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A STUDY ON BANKING INDUSTRY IN INDIA

Oinam Pahari Singh, Research Scholar, Dept of Economics, Glocal University, Saharanpur

Dr. Randheer Bhinchar, Assistant Professor, Dept of Economics, Glocal University, Saharanpur

ABSTRACT

India has made significant progress since the early 1990s economic turmoil. Its steady and pragmatic reform strategy seems to have worked out fairly effectively. It has almost completely recovered from numerous crises, including the East Asian Crisis, drought, and sanction-like circumstances. There are compelling arguments for expecting India to have faster growth in the decades to come. At the same time, there is much work to be done to raise life quality. Even though the percentage of the poor in the population has decreased, the overall number of impoverished individuals is still very large. When compared to other emerging nations, India continues to rank poorly in both the Human Development Index and the Gender Development Index. It is necessary to bridge the gap between macroeconomic performance and social sector development by combining growth and development. The Mechanics of Information Asymmetry were discussed at the outset of this study. To solve the problem, good governance must be the first step. Studies on patterns of abnormal behavior must be started by CRAs, merchant bankers, and regulators. Conglomeracy, ventures into real estate and construction, a relentless pursuit of growth through mergers and acquisitions, leveraged balance sheet size, autocratic management, the "inner circle of management," cartelization, influence peddling, unfair trade practices, and so forth are some significant elements. business governance, in a nutshell, deals with the problem of using the business structure improperly for personal gain. A more thorough investigation is required to examine the connections between these characteristics of poor governance and defaults. The entire structure of corporate finance—maximizing shareholder wealth—is currently in doubt. Stakeholder satisfaction and societal well-being are now the main priorities. Corporate governance is even more crucial as the first filter because auditors and CRAs are the watchdogs of society and the nation's conscience guardians. The saying goes that the people running the business, not the balance sheets, are what pay back the debts.

KEY WORDS: General Bank of India, Credit, Debut, Savings

1. INTRODUCTION

Since the General Bank of India was established in 1786, organized banking has existed in India. The Imperial Bank of India, the country's largest bank at the time, was taken over by the government in 1955 to create the state-owned State Bank of India (SBI), which served as the nation's central bank after independence. The number of banks decreased from 566 in 1951 to 85 in 1969 as a result of the RBI's effort to combine weak banks with strong banks. In order to reach out to the general public and address the credit needs of all demographic groups, the government nationalized 14 big banks in 1969, and another 6 banks in 1980. The number of branches increased dramatically during this time, and the banks' branch network expanded to a point where it could reach even the most marginalized groups in a big nation like India. One of the largest banking networks in the world, SBI has 9033 local branches as well as 48 offices abroad. Early in the 1990s, the government released economic reforms that significantly affected the banking industry as well. New private sector bank entry was approved in accordance with specified RBI criteria. The RBI has implemented a number of liberalization and deregulation steps to align Indian banks with global best practices in terms of consolidation, efficiency, productivity, asset quality, capital adequacy, and profitability. Partially privatizing the state-owned banks has been authorized as a first step in order to provide them operational flexibility and functional autonomy, reducing the government's ownership to 51%. In the Union Budget for the fiscal year 2000–01, the government also suggested reducing its stake in nationalized banks to a minimum of 33% on a case-by-case basis. With a 77% share of deposits and a 70% share of net profit, public sector banks, notably the State Bank group (SBI and its subsidiaries), rule the market. With the exception of the SBI group, public sector banks continue to hold a significant deposit market share of close to 50% of the entire sector. Despite having a lower percentage of customer deposits (8.2% vs. 4.9% for new private sector banks, respectively), they control a bigger percentage of net profit (9.8% vs. 10.4%, respectively). Foreign banks have historically concentrated their operations on the top 25 cities in the nation due to limits on branch growth. However, they established higher standards for productivity, customer service, and operating efficiencies by concentrating on top clients and utilizing cutting-edge technology. The introduction and application of global best practices. More significantly, they developed long-lasting skills by luring the greatest talent, creating exclusive technologies and procedures, and establishing a strong brand identity. The foreign banks served as a model for the new private sector banks' business plans. Despite being minor in contrast to public sector banks, they constructed considerably larger branch networks than foreign banks and represent the biggest threat to their hegemony.

It is obvious that the majority of the aforementioned tactics fall under the category of approaches to increase operational efficacy and efficiency. Most of the aforementioned can be duplicated by any rival with sufficient capital. They are copycat tactics. The sole benefit is the amount of time the rival must spend implementing them,

which also doesn't produce any long-term benefits. While all of these efforts to increase operational effectiveness are unquestionably required to stay competitive, they are in no way sufficient. These are what organizational behaviorists commonly refer to as "hygiene factors."

