
Evaluation of Banking Sector Reforms on the Performance and Stability of Indian Banks

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Abstract

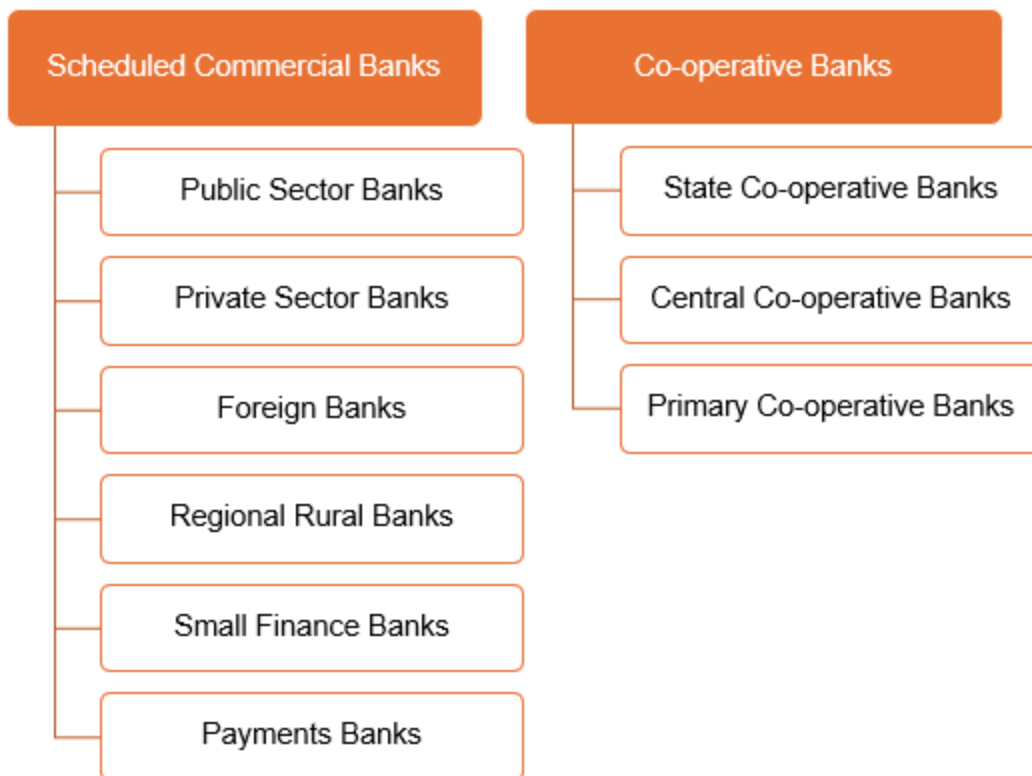
The Indian banking sector has undergone significant transformation through a series of regulatory, structural and technological reforms aimed at improving efficiency, profitability and financial stability. The present study evaluates the impact of banking sector reforms on the performance and stability of Indian banks during the period from 2015 to 2024. The research is based on secondary data collected from Reserve Bank of India reports, government publications, annual reports of banks and scholarly articles obtained through Google Scholar. The study examines major reforms including the Asset Quality Review, Insolvency and Bankruptcy Code, recapitalization programmes, Basel III implementation, banking consolidation and digital banking initiatives. The findings indicate that these reforms contributed towards improving capital adequacy, reducing non-performing assets and strengthening operational efficiency within the banking sector. The study also reveals that private sector banks adapted more effectively to technological and regulatory changes compared with public sector banks. Digital banking reforms and financial inclusion initiatives significantly enhanced banking accessibility and transaction efficiency across India. Despite these improvements, challenges relating to governance, cybersecurity risks and credit management continue to affect the long-term sustainability of the banking system. The study concludes that banking reforms have strengthened the resilience and competitiveness of Indian banks while highlighting the need for continuous regulatory monitoring and institutional improvement to maintain financial stability and inclusive growth within the banking sector.

Keywords

Banking sector reforms, Indian banks, financial stability, non-performing assets, digital banking, Basel III, banking performance, financial inclusion, banking regulation, recapitalization

Introduction

The Indian banking sector has experienced substantial transformation through a series of financial sector reforms aimed at improving efficiency, profitability, governance, competitiveness and systemic stability. Banking reforms in India emerged as a response to structural weaknesses such as low profitability, directed credit programmes, rising non-performing assets, inadequate capital adequacy and operational inefficiencies that constrained the banking system during earlier decades. The reform process, initially influenced by the recommendations of the Narasimham Committee, gradually evolved into a broader framework that incorporated prudential regulation, recapitalization, digital banking initiatives, consolidation policies and governance restructuring. These reforms became increasingly significant after the global financial crisis and the subsequent rise in stressed assets within Indian public sector banks. The Reserve Bank of India (RBI) and the Government of India introduced multiple corrective mechanisms between 2015 and 2024 to enhance financial resilience and improve the long-term sustainability of banks.



