

“Reforms of the Banking Sector in India after the Formation of NITI Aayog”

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Abstract

After the formation of NITI Aayog in 2015, India's banking sector underwent substantial reforms, primarily driven by the government and the Reserve Bank of India (RBI) to clean up balance sheets, improve governance, and promote digital finance. The key reforms during this period include the resolution of stressed assets through mechanisms such as the Insolvency and Bankruptcy Code (IBC), recapitalization and consolidation of public sector banks (PSBs), and improved risk management and governance standards, and also the government's comprehensive 4R's strategy: Recognition, Resolution, Recapitalization, and Reforms. The merger of PSBs aimed at creating stronger, more efficient, and globally competitive banks. NITI Aayog has emphasized outcome-based governance, digital financial inclusion, and the use of technology-driven solutions, supporting initiatives like Jan Dhan–Aadhaar–Mobile (JAM), Direct Benefit Transfer (DBT), and the expansion of digital payments.

Keywords: IBC, DBT & NPAs

Introduction

The Indian banking sector serves as the backbone of the country's economic development, facilitating credit flow, promoting savings, and enabling financial inclusion across diverse segments of society. However, by the early 2010s, the sector faced several structural challenges—rising non-performing assets (NPAs), weak governance in public sector banks, limited penetration in rural areas, and slow technological adoption. The establishment of NITI Aayog (National Institution for Transforming India) in 2015 signified a major shift in policy orientation, replacing the Planning Commission with a more agile and reform-driven think tank focused on evidence-based policy formulation and cooperative federalism. NITI Aayog's approach to banking reforms centers on modernization, competitiveness, and inclusivity. Its key proposals, such as the Digital Bank Licensing Framework, aim to foster innovation by creating a regulatory ecosystem for full-stack digital banks capable of operating without physical branches. Simultaneously, the Aayog's report “Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat” stresses the integration of fintechs and NBFCs into mainstream financial systems to expand access and efficiency. Governance reforms have also been a central theme, advocating for greater autonomy of public sector banks (PSBs), merit-based appointments, and accountability mechanisms to reduce political interference and enhance performance.

Additionally, NITI Aayog emphasizes the need for credit deepening by improving access for micro, small, and medium enterprises (MSMEs), farmers, and underserved populations through digital channels. This aligns with broader initiatives such as the Digital India Mission, Jan Dhan–Aadhaar–Mobile (JAM) trinity, and Unified Payments Interface (UPI), which collectively strengthen the digital financial ecosystem. Despite significant

progress, several challenges persist. Issues like cyber security risks, uneven digital literacy, inadequate financial awareness, and slow adaptation of regulatory frameworks hinder the full realization of these reforms. Nevertheless, NITI Aayog's strategic vision represents a transformative step toward creating a technology-enabled, transparent, and globally competitive banking system capable of supporting India's aspiration for sustainable and inclusive growth.

Review of Literature:

The Indian banking sector has undergone several phases of transformation—from nationalization in 1969 and financial sector liberalization in the 1990s to the contemporary era of digital and structural reforms. A number of studies and policy reports have examined these transitions, emphasizing the need for efficiency, governance, and inclusivity in the financial system.

According to Rangarajan (2008), financial inclusion is the cornerstone of equitable growth, and reforms must focus on expanding access to formal financial services. Reddy (2014) highlighted the weaknesses in the governance of public sector banks, noting that operational inefficiencies and political interference often limit their performance. Following these insights, the Reserve Bank of India (RBI) and various expert committees, such as the P.J. Nayak Committee (2014), recommended governance autonomy and professionalization of bank boards.

The establishment of NITI Aayog in 2015 introduced a new policy perspective, emphasizing evidence-based and innovation-led reforms. The Aayog's report titled "Digital Banks – A Proposal for Licensing and Regulatory Regime for India" (2021) proposed a structured framework for licensing digital banks with a "restricted to full" licensing model. This approach aligns with international best practices and seeks to enhance credit accessibility, reduce operational costs, and promote financial inclusion through digital channels. Similarly, the NITI Aayog–Mastercard collaborative report "Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat" (2021) stressed the integration of fintech and non-banking financial companies (NBFCs) into the mainstream financial system to strengthen payment infrastructure and encourage innovation.

Empirical studies by Joshi & Patel (2022) and Kumar (2023) observed that NITI Aayog's digital policy initiatives have accelerated fintech growth and increased the adoption of digital payments, particularly through the Unified Payments Interface (UPI). However, they also cautioned that the regulatory ecosystem must evolve to manage new risks related to cybersecurity, data privacy, and consumer protection.