In addition to facilitating investment decisions that can assist investors in achieving a balance in the risk return profile and, at the same time, help businesses access capital at competitive rates, Credit Rating Agencies (CRAs) play a significant role in assessing risk, its location, and distribution in the financial system. By properly pricing risk, CRAs may thus be able to aid and direct the effective allocation of capital across all economic sectors. But as Non-Performing Assets (NPA) and Stressed Assets (SA) have grown significantly over the past few years, banks' credit risk assessment, management, and monitoring have become more and more important. It is essential to have a comprehensive regulatory framework that includes input from all parties involved in the credit rating ecosystem if India is to increase the efficiency of CRAs and ensure that credit risk is properly assessed and monitored.

Securities and Exchange Board of India (SEBI) has strengthened the disclosure requirements for Credit Rating Agencies (CRAs) via its circular dated November 1, 2016 (the Circular), in an effort to increase the openness and accountability of CRAs. After several abrupt changes in ratings raised worries among investors, SEBI imposed these rules. The Circular attempts to improve industry standards, streamlining the procedure, increasing disclosures, and making it easier to understand ratings provided by CRAs.

1.1 CREDIT RATING AGENCIES

The Credit Rating Information Services of India (now CRISIL Limited) was founded in 1987, marking the beginning of credit rating in India. SMERA Ratings Limited, Brickwork Ratings India Pvt. Ltd., ICRA Limited, India Ratings & Research Pvt. Ltd. (previously known as Fitch Ratings India Pvt. Ltd.), and Informatics Valuation and Rating Pvt. Ltd. are the seven CRAs that are currently registered with SEBI. According to the SEBI (Credit Rating Agencies) Regulations, 1999, CRAs are governed by SEBI in India. These regulations address a number of issues, including the requirements for a proper rating process, the avoidance of conflicts of interest, and SEBI inspections of rating agencies.

Through strict eligibility requirements, the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 were created to ensure that only reputable players enter this industry. It outlines the requirement that CRAs conduct their business in a way that enables them to provide objective and fair opinions through clearly

defined processes and requirements and to enable broad access to issued and accepted ratings through a clearly defined rating process. These broad requirements mainly consisted of adhering to a code of conduct, reaching an agreement with the customer, monitoring and reviewing rating procedures, disclosing rating definitions and justifications, adopting internal procedures, and other measures to guarantee the achievement of the goal. In order to provide better disclosure and transparency in the connection between a rating agency, the borrower, and all the stakeholders affected by this activity, SEBI has tightened the rules for CRAs.

In the world of financial services, the credit rating industry is a specialized field. Both established and new businesses are choosing capital market financing in the post-reform era due to increasing activity in the Indian financial industry. There is now more rivalry among businesses for a piece of the savings pie. The Indian market for credit ratings is in a sweet place as it is poised for strong growth potential as a result of three factors: a strong capex cycle in the Indian economy, a low level of corporate bond market participation, and regulatory pressure brought on by the implementation of Basel II regulations. Credit rating is beneficial to the growth of the financial markets. Credit rating is a service provided to investors, and rating agencies are supposed to uphold the highest standards of integrity and analytical proficiency. Analysis of the business and financial risks connected to that firm is covered by the grading framework. In addition to qualitative factors, managerial skills can significantly influence a rating. Risk and reward are linked by credit ratings. As a result, they offer a benchmark by which to assess the risk associated with any instrument. The analytical methodology for rating focuses on assessing the business and financial risks connected to that firm. Concerning the rating agencies' adherence to the IOSCO Code of Conduct Fundamentals, the Reserve Bank of India consults with SEBI. Given the global economic downturn and the surge in defaulters, it is high time the channel have a reliable credit rating system in place to guarantee efficient chain functioning. The current emphasis on their accountability and, more importantly, the prudence with which regulators use ratings are the most notable changes.

Investors appreciate a systematic assessment of two categories of risks, namely "business risk arising out of the open economy and linkages between money, capital, and foreign exchange markets" and "payments risk," as the Indian economy becomes more and more market-oriented. Credit rating has been made required in order to protect small investors, who are the major target for unlisted corporate debt in the form of fixed deposits with businesses. Given the global economic downturn and the growth in default rates, it is high time the channel implemented a credit rating system to safeguard the chain's smooth operation. A credit rating is the rating agency's assessment of the issuer of a debt instrument's ability and willingness to pay back its debts as they become due. Typically, alphabetical or alphanumeric symbols are used to convey ratings. Symbols are straightforward, intuitive tools that

assist the investor in identifying the differences between debt products based on the underlying credit quality. In order to promote deeper comprehension, rating agencies also make their symbols' meanings and the justifications for the ratings they issue publically available.

