



BANKING SECTOR IN INDIA: GROWTH AND ECONOMIC IMPORTANCE

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ABSTRACT:

India's banking sector stands as a pillar of the nation's economic progress, playing a vital role in mobilising capital, expanding credit access, and driving financial inclusion. While it continues to navigate challenges such as regulatory shifts, rising operational costs, and growing competition from fintech players, the sector is simultaneously embracing opportunities brought by digital innovation, structural reforms, and evolving customer needs. From UPI's global reach to a surge in fintech investments and grassroots financial schemes like Jan Dhan Yojana, India's banking landscape is undergoing a dynamic transformation, laying the groundwork for a more inclusive, tech-driven, and resilient financial ecosystem.

INTRODUCTION:

India's banking sector stands as a pillar of the nation's economic progress, playing a vital role in mobilising capital, expanding credit access, and driving financial inclusion. While it continues to navigate challenges such as regulatory shifts, rising operational costs, and growing competition from fintech players, the sector is simultaneously embracing opportunities brought by digital innovation, structural reforms, and evolving customer needs. From UPI's global reach to a surge in fintech investments and grassroots financial schemes like Jan Dhan Yojana, India's banking landscape is undergoing a dynamic transformation, laying the groundwork for a more inclusive, tech-driven, and resilient financial ecosystem.

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks.



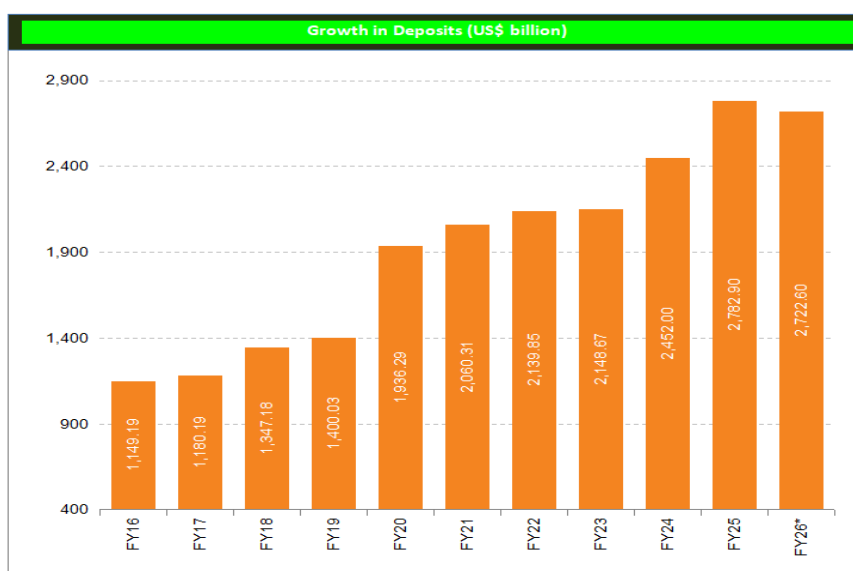
Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country. Indian Fintech industry is estimated to be at Rs. 12,99,450 crore (US\$ 150 billion) by 2025. India has the third largest FinTech ecosystem globally. India is one of the fastest-growing Fintech markets in the world. There are currently more than 2,000 DPIIT-recognized Financial Technology (FinTech) businesses in India, and this number is rapidly increasing. The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level five in the Faster Payments Innovation Index (FPPI). India's Unified Payments Interface (UPI) has also revolutionized real-time payments and strived to increase its global reach in recent years. Banks are launching new online services and AI-powered chatbots to make digital banking more secure and convenient. Two-factor authentication and biometric verification are being strengthened to safeguard digital transactions. As per the latest guidelines of the National Payments Corporation of India (NPCI), the UPI ID of customers linked to an inactive mobile number will become inactive. On April 28, 2025, an announcement was made about the "Digital Assam 2025" initiative. It includes the distribution of free smartphones to women associated with self-help groups, subsidized data packs to promote mobile banking, and a massive expansion of high-speed internet access under BharatNet Phase 2. These measures aim to boost mobile banking adoption in rural Assam.

METHODOLOGY:

Market Size:

India has 12 public sector banks, 21 private sector banks and 11 small finance banks. There are also about 44 foreign banks and 5 payment banks operating, among others. With micro-ATMs expanding to around 1.46 million by 2024 (up 18% since 2022), India's traditional ATM count dipped to approximately