Business Standard (2019) and Economic Times (2022) highlighted NITI Aayog's advocacy for governance and autonomy reforms in public sector banks, aimed at creating competitive, globally scalable financial institutions. This aligns with the Aayog's broader vision of reducing state control, improving credit culture, and enhancing accountability.

Collectively, the literature suggests that while NITI Aayog's initiatives represent a significant step toward modernization and inclusivity, their success depends on effective implementation, robust digital infrastructure, and continuous regulatory adaptation.

Objectives of the Study:

The primary objective of this study is to analyze the nature, scope, and impact of banking sector reforms introduced or proposed after the establishment of NITI Aayog in 2015. The study seeks to examine how NITI Aayog's policy interventions have contributed to the modernization, efficiency, and inclusiveness of India's banking and financial ecosystem. Some other objectives of the studies as are follows:

1. Examine the role of NITI Aayog in redefining the policy framework for banking reforms in India, particularly in the post-2015 period.
2. Evaluate the major reform initiatives such as the Digital Bank Licensing Framework, Connected Commerce Report, and governance recommendations for public sector banks.
3. Assess the impact of digital transformation on financial inclusion, payment systems, and access to credit for underserved sectors, including MSMEs and agriculture.
4. Analyze governance and structural reforms proposed to enhance the autonomy, accountability, and competitiveness of public sector banks.
5. Identify challenges and limitations in the implementation of NITI Aayog's reform agenda, such as cybersecurity risks, digital literacy gaps, and regulatory preparedness.
6. Suggest policy recommendations for strengthening the effectiveness, inclusivity, and sustainability of banking reforms in India.

Research Methodology

The present study adopts a descriptive and analytical research design to examine the nature, scope, and implications of banking sector reforms introduced after the establishment of NITI Aayog in 2015. The research is qualitative in nature and is based primarily on secondary data collected from a variety of reliable sources, including official government reports, institutional publications, and peer-reviewed academic literature.

1. Research Design

The study follows a descriptive research approach, aiming to systematically describe the policy reforms, their objectives, and outcomes. Analytical techniques are used to interpret data, identify emerging patterns, and assess the impact of NITI Aayog's initiatives on the Indian banking sector.

2. Data Sources

Data for this research have been gathered from multiple secondary sources, including:

- Reports and discussion papers published by NITI Aayog, such as "Digital Banks – A Proposal for Licensing and Regulatory Regime for India" (2021) and "Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat" (2021).
- Publications and circulars from the Reserve Bank of India (RBI), Ministry of Finance, and Indian Banks' Association (IBA).
- Articles from reputed financial dailies such as The Economic Times, Business Standard, and The Hindu Business Line.
- Research papers, journals, and working papers focusing on banking reforms, governance, and financial inclusion.
- Data from World Bank, and IMF for supporting macroeconomic indicators related to the financial sector.

3. Data Analysis

The collected data have been qualitatively analyzed to identify trends, policy outcomes, and reform priorities. Comparative analysis has been conducted to examine the pre- and post-NITI Aayog reform scenarios, particularly in areas such as digital banking, governance reforms, and financial inclusion. The study also uses interpretative methods to evaluate the challenges and potential policy implications of ongoing reforms.

4. Scope and Limitations

The study focuses on the period 2015 to 2025, covering reforms influenced or initiated under NITI Aayog's policy framework. Being based on secondary data, the findings are subject to the accuracy and timeliness of published sources. Nonetheless, the analysis provides a comprehensive overview of NITI Aayog's contribution to banking sector transformation.

Analysis and Discussion

The establishment of NITI Aayog in 2015 signified a structural shift in India's policymaking approach, replacing rigid central planning with a more flexible, evidence-based framework. In the banking sector, NITI Aayog has emerged as a key catalyst for reform, emphasizing technological innovation, financial inclusion, and institutional governance. Its initiatives have contributed to the gradual modernization of India's financial architecture, particularly through digital transformation and policy coordination.

Digital Banking and Financial Technology Integration:

One of NITI Aayog's most significant contributions is its proposal for a Digital Bank Licensing Framework (2021). This framework outlines a two-stage process—first granting a restricted digital bank license, followed by a full-scale license upon meeting performance benchmarks. The objective is to foster innovation while maintaining financial stability. Unlike traditional banks, digital banks operate entirely online, thereby reducing operational costs and improving service accessibility, particularly in remote and under banked areas. The framework encourages participation by fintech firms, startups, and technology-driven financial institutions. It promotes a regulatory sandbox approach, allowing experimental models to operate under controlled environments. This aligns with global best practices adopted by countries such as Singapore and the United Kingdom. By advocating digital banking, NITI Aayog aims to deepen credit penetration, strengthen competition, and enhance customer convenience. Moreover, initiatives such as the Unified Payments Interface (UPI), Bharat Bill Payment System (BBPS), and Digital India Mission have been synergized with NITI Aayog's vision to create a seamless, interoperable, and inclusive digital financial ecosystem.