A credit rating assesses a debt issuer's creditworthiness in relation to a certain type of debt; in this case, debt issued by a government or private entity. It is an assessment of the possibility of default by the debt issuers made by a credit rating agency. Credit rating agencies determine credit ratings. The credit rating is an assessment of a company's or government's creditworthiness based on both qualitative and quantitative data, including non-public data collected by the credit rating agency's analysts. Credit scores are not determined by mathematical equations. Instead, when deciding what public and private information should be taken into account when assigning a rating to a specific business or government, credit rating companies employ their expertise and judgment. People and organizations who buy bonds issued by corporations and governments use the credit rating to assess the chance that the government will fulfill its bond commitments. According to a credit rating agency's appraisal of the company's or government's financial history and long-term economic prospects, a low credit rating means that the organization or entity has a high chance of defaulting.

1.2 CORPORATE CREDIT RATINGS

An organization's credit rating serves as a financial signal to potential buyers of debt assets like bonds. Instead of a company as a whole, a financial instrument like a bond typically has a credit rating. These have letter designations like A, B, or C and are assigned by credit rating companies like A.M. Best, Dun & Bradstreet, Standard & Poor's, Moody's, or Fitch Ratings. From excellent to mediocre, the Standard & mediocre's rating system reads as follows: A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C, D are all acceptable grades. A speculative or junk bond is one with a rating of BBB- or lower. Though the name is slightly different, the Moody's rating system has a conceptually comparable structure. Following are the rankings, from great to poor: Aaa, Aa1, Aa2, Aa3, Baa1, Baa2, Baa3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C.

To assess the instruments' credit risk, Credit Rating and Information Services of India Limited (CRISIL) was established as a credit rating agency. These rating agencies give investors the ability to make sane investing decisions that will minimize risk and maximize reward. The expansion of the capital market and the widening selection of products not only increased opportunities for investors but also complicated the market. No longer a surety for the quality of the instruments it issues, the Issuer Company. The Caveat Emptor rule (buyer beware)

might be appropriately applied in this case as Investor beware. In light of this, a review of the Indian CRISIL credit rating agency's performance is made. This assessment is based on CRISIL Credit Rating Agency performance data collected over a 15-year period.

By assisting in reducing the information asymmetry regarding the creditworthiness of corporations or nations between lenders and investors on the one side and issuers on the other, credit rating agencies (CRAs) play a crucial role in the financial markets. The function of CRAs has grown as a result of financial globalization, and Basel II has given it a further boost by including CRA ratings into the guidelines for allocating weights for credit risk. Ratings frequently lag markets, are persistent, and when they do move, people tend to overreact. This overreaction may have exacerbated subsequent financial crises, causing financial instability and international contagion.

Enron, WorldCom, and Parmalat's recent bankruptcies have triggered congressional investigation against the agencies. The industry's excessive degree of concentration has come under particular criticism. In order to stimulate the development of new agencies and to focus the business created by new regulatory requirements in their direction, legislative action at the national and international levels may be necessary to promote competition.

The analysis and assessment of the creditworthiness of corporate and sovereign issuers of debt securities is a specialty of credit rating organizations (hence referred to as CRAs). CRAs are anticipated to play a bigger role in the management of corporate and sovereign credit risk in the new financial architecture. Their function has lately been strengthened by Basel II, the Basel Committee on Banking Supervision's (BCBS) modification of the capital requirements for banks.

The two types of rating agencies are (i) recognized and (ii) non-recognized. Supervisors in each nation accept the former for regulatory purposes. Only five CRAs are approved by the Security and Exchange Commission (SEC) in the US, with Moody's and Standard and Poor's (S&P) being the most well-known. The bulk of CRAs, including the Economist Intelligence Unit (EIU), Institutional Investor (II), and Euro money, are "non recognized". The differences amongst CRAs are substantial. Their size and coverage's range (geographical and sectoral) may vary. It is challenging to compare them because of the significant disparities in their techniques and definitions of default risk.