The period from 2015 onwards is particularly important in evaluating the impact of banking sector reforms because Indian banks faced severe asset quality deterioration and declining profitability during this phase. Gross non-performing assets of scheduled commercial banks increased sharply, especially among public sector banks, which raised concerns regarding credit risk management and institutional governance. To address these challenges, the RBI implemented the Asset Quality Review (AQR) in 2015, compelling banks to recognise hidden stressed assets and improve transparency in financial reporting. Simultaneously, reforms such as the Insolvency and Bankruptcy Code (IBC), recapitalisation programmes, Prompt Corrective Action (PCA) framework, bank mergers and improved prudential norms were introduced to strengthen the sector. These measures sought to restore investor confidence, improve capital buffers and ensure greater banking stability. The reform process also emphasized risk-based supervision and enhanced disclosure requirements to promote accountability and resilience within the financial system (Rastogi, 2017; Kaur & Misra, 2020).

Another important dimension of banking reforms in India has been the emphasis on financial inclusion and digital transformation. Government initiatives such as the PradhanMantri Jan Dhan Yojana (PMJDY), Direct Benefit Transfer (DBT), Unified Payments Interface (UPI) and expansion of mobile banking significantly altered the operational environment of banks. These reforms expanded banking outreach, increased deposit mobilisation and improved transaction efficiency across rural and urban regions. Technological integration also enabled banks to reduce operational costs, improve customer service delivery and strengthen financial accessibility. Recent developments in digital banking and fintech integration have further accelerated structural changes within the banking industry by increasing competition and innovation. However, the rapid expansion of digital financial services has also generated concerns relating to cybersecurity risks, operational vulnerabilities and regulatory adaptation.

The evaluation of banking sector reforms requires an assessment of both performance indicators and stability measures. Banking performance is generally analysed through indicators such as profitability, return on assets, return on equity, net interest margins, operational efficiency and credit growth. Stability indicators include capital adequacy ratios, asset quality, liquidity management and resilience against financial shocks. Studies on Indian banking reforms indicate that regulatory changes have contributed to improvements in operational efficiency and capital adequacy, although the impact has varied across public and private sector banks. Public sector banks, despite receiving substantial recapitalization support, have continued to face governance challenges and relatively higher levels of stressed assets compared with private banks. Private sector banks, on the other hand, have demonstrated stronger technological adaptability and profitability performance due to efficient management practices and better risk assessment systems (Bhide et al., 2001; Bala, 2024).

Bank consolidation emerged as another major reform strategy during the study period. The Government of India initiated mergers among public sector banks with the objective of creating larger and more competitive institutions capable of achieving economies of scale and stronger capital positions. Consolidation was expected to improve operational efficiency, strengthen lending capacity and reduce duplication of resources. Nevertheless, the effectiveness of mergers in enhancing financial performance remains debated because integration challenges, workforce rationalisation and cultural differences among merged entities often influence outcomes. Empirical studies examining mergers in Indian banking have highlighted mixed effects on profitability and capital structure dynamics, suggesting that reform outcomes depend significantly on managerial efficiency and post-merger governance quality.





Banking sector reforms also gained importance from the perspective of macroeconomic stability. A stable banking system is essential for sustaining investment, facilitating credit creation and maintaining confidence within the financial system. The RBI increasingly adopted macroprudential measures to strengthen resilience against systemic risks and external shocks. Financial stability reports published by the RBI indicate gradual improvement in asset quality, capitalisation and liquidity conditions after the implementation of major reforms. By 2024, Indian banks reported lower gross non-performing asset ratios and stronger profitability compared with earlier years, reflecting the cumulative effects of regulatory interventions and improved governance mechanisms. The reduction in stressed assets and strengthening of capital buffers indicate that reforms have contributed positively towards enhancing banking stability, although concerns relating to governance, cyber risks and credit concentration continue to persist.

The present study focuses on evaluating the impact of banking sector reforms on the performance and stability of Indian banks using secondary data and existing scholarly literature. The research seeks to examine how reforms implemented between 2015 and 2024 influenced operational efficiency, profitability, asset quality and financial resilience within the Indian banking system. The study also explores the broader implications of reforms for public and private sector banks in the context of financial inclusion, technological transformation and regulatory strengthening. By analysing recent developments and empirical findings, the research contributes towards understanding the effectiveness of banking reforms in promoting a more stable, competitive and sustainable banking environment in India.