Strengthening the Payment Ecosystem:

In collaboration with Mastercard, NITI Aayog released the report "Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat" (2021), which underscores the need for robust digital infrastructure to support real-time payments and cross-sectoral integration. The report recommends expanding the participation of Non-Banking Financial Companies (NBFCs) and fintech startups in the payment ecosystem to promote competition and efficiency.

NITI Aayog has emphasized the importance of creating a fraud repository, improving grievance redressal mechanisms, and promoting “phygital” (physical + digital) models to ensure last-mile connectivity. These recommendations aim to strengthen consumer confidence and extend digital financial services to rural and semi-urban populations.

The results of these initiatives are evident: by 2025, digital transactions in India have grown exponentially, with UPI emerging as a dominant mode of payment. The growing collaboration between banks and fintechs reflects the success of NITI Aayog’s reform-driven digital agenda.

Governance and Structural Reforms in Banks:

Governance reforms form a critical pillar of NITI Aayog’s recommendations. Recognizing the chronic issues in public sector banks (PSBs)—such as high NPAs, limited autonomy, and bureaucratic inertia—the Aayog has repeatedly advocated greater independence of bank boards, merit-based leadership appointments, and reduced government interference.

NITI Aayog’s approach complements earlier recommendations from the P.J. Nayak Committee (2014), which called for depoliticized governance and professional management of PSBs. It also aligns with broader government efforts to consolidate PSBs through mergers, recapitalization, and performance-linked accountability.

Furthermore, the Aayog’s vision to develop India’s own “global-scale banks” underscores the need for competitiveness and size. By promoting strong, autonomous institutions, NITI Aayog seeks to build banks capable of operating internationally and supporting India’s growing trade and investment footprint.

4. Financial Inclusion and Credit Deepening:

Financial inclusion remains a cornerstone of NITI Aayog’s reform philosophy. Through initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar-enabled Payment Systems (AePS), and Direct Benefit Transfers (DBTs), the Aayog has promoted access to formal financial services for millions of unbanked citizens. Its digital reform strategy also focuses on credit deepening—facilitating greater credit flow to Micro, Small and Medium Enterprises (MSMEs), agricultural sectors, and low-income groups via data-driven lending models. Integration of fintech and alternative credit scoring systems has improved access to small-ticket loans, contributing to entrepreneurship and employment.

However, despite notable progress, challenges persist. Cybersecurity risks, data privacy concerns, and digital illiteracy remain significant barriers to universal inclusion. The digital divide, particularly in rural areas, continues to limit the equitable distribution of reform benefits.

5. Challenges and Policy Implications:

While NITI Aayog’s reform initiatives have been largely progressive, implementation challenges must be addressed to ensure sustainability. The absence of a unified regulatory framework for digital banks and fintechs creates uncertainty for new

entrants. Additionally, the cybersecurity infrastructure of many regional banks remains inadequate, posing systemic risks.

Moreover, governance reforms in PSBs have been slow, as political considerations often impede decision-making autonomy. To overcome these barriers, continuous collaboration between NITI Aayog, RBI, and the Ministry of Finance is essential.

Discussion and Evaluation:

NITI Aayog's banking reform agenda represents a forward-looking and holistic strategy that integrates digital innovation with institutional governance. Its influence is visible in India's rapid digital payment adoption, growing fintech sector, and improved access to banking services. However, the long-term success of these reforms will depend on the pace of regulatory adaptation, strengthening of cyber security frameworks, and inclusive capacity-building measures. In conclusion, NITI Aayog has transformed the direction of banking sector reforms in India—from a state-controlled model to a data-driven, technology-enabled, and inclusive framework, aligning the sector with the nation's vision of sustainable and equitable economic growth.

Findings and Conclusion:

1. NITI Aayog as a Catalyst for Policy Reform:

Since its inception in 2015, NITI Aayog has emerged as a transformative policy think tank, shifting India's banking reforms from traditional regulation to innovation-driven strategies. It has provided a vision-oriented framework focusing on digital transformation, governance enhancement, and financial inclusion.

