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Role of Foreign Direct Investment (FDI) in Indian Banking System-an overview

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Abstract:The Indian banking sector has established a critical platform for the country's economic progress and wealth formation. The banking system is the pivot around which the economy of a country revolves. Any economy's backbone is a functioning banking system. The importance of banks in the growth and development of any economy cannot be overstated. This does not need to be stated again. Since the liberalization and reforms of 1991, the Indian banking industry has changed dramatically, and Indian banks have expanded far outside their traditional regions of operation. One of the important initiatives in a broader reform agenda was to open up the Indian banking sector to international participation. India currently allows a total foreign participation in private banks of up to $1 billion

Keywords:Foreign Investment, Indian Banking Sector, Foreign Direct Investment (FDI), Private Banks, Public Sector Banks

1. Introduction

The banking system is the pivot around which the economy of a country revolves. Any economy's backbone is a functioning banking system. The importance of banks in the growth and development of any economy cannot be overstated. This does not need to be stated again. Finance is the lifeblood of the banking sector as a whole. In the absence of finance, the entire banking system will collapse. India was an example of this. Prior to liberalization, India had a rather restricted foreign investment policy. As international creditors raised their hands, it became increasingly impossible for India to satisfy even its short-term obligations. The absence of funds and Finance forced policymakers to reconsider how they would finance deficits. As a result, the Rangarajan Committee

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suggested that debt-creating capital flows be replaced with non-debt-creating capital flows such as foreign direct investment (FDI) and foreign portfolio investment (FPI). As a result, the Indian banking industry has changed dramatically since 1991, with Indian banks benefiting from technology reforms as well. Today, Indian banks have come a long way, transferring, better risk management, and financial stability beyond their traditional regions of operation. innovative financial products, increase bank efficiency, make banks more adaptable to changing conditions, and open up the Indian banking sector to foreign investment and employment. One of the most important decisions made within the group was participation. A broader reform policy.

1.1. Background of Study.

The general banking of India began to emerge in 1786, with the support of the Hindustan Bank and the Bengal Bank. The East India Company established the Bank of Bengal (1809) and the Bank of Madras (1843) as independent banks before combining them into presidential banks. In the year 1920, these banks were merged to form the Imperial Bank of India. Allahabad Bank is established in 1865. The Punjab National Bank was established in 1894. The Bank of India was founded in 1906, and the Indian Bank and Bank of Mysore were established between 1907 and 1913. The RBI was established in 1935.As a result of the ongoing problems in the banking sector, the Indian government enacted the Banking Companies Act of 1949, which was eventually renamed the Banking Regulation Act.

The Reserve Bank of India was given the authority to manage the operations of other nationalised banks in 1965. The Imperial Bank of India was nationalised in 1955. The SBI was established to act as the RBI's controlling authority. In 1960, seven banks were nationalised and assigned subsidiaries to the SBI. Following the nationalization of 14 major banks in 1969 and the nationalisation of seven more banks in 1980, the Indian government now controls 80 percent of the banking sector. Reforms in the Financial Sector after Liberalization Rapid transformation of the financial sector after liberalization, resulting in greater clarity and accountability in the financial markets, resulting in a large inflow of FII investments into India's capital markets.

Though the foreigner's decision to enter Shrivastava (2015) investigated foreign direct investment in capital in the Indian banking sector, which was controversial, but it reveals the rapid transformation in the policy-banking sector in India. The study looks at FDI in makers ranging from conservative to liberal. Currently, the Indian banking sector can handle concerns such as the development of new financial and unique products, risk taking abilities, from all sources up to a maximum limit of 74 percent of efficiency, and so on. paid up share capital, while this limit is capped at 20 percent. Malla (2014) investigated foreign direct investment in Indian banks. . for banks in the public sector It has been more than a decade since the Indian banking sector was opened up to foreign 2013 for a period of 13 years, from January 2000 to June. According to the analysis, FDI equity inflows into India have increased since 2005, making the banking sector increasingly important. The

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study of developing patterns in foreign investment revealed that FDI inflows into the Indian banking industry can benefit the Indian banking sector.

2. Scope of the Study.

The study's scope is broad, as inflows into the Indian banking industry have expanded on an annual basis, making it necessary to examine trends and patterns on a global scale. In 2013, FDI inflows into the Indian banking industry accounted for a significant portion of total FDI inflows into the service sector in India. In order to meet the study's aims, India was chosen. Balrambhai & Gopalakrishna (2014) studied the Foreign Investment inflow in 21 public sector banks and 16 potentials for FDI in the Indian banking sector as well as its private sector banks in India. The current study attempts to assess the trends and patterns of Balrambhai & Gopalakrishna (2014). The research also looked into FDI trends