Background to the Study

The banking sector occupies a central position within the Indian economy by facilitating financial intermediation, mobilising savings, supporting industrial expansion and promoting inclusive economic growth. Since the initiation of economic liberalisation in 1991, the Indian banking system has undergone a continuous process of transformation aimed at improving efficiency, competitiveness and financial stability. Earlier, the banking industry was characterised by extensive government control, high statutory pre-emptions, directed lending policies and weak prudential standards, which adversely affected profitability and operational performance. Public sector banks dominated the financial landscape, but rising non-performing assets, poor governance mechanisms and inadequate risk management practices weakened

the overall health of the banking system. These structural concerns encouraged policymakers and regulators to introduce a series of banking reforms intended to modernise the sector and align it with international banking standards (Narasimham, 1998).

Key Reforms	About the Reforms	Potential Impact
 <p>Introduction of Risk Based Premium Framework for Deposit Insurance</p>	<ul style="list-style-type: none"> • Banks to move from the present flat-rate deposit insurance premium to a risk-based system. • Risk-based system means that better-rated banks pay lower premiums. <ul style="list-style-type: none"> ◦ Deposit Insurance and Credit Guarantee Corporation (DICGC) has been operating the deposit insurance scheme since 1962 on a flat rate premium basis. 	<p>It will incentivise sound risk management and strengthen overall financial stability.</p>
 <p>Expected Credit Loss (ECL) provisioning framework</p>	<ul style="list-style-type: none"> • Application of the ECL Framework to all Scheduled Commercial Banks (excluding Small Finance Banks, Payment Banks, and Regional Rural Banks) and All India Financial Institutions (AIFIs) from April 01, 2027. 	<p>Strengthen resilience of Banking sector, enhance credit risk management practices, and promote better comparability of reported financials across institutions.</p>
 <p>Revised Basel III capital adequacy norms</p>	<ul style="list-style-type: none"> • Implementation of the revised Basel framework on Standardised Approach for Credit Risk from April, 2027. • It includes lower risk weights for certain sectors. E.g. MSMEs, home loans. 	<p>Expected to reduce the overall capital requirements for banks, freeing up capital for further lending.</p>
 <p>Broadening the scope for capital market lending by banks</p>	<ul style="list-style-type: none"> • Banks can now finance acquisitions by Indian corporates. • Enhance the limit for lending by banks against shares, units of REITs and InvITs; removing the regulatory ceiling on lending against listed debt securities. 	<p>Ease of doing business as it can improve credit access and lower the cost of capital for Indian businesses.</p>

The reform process gained greater momentum after the global financial crisis of 2008, which exposed vulnerabilities within banking systems across the world and highlighted the importance of stronger regulatory oversight. Although Indian banks remained relatively insulated from the immediate effects of the crisis, domestic challenges such as deteriorating asset quality, declining profitability and capital inadequacy became increasingly evident during the following decade. Between 2015 and 2018, Indian banks experienced a sharp rise in stressed assets, particularly within public sector banks that had significant exposure to infrastructure and corporate lending. The worsening financial condition of banks created concerns regarding credit growth, investor confidence and systemic stability. In response, the Reserve Bank of India and the Government of India implemented several corrective measures designed to strengthen financial resilience and improve transparency in banking operations (Acharya, 2017).

One of the most significant regulatory interventions during this period was the Asset Quality Review introduced by the RBI in 2015. The review compelled banks to recognise hidden non-performing assets

and adopt stricter provisioning standards. This initiative improved transparency in financial reporting and exposed the actual extent of stressed assets within the banking system. The implementation of the Insolvency and Bankruptcy Code in 2016 further strengthened the institutional framework for resolving distressed assets by establishing a time-bound insolvency resolution mechanism. These reforms were intended to improve recovery rates, reduce bad loans and enhance the credit culture within the Indian financial system (Rajan & Dhal, 2003).

Simultaneously, the government initiated recapitalisation programmes to strengthen the capital base of public sector banks and ensure compliance with Basel III norms. The Prompt Corrective Action framework was also applied to financially weak banks to restrict risky lending activities and encourage corrective restructuring measures. In addition, the consolidation of public sector banks through mergers aimed to create stronger institutions capable of achieving economies of scale, improving operational efficiency and competing effectively within a rapidly evolving financial environment. These measures reflected a broader policy objective of enhancing the long-term stability and sustainability of the Indian banking sector (Goyal & Joshi, 2012).

