. More Bhimrao Pandurang, whose invaluable guidance, insightful feedback, and constant encouragement were crucial to the successful completion of this work.

### Financial support and sponsorship

Nil.

### Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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