2.1. Collection of Data

The current research is focused on the Indian banking industry. The study stated that, while there is a lot of room for international banks in India based on secondary data, the RBI's numerous sources, such as RBI reports and the Indian public's preference for WOS as a mode of presence has yet to be seen. Grag (2013) analysed the influence of FDI in Indian banking articles, newspapers, websites, circulars, manuals, and journals, as well as published literature and journals. According to the report, FDI in the Indian banking newsletters, bulletins, and factsheets sector can directly fix the capital base problem. of the ·Period of the Study:

Indian Banking System. an Overview

Because of India's unique geographical, social, and economic factors, its banking system is unlike any other in the Asian area. Indian has a big land area, with 1350 million people, and a diversified culture. India's revenue and expenditure systems are uneven. A huge part of the Indian population is illiterate, yet the country also possesses a large number of role changers and revolutionary talents in management and technology. In India, approximately 30 to 35 percent of the population lives in metro cities and urban areas, while the remaining 60-65 percent lives in various semi-urban and rural locations. The remaining is dispersed among many semi-urban and rural areas. Foreign Direct Investment (FDI) serves as a bridge between investment and saving. In India's economic development, FDI is being carefully cultivated as a developmental tool capable of assisting in the attainment of economic independence in several sectors. When India's new industrial policy was announced in 1991, a large number of incentives and concessions were put in place to encourage the flow of foreign capital into the country. Foreign Direct Investment (FDI) serves as a bridge between investment and saving. In terms of economic development, India is a growing nation and economy with plenty of room for both consumer and capital products. India's natural resources are vast and diverse, and its economy is strong. It is an ideal target for foreign direct investments due to its economic policy, improved market circumstances, and highly skilled human resources. India's

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economic policy framework combines socialist and capitalism characteristics. The size and structure of the Indian banking sector reflects all of these characteristics. It has been exposed to many nationalization schemes over time to address the lack of management, government planning, and course of action.

Review of Literature

There are few studies on foreign direct investment (FDI) in India. Although there has been a lot of research on foreign direct investment (FDI) in India, only a few have concentrated on the foreign direct sector. As a result, the current research will most likely close this gap. The current research looks at FDI and FPI in the Indian banking sector. The following are a few studies that have been considered in the context of current trends, patterns, and policies in the Indian banking sector: The goals of The Research Anwar (2017) looked into the new FDI trends.

"Impact of FDI on GDP: A Comparative Study of China and India," by G. Agarwal and M. A. Khan, concluded that a 1% increase in FDI would result in a 0.07 percent increase in Chinese GDP and a 0.02 percent increase in Indian GDP. We also discovered that Foreign Direct Investment has a greater impact on China's growth than it does on India's.

According to Singh Arjun and Singh Narender (2011), foreign direct investment is a vehicle for economic growth because of its ability to attract local capital, generate productivity, and create jobs. FDI is also crucial in the polishing and upgrading of management skills, technology, and competencies in numerous areas of the economy. They also examine FDI inflows into India's service industries since 1991, linking the development of FDI in the service sector to the creation of skilled and unskilled jobs. Jita Bhattacharyya,

The study "Impact of FDI and Merchandise and Services Trade on Economic Growth in India: an Empirical Study" by Bhattacharyya Mousumi (2012) revealed that there was a long-term relationship between FDI, banking, services business, and India's economic growth. Bi-directional causality exists between merchandise and economic growth, as well as between services and economic growth.

LPG (liberalization, privatization, and globalization) sponsored FDI model has a favorable impact on the effectiveness of overseas banks and Indian banks, according to Laghane.K. B (2007). In his research, he discovered that FDI should be viewed as a means of alleviating poverty, increasing elementary education, and making banking a priority sector. Because of LPG, Indian banks are expanding globally, and many foreign banks are starting up shop in India.

In the context of increasing competition among nations and subnational entities to attract Foreign Direct Investment (FDI), Singh J. (2010), "Economic Reforms and Foreign Direct Investment in India: Policy, Trends and Patterns," the current paper tries to determine the rising trends and patterns of FDI inflows into India in response to various policy measures announced by the Indian government since mid-1980 and after. Experiential study tends to demonstrate that FDI inflows have been increasing in general during the post-reform period. Furthermore, a comparison of FDI inflow by nation shows that FDI influx into

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India has expanded significantly in recent years in compared to other developing economies. As a result, the study concludes that FDI inflows into India have increased.to the liberalization measures introduced in the early 1990s

Research Design:

The current study is mostly empirical in character and focuses on the banking industry. It benefits from technology transfer and employs research approaches to improve risk management, financial stability, and novel descriptive and analytical nature. employment and products.

·**Scope of the Study**:

The study's scope is broad, as inflows into the Indian banking industry have expanded on an annual basis, making it necessary to examine trends and patterns on a global scale. In 2013, FDI inflows into the Indian banking industry accounted for a significant portion of total FDI inflows into the service sector in India. In order to meet the study's aims, India was chosen. Balrambhai & Gopalakrishna (2014) studied the Foreign Investment inflow in 21 public sector banks and 16 potentials for FDI in the Indian banking sector as well as its private sector banks in India. The current study attempts to assess the trends and patterns of Balrambhai & Gopalakrishna (2014).