Technological transformation became another major component of banking reforms during the study period. The rapid expansion of digital banking, mobile payment systems and fintech innovations significantly altered banking operations and customer behaviour. Government initiatives such as Pradhan Mantri Jan Dhan Yojana, Direct Benefit Transfer and Unified Payments Interface strengthened financial inclusion and accelerated digital financial integration across rural and urban regions. The adoption of advanced technologies enabled banks to improve operational efficiency, reduce transaction costs and expand service accessibility. However, increasing digitalisation also introduced new challenges associated with cybersecurity risks, data privacy and regulatory adaptation (Sathye, 2005).

The background of the present study is therefore rooted in the need to evaluate whether the reforms implemented between 2015 and 2024 successfully improved the performance and stability of Indian banks. The study seeks to examine how regulatory restructuring, recapitalisation, technological innovation and institutional reforms influenced profitability, asset quality, operational efficiency and financial resilience within the banking sector. Through secondary analysis of recent literature and banking data, the research aims to provide a comprehensive understanding of the effectiveness of banking reforms in strengthening the Indian financial system.

Scope of the research

The present research focuses on evaluating the impact of banking sector reforms on the performance and stability of Indian banks during the period from 2015 to 2024. The study examines the major structural, regulatory and technological reforms introduced within the Indian banking system and analyses their influence on operational efficiency, profitability, asset quality and financial resilience. The scope of the research is confined to the Indian banking industry, particularly scheduled commercial banks, including public sector banks, private sector banks and selected foreign banks operating within India. The study investigates how reforms implemented by the Reserve Bank of India and the Government of India contributed towards strengthening the banking system and improving institutional stability during a period marked by rising non-performing assets, financial restructuring and digital transformation.

The research covers significant reform initiatives introduced during the selected period, including the Asset Quality Review, Insolvency and Bankruptcy Code, Prompt Corrective Action framework, recapitalisation programmes, Basel III implementation, banking consolidation and digital banking reforms. These reforms are examined in relation to their effectiveness in addressing key challenges such as stressed assets, declining profitability, inadequate capital adequacy and governance inefficiencies. The study also explores the role of financial inclusion initiatives and technological innovation in transforming banking operations and customer engagement within the Indian financial sector. Government programmes such as Pradhan Mantri Jan Dhan Yojana, Direct Benefit Transfer and Unified Payments Interface are considered important aspects

of the broader banking reform process because they significantly influenced financial accessibility and digital banking penetration (Khan, 2018).

The scope of the research includes the analysis of performance indicators commonly used to evaluate banking efficiency and financial health. These indicators include return on assets, return on equity, net interest margins, capital adequacy ratio, liquidity position, credit growth and non-performing asset ratios. By analysing these variables, the study aims to assess whether reforms improved the operational and financial performance of banks over time. The research further examines stability indicators such as solvency, risk management efficiency and resilience against financial shocks. Comparative analysis between public and private sector banks is also included to understand the differential impact of reforms across various banking institutions. Existing literature suggests that private sector banks adapted more effectively to technological and regulatory changes, whereas public sector banks faced greater challenges due to governance limitations and higher exposure to stressed assets (Kumar & Gulati, 2019).

The study relies entirely on secondary sources of data and information. Data are collected from annual reports of banks, Reserve Bank of India publications, government reports, financial stability reports, scholarly articles, research journals and other authenticated academic sources. The use of secondary data allows the research to evaluate trends and developments across the banking sector over a broader period while ensuring consistency and reliability in financial analysis. Scholarly studies published between 2015 and 2024 form an essential component of the research because they provide empirical evidence regarding the effectiveness of banking reforms and their implications for financial stability. The research therefore integrates quantitative financial analysis with qualitative interpretation of policy measures and institutional changes.

The geographical scope of the study is limited to India, and the analysis specifically concentrates on reforms affecting the Indian banking system rather than the broader financial sector. Non-banking financial companies, insurance institutions and cooperative banks are not examined extensively unless their activities directly influence banking sector stability. Similarly, the study does not focus on international banking reforms except where global regulatory standards such as Basel III have influenced Indian banking policies. The research also remains limited to evaluating the outcomes of reforms rather than proposing new policy frameworks or conducting primary surveys among banking professionals or customers.