With a forecast growth rate of 2.7 percent, up 0.4 percentage points from 2016, it is anticipated that the current slowdown in global economy will reverse itself in 2017. This rise is mostly the result of restored faith in emerging and developing market nations, whose economies are expected to grow by 4.6 percent in 2018 compared to

advanced economies' 1.8 percent. Because of the recovery in commodity exports and the ongoing high domestic demand for commodity imports, this trend is anticipated to pick up speed. The BRICS regional bloc, which represents 22.7 percent of global GDP, is an association of rising economies that includes Brazil, Russia, India, China, and South Africa. These nations are dependent on the international credit markets and investors to meet their significant investment needs, particularly for the development of infrastructure. Their ability to access credit and investments, in turn, is based on the "rating" they receive. A "credit rating" is an assessment of the issuer's general creditworthiness, or whether the issuer would be able to satisfy the debt obligation within the specified time.

Three agencies, Standard and Poor's (S&P), Moody's, and Fitch, currently control the majority of the global market for credit ratings. Based on the public and private information provided to the agencies by the issuers, they assign ratings to organizations (governments, central banks, and corporations) all over the world. The issuers pay the rating agencies significant fees for the rating of their financial instruments and debt. The importance of credit rating agencies has increased significantly along with the necessity for economies and businesses to borrow money from outside. A rating is important to international corporations because it allows them to distinguish between different debt markets throughout the world when making investment decisions.

Not only have the rating agencies come under fire for their "fraudulent" ratings, but also for "intensifying" the financial crisis. For instance, the erroneous ratings given by international credit rating agencies to assets that were already regarded as "toxic" but were given AAA rating (indicating the best quality financial instruments) made the effects of the global financial crisis of 2008–09 on the United States (US) worse. Additionally, these agencies have reduced the ratings of emerging market economies, and they have come under fire for what are perceived as "biased" evaluations.

Despite showing evidence of strong development, India's sovereign credit rating is only one notch above the'speculative grade' category. India's reform initiatives in a number of sectors have not been sufficient to raise its ratings. Critics assert that the "bias" is blatantly evident in how these institutions rank their own nation, the United States. Since international credit rating agencies appeared to have taken into account the impact of the Trump administration's fiscal stimulus plans while ignoring the ensuing increase in the national debt, which would put downward pressure on the GDP growth rate, the rating and rating outlook for the US remained unchanged during the most recent presidential elections in the nation.

2. EMERGING MARKET ECONOMIES-MACROECONOMIC TRENDS

Global growth is significantly fueled by emerging market economies. After all, they produce about one-third of the world's output and are home to 75% of the world's poor. Global Economics Prospects, a report released by the World Bank in January 2017, predicts that developing market economies will expand on average by 4.2 percent in 2017 and 4.6 percent in 2018. In comparison, the advanced economies are expected to increase by an average of 1.8 percent this year. This year, the fast-growing economies in emerging markets are predicted to contribute 1.6 percentage points to global growth, the largest percentage contribution to growth since 2013. Increased capital flows into emerging markets as a result of historically low interest rates in advanced economies up until November 2016 are credited with this expansion. This enhanced demand for their financial assets together with the stabilization of commodities prices in the emerging economies. Nearly US$ 9 billion were invested in emerging market equity funds in the six weeks ended August 10, 2016, as a result of the political and policy uncertainties in advanced economies (including, among others, the Brexit referendum, the US elections, and restrictive monetary policy).

3. CONCLUSION

Global investors have long been interested in emerging market economies' financial markets because they provide greater returns than do advanced economies. The debt of emerging nations, which was close to US$ 6.3 trillion in 2013, is almost half the size of the US Treasury markets, the largest and most liquid market in the world, according to the World Bank Treasury.

The rationale behind CRAs is to address the issue of information asymmetry between lenders and borrowers regarding the latter's creditworthiness. Issuers with lower credit ratings are subject to higher interest rates that reflect higher risk premiums than issuers with higher credit ratings. Furthermore, due to national rules that limit investing in speculative-grade bonds, ratings govern the admissibility of debt and other financial instruments for the portfolios of some institutional investors.

This year, global growth is anticipated to accelerate due to resurgent economies in emerging and developing market nations. These economies rely on international loan markets because they have significant investment needs for infrastructure development and sustaining a level of economic growth. The role of credit rating agencies—the majority of which are situated in the West—has increased significantly as economies have a greater need to borrow money from other countries. In the framework of the macroeconomics of emerging market

countries, this essay investigates the current situation of international credit rating organizations. It explores the various complaints of credit rating companies and offers suggestions for a prospective, different paradigm.

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