255,000 by September 2024, with the NFS-connected ATM network standing at over 2,55,000. Banks added 2,796 ATMs in the first four months of FY23, against 1,486 in FY22 and 2,815 in FY21. 100% of new bank account openings in rural India are being done digitally. BCG predicts that the proportion of digital payments will grow to 65% by 2026. In 2024, total assets in the public and private banking sectors were Rs. 16,128,080 crore (US\$ 1,861.72 billion) and Rs. 1,09,52,458 crore (US\$ 1,264.28 billion), respectively. Assets of public sector banks accounted for 59.53% of the total banking assets (including public, private sector and foreign banks). The interest income of public banks reached Rs. 11,09,730 crore (US\$ 128.1 billion) in 2024. In 2024, interest income in the private banking sector reached Rs. 8,29,049 crore (US\$ 95.7 billion). India's housing finance market, currently valued at Rs. 33,00,000 crores (US\$ 379.7 billion) is projected to grow at a 15-16% compound annual



Results:

Growth rate (CAGR) to reach Rs. 77,00,000-81,00,000 crore (US\$ 886.1-932.3 billion) by 2029-30, according to Care Edge Ratings. The growth is driven by strong structural fundamentals and government incentives, making housing finance an attractive sector for lenders. Digital payments have significantly increased in recent years, because of coordinated efforts of the Government and RBI with all the stakeholders, UPI volume for FY25 (until June) recorded to 2,762. India accounts for nearly 46% of the world's digital transactions (as per 2022 data). As on July 2024, there were 602 banks actively using UPI. The flow of money into non-resident Indian (NRI) deposit schemes surged by 42.8% to Rs. 1,15,477 crore (US\$ 13.33 billion) between April and December 2024, compared to Rs. 80,825 crore (US\$ 9.33 billion) during the same period in 2023, according to data from the Reserve Bank of India (RBI). Bank deposits grew 10.12% YoY to Rs. 2,38,20,044 crore (US\$ 2,722.60

billion) by July 11, 2025, marking steady improvement, while credit as of June 27, 2025, rose 9.5% to Rs. 1,84,83,097 crore (US\$ 2,162.52 billion), reflecting strong economic momentum and sustained lending activity in India's financial sector.

DISCUSSION:

Investments/Developments:

Key investments and developments in India's banking industry include:

- In May 2025, Japan's Sumitomo Mitsui Banking Corporation (SMBC) agreed to acquire a 20% stake in Yes Bank for Rs. 13,480 crore (US\$ 1.58 billion), marking the largest foreign investment in an Indian bank to date.
- In early August 2025, AU Small Finance Bank received in-principle approval from the RBI to become the first small finance bank in nearly a decade to transition into a universal bank, expanding its lending and service capabilities.
- On August 7, 2025, the RBI approved RBL Bank's acquisition of a stake in Utkarsh Small Finance Bank (USFBL) post-amalgamation, supporting its growth in the small finance banking sector.
- Banks are launching new online services and AI-powered chatbots to make digital banking more secure and convenient. Two-factor authentication and biometric verification are being strengthened to safeguard digital transactions.
- As per the latest guidelines of the National Payments Corporation of India (NPCI), the UPI ID of customers linked to an inactive mobile number will become inactive.
- Union Minister of Finance, Ms. Nirmala Sitharaman, announced that over Rs. 38,98,350 crore (US\$ 450 billion) has been transferred through Direct Benefit Transfers (DBT) to citizens in the last eight years.
- The Defence Accounts Department (DAD) has entered into Memoranda of Understanding (MoUs) with four banks in New Delhi. This partnership will establish SPARSH [System for Pension Administration (Raksha)] Service Centres at 1,128 branches of these four banks nationwide. It aims to enhance last-mile connectivity for pensioners, particularly in remote regions.
- Digital payments have significantly increased in recent years, because of coordinated efforts of the Government and RBI with all the stakeholders, UPI volume for FY24 (until May) recorded to 27,338.
- Google India Digital Services (P) Limited and NPCI International Payments Ltd (NIPL), have signed a Memorandum of Understanding (MoU) to expand the transformative impact of UPI to countries beyond India.