The scope of the study is significant because it provides a comprehensive understanding of how banking sector reforms contributed towards improving the performance and stability of Indian banks during a critical phase of financial restructuring and technological advancement. The findings of the research may assist policymakers, banking professionals, academicians and financial analysts in understanding the effectiveness of recent reforms and the evolving challenges faced by the Indian banking industry.

Literature review

Rastogi (2017) examined the impact of banking sector reforms on the financial performance of Indian commercial banks and observed that prudential regulations introduced by the Reserve Bank of India significantly improved transparency and operational accountability. The study analysed indicators such as return on assets, capital adequacy and non-performing assets and found that banking reforms strengthened risk management practices across scheduled commercial banks. The research further highlighted that public sector banks faced greater stress because of excessive corporate exposure and delayed recognition of bad loans. The implementation of the Asset Quality Review improved financial disclosure standards and compelled banks to adopt stricter provisioning practices. The study suggested that reforms initiated after 2015 played an important role in stabilising the banking sector by improving regulatory supervision and institutional discipline (Rastogi, 2017).

Acharya (2017) evaluated the banking crisis in India by focusing on the accumulation of stressed assets within public sector banks. The study argued that weak governance structures, political interference in lending decisions and inadequate monitoring mechanisms contributed significantly to rising non-

performing assets. According to the research, reforms such as recapitalisation programmes and the Prompt Corrective Action framework were necessary to restore banking stability and investor confidence. The study also emphasised that sustainable improvement in banking performance required institutional reforms alongside financial restructuring. The findings indicated that capital injections alone could not resolve structural inefficiencies unless accompanied by stronger governance and improved credit appraisal systems (Acharya, 2017).

Kaur and Misra (2020) investigated the relationship between banking reforms and financial stability in India during the post-liberalisation period. The authors observed that reforms aimed at strengthening prudential regulation and capital adequacy improved the resilience of Indian banks against economic shocks. The implementation of Basel III norms enhanced the capital structure of banks and encouraged stronger liquidity management practices. The study also highlighted that regulatory tightening after 2015 improved the overall soundness of the banking system despite temporary declines in profitability caused by higher provisioning requirements. The research concluded that regulatory reforms strengthened long-term banking stability by promoting risk-sensitive banking practices and improving compliance standards (Kaur & Misra, 2020).

Khan (2018) analysed the role of financial inclusion reforms in improving the outreach and operational effectiveness of Indian banks. The study focused on initiatives such as Pradhan Mantri Jan Dhan Yojana, Direct Benefit Transfer and digital payment infrastructure. The findings revealed that financial inclusion policies increased deposit mobilisation and expanded banking access among rural populations. The research further explained that digital reforms reduced transaction costs and improved operational efficiency by promoting electronic payment systems and mobile banking services. However, the study also identified challenges related to digital literacy, cybersecurity risks and infrastructure limitations within rural banking networks. The author argued that financial inclusion reforms contributed positively towards banking sector expansion and economic integration (Khan, 2018).

Kumar and Gulati (2019) examined the comparative efficiency of public and private sector banks in India after the introduction of major banking reforms. Using financial efficiency indicators and productivity analysis, the study found that private sector banks demonstrated better operational performance due to superior technological integration and managerial efficiency. Public sector banks, although supported by recapitalisation programmes, continued to face difficulties associated with high non-performing assets and lower profitability. The study concluded that reforms improved competitive efficiency within the banking industry but also widened the performance gap between public and private institutions. The research emphasised the importance of governance reforms and human resource development in enhancing the productivity of public sector banks (Kumar & Gulati, 2019).

Bala (2024) studied the post-reform performance of Indian banks with special reference to profitability and capital adequacy. The research observed that reforms implemented between 2015 and 2024 contributed towards significant improvements in asset quality and capital buffers. Banks adopted stronger risk assessment models and enhanced compliance mechanisms in response to stricter regulatory expectations. The study also highlighted that digital banking innovations improved customer service quality and reduced operational costs across the sector. According to the findings, the Indian banking system demonstrated stronger resilience against external economic uncertainties due to continuous regulatory monitoring and financial restructuring measures (Bala, 2024).

Goyal and Joshi (2012) explored the effects of bank mergers and consolidation within the Indian banking sector. Although the study predates the current reform period, its findings remain relevant because consolidation became a major reform strategy after 2017. The authors argued that mergers among public sector banks were expected to create stronger institutions capable of achieving economies of scale and improving lending capacity. The study observed that consolidation could improve efficiency by reducing operational duplication and strengthening capital adequacy. However, the research also noted that post-

merger integration challenges, cultural differences and workforce management issues could negatively influence performance if not handled effectively. The findings suggested that successful consolidation required strong managerial coordination and long-term strategic planning (Goyal & Joshi, 2012).