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Objective of the study:

- The study indicated that FDI inflows of foreign investment in India's banking sector result in a significant increase in infrastructure provision (since 2005). India's fundamental necessities
- The current state of foreign direct investment in banking Reviewing India's current foreign investment policy leads to increased industrial growth. banking industry
- To investigate the banking sector's expansion.
- To gain a better understanding of FDI in the Indian banking sector.
- Identifying the issues in the Indian banking sector.
- Benefits of Foreign Direct Investment in India's Banking Sector

Research Methodology:

Research and experimental development is work done on a regular basis to add to the body of knowledge. The analysis of historical foresight achieves the first goal of this paper. Only secondary data is used in this study article. The material was mostly gathered from journals, articles, an online database of Indian economy, RBI bulletins, websites, and newspapers.

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Discussions and Analysis:

Following in the footsteps of the NDA government, the UPA government chose to continue the financial deregulation programme. The Union Budget 2005-6 was presented to Parliament on February 28, 2005, and the finance minister asked the RBI to submit a roadmap for foreign bank involvement in India on the same day. The RBI based his notification on recommendations issued by the previous government's Ministry of Commerce and Industry. Under the automatic approach, the Indian government has increased the FDI limit in private sector banks to 74 percent. The RBI's roadmap divides foreign bank presence into two parts. Between March 2005 and March 2009, permission for eligible foreign banks to acquire shareholdings in Indian private sector banks will be limited to banks recognized by the RBI for restructuring. According to the announcements, overseas banks (foreign banks) would be allowed to establish their presence by converting existing branches into totally owned banking subsidiaries. The government will also propose suitable amendments to the Banking Regulation Act of 1949. The global banking industry had rough times in 2007 and 2008 as a result of these announcements. The impact of the slowing economy on India's banking and insurance services has so far been minimal. Having been restrained India's financial system is only slightly exposed to foreign assets and their distinct products. The Indian economy has been pushing for multinational banks to play a larger role in the insurance and financial sectors, but the left communist parties are opposing the finance minister's attempt to increase overseas insurance investment limitations. Left-wing parties oppose the privatization of state-run pension funds and do not want offshore investors to have significant voting rights in private sector banks. There are various reasons why local and foreign investors who obtain a big shareholding in a bank or insurance company and exercise proportionate voting rights are concerned It raises the risk of indefinable concentration in the banking sector, as well as exposing the economy to a more severe financial catastrophe at the first sign of panic. Opposition parties are not taking into account the desires and needs of the current economic scenario.

Problems of Indian banking sector

- Instability in financial concerns is a problem in the Indian banking sector.
- Non-performing areas or real estate
- Management efficacy is lacking.
- Ineffective marketing approach

Challenges of Banking Sector

- Foreign Direct Investment is a non-debt inflow that would immediately address the problem of the Indian banks' capital basis. Benefits of FDI in India's Banking Sector Technology transfer from overseas nations
- Better capitalisation is more comfortable.
- Reduce India's banking sector's financial instability.

Improve risk management in the financial sector Banking sector investment %

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Without financial assistance, India's economic story would never become a reality. FDI inflows into the finance industry increased by 70% in 2011 compared to 2010. However, the convertibility aspect is a major stumbling block for FDI ventures in this sector. Money is being locked in projects without creating any return due t Foreign Direct Investment is a non-debt inflow that would immediately address the problem of the Indian banks' capital basis. Benefits of FDI in India's Banking Sector Technology transfer from overseas nations

Better capitalization is more comfortable.

Maintain the needed pace of projects. In the 2005-06 session, the government took a variety of steps to enhance FDI (for example, in the civil, telecom, and aviation sectors) up to 100 percent via the RBI automatic route. All of these actions have helped to increase foreign direct investment project delays. There are just too many outdated regulations and administrative procedures

5. Summary and Conclusions

With RBI and Indian government rules, the Indian banking sector has provided support since 1786. It has also demonstrated its solid rules and processes during the global economic crisis without disturbing the Indian financial sector. Banking industry development and diversification has now spread across the globe. India has been an attractive investment destination in the previous decade due to its rapid economic growth and increasing regulatory liberalisation. The United States has been at the forefront of investments in India, bolstering the connection between the world's two greatest democracies. Because India is a developing country, it may be concluded from the preceding research that People who work in non-government organisations and those who work for the country receive less social security after they retire. Our financial sectors are providing a variety of initiatives to encourage them to save. Apart from all of the foregoing, we require foreign investment since India's capital raising capacity is insufficient to take the Indian banking sector global. Last but not least, RBI should adopt rules that ensure FDI does not circumvent RBI restrictions and contributes to the growth of the Indian economy.

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