- The banking, financial services, and insurance (BFSI) sector in India is projected to exceed last year's record of approximately 11 million square feet (msf) in office leasing, according to JLL. Between January and September 2024, BFSI leasing accounted for around 8.8 msf, representing 16.4% of India's total gross leasing of 53.4 msf.
- Warehousing Development Regulatory Authority and Punjab & Sind Bank signed Memorandum of Understanding to facilitate low interest rate loans to farmers.
- Fincare Small Finance Bank Limited (Fincare) and AU Small Finance Bank Limited (AU) has merged, with AU being the surviving entity (merged entity).
- Demand for personal and vehicle loans, including two-wheelers and four-wheelers, has surged by 12% in the past four months, according to a report by Teamlease Services.
- On 1 July 2023, the merger of HDFC Limited into HDFC Bank was executed with 42 HDFC Bank equity shares of Rs. 1 (US\$ 0.012) face value for every 25 HDFC Limited shares of Rs. 2 (US\$ 0.023) each fully paid-up.
- In March 2024, Kotak Mahindra Bank acquired Sonata Finance Pvt. Ltd. for Rs. 537 crore (US\$ 62.5 million), marking a significant strategic move to bolster its presence in the microfinance sector.
- Shriram Housing Finance Limited (SHFL), a provider of affordable housing finance services, was acquired by Warburg Pincus for Rs. 4,757 crore (US\$ 554 million) on May 13, 2024. It was a key acquisition with 100 percent stake acquired.
- The BFSI sector in India saw 64 M&A and private equity (PE) deals in Q3 CY24, with a total value of Rs. 27,472 crore (US\$ 3.2 billion). High-value deals exceeding Rs. 2,576 crore (US\$ 300 million) accounted for nearly Rs. 12,878 crore (US\$ 1.5 billion), as per data by Grant Thornton.
- In September 2024, IDFC FIRST Bank completed its reverse merger with parent IDFC Limited, offering 155 equity shares for every 100 shares held in IDFC Limited.
- In 2024, Kohlberg Kravis Roberts & Co. (KKR) acquired a controlling stake in HDFC Credila, India's largest education loan NBFC, in a deal worth Rs. 9,444 crore (US\$ 1.1 billion).
- In 2024, Indian corporates raised Rs. 58,120 crore (US\$ 6.77 billion) through over 230 private credit deals, with NBFCs being active participants. The total for private credit deals, including those by NBFCs, is expected to reach up to Rs. 85,850 crore (US\$ 10 billion) in 2025.

- In 2024, the International Finance Corporation (IFC) made a Rs. 3,434 crore (US\$ 400 million) investment in Bajaj Finance.

Government Initiatives:

- The Government of India plans to expand the network of Digital Banking Units (DBUs) by nearly doubling their count to 200 by the end of FY26. This initiative aims to enhance financial inclusion by allowing DBUs to offer a wider range of financial products, including insurance and pension schemes.
- In Union budget 2024-25, announcement made to open 100 branches of India Post Payment Bank are set to be established in the North East region to enhance banking services.
- As of May 2024, the Jan Dhan Yojana scheme has banked 52.30 crore beneficiaries, with a total amount of Rs. 2,28,057 crore (US\$ 27.32 billion).
- Bank accounts opened under GoI Pradhan Mantri Jan Dhan Yojana have deposits of over Rs. 2,17,701 crore (US\$ 25.13 billion) in beneficiary accounts. 51.11 crore beneficiaries banked till December 15, 2023.
- India strengthens banking sector with 'Baanknet,' a unified e-auction platform enhancing PSB recoveries, transparency, and credit availability.
- In March 2023, India Post Payments Bank (IPPB), in collaboration with Airtel, announced the launch of WhatsApp Banking Services for IPPB customers in Delhi.
- In October 2022, Prime Minister Mr. Narendra Modi inaugurated 75 Digital Banking Units (DBUs) across 75 districts in India.
- National Asset reconstruction company (NARCL) will take over, 15 non-performing loans (NPLs) worth Rs. 50,000 crore (US\$ 6.70 billion) from the banks.
- National payments corporation India (NPCI) has plans to launch UPI lite which will provide offline UPI services for digital payments. Payments of up to Rs. 200 (US\$ 2.67) can be made using this.
- In the Union budget of 2022-23 India has announced plans for a central bank digital currency (CBDC) which will be possibly known as Digital Rupee.
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- As per the Union Budget 2023-24, the RBI has launched a pilot to digitalize Kisan Credit Card (KCC) lending in a bid for efficiency, higher cost savings, and reduction of TAT. This is expected to transform the flow of credit in the rural economy.
- As per the Union Budget 2023-24, digital banking, digital payments and fintech innovations have grown at a rapid pace in the country. Taking

forward this agenda, and to mark 75 years of our independence, it is proposed to set up 75 Digital Banking Units in 75 districts of the country by Scheduled Commercial Banks.

- Additionally, the government proposed to introduce a digital rupee or a Central Bank Digital Currency (CBDC) which would be issued by the RBI using blockchain and other technologies.
- The government also proposed to bring all the 150,000 post offices under the digital banking core business to enable financial inclusion.
- According to the Economic Survey 2022-23, over the last few years, the number of neo banking platforms and global investments in the neo-banking segment has also risen consistently. Neo-banks operate under mainstream finance's umbrella but empower specific services long associated with traditional institutions such as banks, payment providers, etc.

CONCLUSION AND RECOMMENDATIONS:

Road Ahead:

Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth in the banking sector. All these factors suggest that India's banking sector is poised for robust growth as rapidly growing businesses will turn to banks for their credit needs. The advancement in technology has brought mobile and internet banking services to the fore. AI and automation are demonstrating unprecedented value while Blockchain has sparked innovation throughout the business landscape and is poised to continue in doing so. The banking sector is laying greater emphasis on providing improved services to their clients and upgrading their technology infrastructure to enhance customer's overall experience as well as give banks a competitive edge.



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