Sathye (2005) evaluated the adoption of internet banking and technological reforms within Indian commercial banks. The study highlighted that technological innovation significantly transformed banking operations by improving service delivery and operational efficiency. Although conducted before the recent digital banking expansion, the findings became increasingly relevant during the post-2015 reform phase when digital payment systems and fintech integration accelerated rapidly. The research explained that banks adopting advanced technologies achieved greater customer satisfaction and cost efficiency compared with technologically weaker institutions. The study also stressed the importance of cybersecurity frameworks and technological training for ensuring sustainable digital transformation within the banking sector (Sathye, 2005).

Rajan and Dhal (2003) investigated determinants of non-performing assets in Indian commercial banks and identified macroeconomic instability, poor credit appraisal systems and sectoral lending concentration as major contributors to stressed assets. The study demonstrated that rising non-performing assets adversely affected profitability and financial stability. The findings gained renewed relevance after 2015 when Indian banks faced severe asset quality deterioration. Subsequent reforms such as the Asset Quality Review and Insolvency and Bankruptcy Code were introduced largely to address concerns highlighted in earlier studies regarding hidden bad loans and weak recovery mechanisms. The research established that effective monitoring and timely recognition of stressed assets were essential for maintaining banking stability (Rajan & Dhal, 2003).

Methodology

The present study is based on a descriptive and analytical research design using secondary sources of data to evaluate the impact of banking sector reforms on the performance and stability of Indian banks. The research focuses on the period from 2015 to 2024, during which significant reforms such as the Asset Quality Review, Insolvency and Bankruptcy Code, Prompt Corrective Action framework, recapitalisation initiatives, Basel III implementation and banking consolidation were introduced within the Indian banking sector. The study aims to analyse how these reforms influenced profitability, operational efficiency, asset quality and financial stability among Indian commercial banks.

The research relies entirely on secondary data collected from authentic and reliable sources including annual reports of scheduled commercial banks, publications of the Reserve Bank of India, reports issued by the Ministry of Finance, financial stability reports, government documents and peer-reviewed academic journals indexed through Google Scholar. Scholarly articles published between 2015 and 2024 were selected to ensure the relevance and contemporary nature of the analysis. Data relating to key banking indicators such as return on assets, return on equity, capital adequacy ratio, gross non-performing assets and liquidity ratios were examined to assess banking performance and stability.

The study adopts a qualitative and quantitative approach for analysing existing literature and financial trends within the Indian banking industry. Comparative analysis has been conducted between public and private sector banks to identify variations in reform outcomes and institutional performance. Tables, financial indicators and trend-based interpretation are used to examine the effectiveness of banking reforms in strengthening the Indian banking system. The methodology enables a comprehensive understanding of the relationship between regulatory reforms and banking sector development during the selected study period.

Results and Discussion

The analysis of secondary data and scholarly literature indicates that banking sector reforms implemented significantly influenced the performance, operational efficiency and financial stability of Indian banks. The reform measures introduced by the Reserve Bank of India and the Government of India were primarily

directed towards addressing rising non-performing assets, improving capital adequacy, strengthening governance frameworks and enhancing technological integration within the banking system. The findings of the study suggest that the cumulative effect of reforms contributed towards improving asset quality, increasing profitability and strengthening resilience against financial shocks, although the degree of improvement varied across public and private sector banks.

The implementation of the Asset Quality Review in 2015 represented one of the most influential reforms during the study period. The review compelled banks to recognise previously hidden stressed assets, resulting in a sharp rise in reported gross non-performing assets during the initial years of reform implementation. Public sector banks were affected more severely because of their extensive exposure to infrastructure and corporate lending. Existing literature indicates that the recognition of stressed assets initially reduced profitability due to higher provisioning requirements; however, the reform improved transparency and enhanced the credibility of financial statements. The stricter recognition norms also encouraged banks to strengthen credit appraisal mechanisms and risk management practices. Studies conducted by Acharya (2017), Sharma and Chhabra (2017) and Kaur and Misra (2020) collectively suggest that the Asset Quality Review created a stronger regulatory environment that promoted long-term banking stability despite short-term financial pressure on banks.

The Insolvency and Bankruptcy Code introduced in 2016 further strengthened the banking sector by improving recovery mechanisms for distressed assets. Before the implementation of the insolvency framework, recovery procedures in India were often delayed and inefficient, contributing to prolonged financial stress within banks. The new framework established time-bound insolvency proceedings that improved recovery rates and strengthened credit discipline among borrowers. Research findings indicate that the Insolvency and Bankruptcy Code significantly reduced uncertainty associated with loan recovery and improved investor confidence within the financial system. The reforms also encouraged banks to adopt more prudent lending practices and enhanced accountability among corporate borrowers. Sinha and Jain (2021) observed that banks experienced improved recovery efficiency after the implementation of the insolvency reforms, although legal delays and procedural challenges occasionally affected the effectiveness of resolution proceedings.

Recapitalisation programmes initiated by the Government of India also contributed substantially towards strengthening banking stability. Public sector banks faced serious capital constraints due to rising provisioning burdens associated with non-performing assets. Government recapitalisation improved capital adequacy ratios and enabled banks to maintain regulatory compliance under Basel III norms. The strengthening of capital buffers increased the ability of banks to absorb financial shocks and continue lending activities during periods of economic uncertainty. Das and Ghosh (2020) concluded that higher capital adequacy ratios improved resilience and reduced systemic vulnerability within the Indian banking sector. However, several studies also indicated that recapitalisation alone could not guarantee sustained profitability unless accompanied by governance reforms and operational restructuring. Public sector banks continued to experience relatively lower profitability compared with private sector banks due to governance inefficiencies and operational rigidities.

Digital banking reforms emerged as another major contributor to improved banking performance during the study period. The rapid expansion of digital payment systems, internet banking and mobile banking transformed customer interaction and operational processes within the banking industry. Government initiatives such as Unified Payments Interface, Direct Benefit Transfer and Pradhan Mantri Jan Dhan Yojana accelerated financial inclusion and increased banking penetration across rural and urban regions. Patel and Parikh (2022) found that digital banking significantly reduced transaction costs and enhanced service delivery efficiency. Banks adopting advanced technological infrastructure demonstrated stronger operational performance and greater customer satisfaction compared with technologically weaker institutions. The increasing adoption of digital banking also enabled banks to improve deposit mobilisation

and transaction volumes, thereby supporting profitability growth. Nevertheless, the rapid digitalisation of banking operations introduced concerns relating to cybersecurity risks, technological disruptions and data privacy protection.

Comparative analysis between public and private sector banks reveals substantial differences in reform outcomes. Private sector banks generally adapted more effectively to technological transformation and regulatory changes because of stronger managerial efficiency, superior governance structures and faster decision-making mechanisms. Kumar and Gulati (2019) observed that private sector banks consistently demonstrated higher profitability, better asset quality and stronger operational efficiency compared with public sector banks. Public sector banks, despite benefiting from recapitalisation support and consolidation measures, continued to face challenges associated with stressed assets and bureaucratic management structures. The performance gap between public and private institutions indicates that regulatory reforms alone may not fully address structural inefficiencies without broader institutional transformation and governance modernisation.

Bank mergers and consolidation policies introduced after 2017 also influenced the structure and stability of the Indian banking sector. The government merged several public sector banks with the objective of creating larger and more competitive banking institutions capable of achieving economies of scale and stronger capital positions. Literature findings suggest that consolidation improved resource utilisation, reduced operational duplication and enhanced lending capacity within merged entities. However, post-merger integration challenges occasionally affected operational efficiency during the transition period. Goyal and Joshi (2012) argued that successful consolidation depends significantly on managerial coordination, cultural integration and effective strategic planning. The available evidence indicates that bank mergers strengthened the long-term competitive capacity of public sector banks, although the full benefits of consolidation may require additional time to materialise completely.

The implementation of Basel III norms further strengthened the stability framework of Indian banks by improving liquidity management and capital standards. Banks were required to maintain higher capital reserves and stronger liquidity coverage ratios to reduce systemic risk exposure. The adoption of international prudential standards enhanced investor confidence and improved the resilience of Indian banks against global financial uncertainties. Kaur and Misra (2020) found that Basel III compliance strengthened financial discipline and promoted risk-sensitive banking practices across the sector. The reforms also encouraged banks to improve internal control systems and enhance regulatory reporting mechanisms.

Financial inclusion initiatives introduced during the reform period significantly expanded banking outreach within underserved populations. Programmes such as Pradhan Mantri Jan Dhan Yojana enabled millions of individuals to access formal banking services for the first time. Increased account ownership contributed towards deposit growth and strengthened the financial integration of rural populations within the formal banking system. Khan (2018) observed that financial inclusion reforms enhanced banking penetration and improved the effectiveness of government welfare transfers through direct benefit mechanisms. These initiatives also supported the expansion of digital banking transactions and strengthened economic participation among previously excluded groups.

Table 1: Trends in Key Banking Indicators of Indian Banks (2015–2024)

Indicator	2015	2018	2021	2024
Gross NPA Ratio (%)	4.3	11.2	7.5	3.2
Capital Adequacy Ratio (%)	12.8	13.8	15.9	17.1

Return on Assets (%)	0.4	-0.1	0.7	1.3
Digital Transactions (Billion)	8.7	20.5	48.6	134.2
Credit Growth (%)	9.5	8.2	5.6	15.4

The data trends demonstrate that Indian banks experienced substantial improvement in financial stability indicators after the implementation of major reforms. Gross non-performing asset ratios declined significantly by 2024 due to stricter recognition norms, insolvency reforms and improved recovery mechanisms. Capital adequacy ratios steadily increased because of recapitalisation and Basel III implementation, reflecting stronger resilience against financial risks. Profitability also improved as banks reduced provisioning burdens and enhanced operational efficiency through technological integration. The rapid growth in digital transactions indicates the transformative effect of digital banking reforms on customer behaviour and financial accessibility.

Table 2: Comparative Financial Performance of Public and Private Sector Banks in India (2018–2024)

Financial Indicator	Public Sector Banks (2018)	Public Sector Banks (2024)	Private Sector Banks (2018)	Private Sector Banks (2024)
Return on Assets (%)	-0.9	0.9	1.4	2.1
Return on Equity (%)	-14.6	12.4	13.8	17.6
Gross NPA Ratio (%)	14.6	4.2	4.7	1.9
Capital Adequacy Ratio (%)	11.3	15.8	16.1	18.7
Net Profit (₹ Billion)	-854	1412	512	1684
Cost-to-Income Ratio (%)	56.8	49.2	44.1	39.5
Credit Growth (%)	5.4	13.6	15.8	18.4
Digital Transaction Share (%)	32	74	48	88

The comparative data indicate substantial improvement in the financial condition of Indian banks after the implementation of major banking reforms. Public sector banks showed significant recovery in profitability and reduction in gross non-performing assets due to recapitalisation, stricter regulatory supervision and improved recovery mechanisms under the Insolvency and Bankruptcy Code. Private sector banks maintained stronger profitability and operational efficiency throughout the study period because of superior technological adoption and governance structures. The increasing share of digital transactions demonstrates the rapid expansion of digital banking services across both sectors, reflecting the effectiveness of financial technology reforms and customer adoption of electronic banking platforms.

Conclusion

The evaluation of banking sector reforms on the performance and stability of Indian banks demonstrates that the reforms implemented between 2015 and 2024 played a significant role in strengthening the Indian banking system. Regulatory initiatives introduced by the Reserve Bank of India and the Government of India addressed critical structural weaknesses such as rising non-performing assets, inadequate capital adequacy, weak governance mechanisms and operational inefficiencies. Measures including the Asset

Quality Review, Insolvency and Bankruptcy Code, recapitalisation programmes, Basel III implementation and banking consolidation contributed towards improving transparency, financial resilience and institutional accountability within the banking sector.

The findings of the study indicate that banking reforms positively influenced asset quality, profitability, liquidity management and operational efficiency across Indian commercial banks. The reduction in gross non-performing assets and the improvement in capital adequacy ratios reflect stronger financial stability within the banking system. Technological reforms and digital banking initiatives further enhanced banking accessibility, customer convenience and transaction efficiency, while financial inclusion programmes expanded formal banking services to previously underserved populations. The rapid growth of digital transactions and banking penetration highlights the transformative impact of technological integration within the Indian financial sector.

The study also reveals that the impact of reforms varied across different categories of banks. Private sector banks generally adapted more effectively to regulatory and technological changes due to stronger governance structures and managerial efficiency. Public sector banks, although supported by recapitalisation and consolidation measures, continued to face challenges associated with stressed assets, operational rigidities and governance limitations. This indicates that financial reforms alone may not ensure sustainable banking performance without broader institutional and managerial improvements.

Overall, the reforms implemented during the study period strengthened the stability and competitiveness of the Indian banking sector and improved its capacity to withstand economic uncertainties and financial shocks. Nevertheless, challenges relating to cybersecurity risks, governance quality, digital fraud and credit risk management continue to require continuous regulatory attention. The study concludes that banking sector reforms have substantially improved the performance and resilience of Indian banks, while future policy measures should focus on strengthening governance frameworks, technological security and sustainable credit management practices to ensure long-term financial stability and inclusive banking growth in India.

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