2. Introduction of Digital Banking Framework:

The Aayog's report "Digital Banks – A Proposal for Licensing and Regulatory Regime for India" represents a milestone in India's financial policy evolution. The proposal of a two-stage digital bank licensing system—restricted and full-scale—has the potential to foster competition, improve credit accessibility, and reduce costs through technology-driven operations.

3. Strengthening Payment Infrastructure:

Through initiatives like Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat, NITI Aayog emphasized the integration of NBFCs, fintechs, and payment intermediaries to expand digital finance access. The growth of UPI, digital wallets, and other online channels reflects the practical success of these reforms.

4. Governance and Autonomy in Public Sector Banks:

The Aayog's consistent advocacy for greater autonomy and professional governance in PSBs addresses long-standing issues such as political interference, inefficiency, and lack of accountability. While mergers and recapitalization have improved operational scale, deeper governance reforms remain partially implemented.

5. Promotion of Financial Inclusion:

NITI Aayog's strategy has supported the government's initiatives like PMJDY, Aadhaar-enabled payment systems, and DBT. These measures have expanded

access to formal financial services for marginalized sections, though disparities persist between rural and urban regions.

6. Persistent Challenges:

Despite progress, the reforms face challenges such as cyber security threats, regulatory gaps, data privacy concerns, and inadequate digital literacy. Uneven digital infrastructure and the slow adoption of governance reforms in PSBs also constrain the full potential of NITI Aayog's initiatives.

Conclusion

The analysis clearly indicates that NITI Aayog has played a pivotal role in redefining India's banking reform agenda, making it more adaptive, digital, and inclusive. Its approach reflects a shift from reactive regulation to proactive innovation—bridging policy, technology, and financial access. The emphasis on digital banking, payment ecosystem integration, and institutional governance represents a forward-looking effort to align India's banking system with global standards. Through collaboration with fintechs, NBFCs, and policymakers, NITI Aayog has successfully promoted a financial ecosystem that is competitive and technology-enabled.

However, to sustain these achievements, certain critical steps are necessary:

- Strengthening the cybersecurity architecture across financial institutions.
- Enhancing digital and financial literacy, particularly in rural areas.
- Accelerating the implementation of governance reforms to ensure accountability and autonomy in PSBs.
- Developing a unified regulatory framework for digital banks and fintechs to maintain market stability and consumer trust.

If these measures are effectively implemented, NITI Aayog's reform vision can transform India's banking sector into a globally competitive, resilient, and inclusive system, supporting sustainable economic development.

Suggestions and Policy Recommendations

Based on the findings and analysis, the following suggestions and policy recommendations are proposed to enhance the effectiveness, inclusiveness, and sustainability of banking sector reforms initiated under NITI Aayog's framework:

1. Strengthening Regulatory Framework for Digital Banking

While NITI Aayog's proposal for a digital bank licensing regime is progressive, its success depends on clear and consistent regulation. The Reserve Bank of India (RBI), in collaboration with NITI Aayog, should establish a comprehensive regulatory framework defining eligibility criteria, capital requirements, risk norms, and consumer protection standards for digital banks. The framework should also incorporate provisions for data privacy, cyber security, and grievance redressal mechanisms to build public confidence in digital banking services.

2. Enhancing Cyber security and Data Protection

As digital transactions increase, cyber threats pose a serious challenge. A National Financial Cyber security Framework should be developed jointly by NITI Aayog, RBI, and the Ministry of Electronics and Information Technology. Regular security audits, AI-based

fraud detection systems, and real-time monitoring mechanisms must be institutionalized across all financial institutions to ensure data integrity and safeguard consumer interests.

3. Accelerating Governance Reforms in Public Sector Banks

To enhance efficiency and accountability, governance reforms in PSBs should be prioritized. Measures such as merit-based leadership appointments, transparent board structures, and performance-linked incentives must be institutionalized. Political interference in management decisions should be minimized, and professional autonomy should be ensured to improve competitiveness and operational efficiency.

4. Promoting Financial and Digital Literacy

The effectiveness of digital banking reforms is contingent on users' ability to engage with technology. Therefore, financial and digital literacy programs must be scaled up, particularly in rural and semi-urban regions. Collaboration between banks, educational institutions, and local governance bodies can help design community-based training modules to improve public awareness and digital confidence.

5. Expanding Access to Credit for MSMEs and Agriculture

To foster inclusive growth, targeted financial instruments should be developed to meet the credit needs of micro, small, and medium enterprises (MSMEs) and farmers. NITI Aayog, in coordination with SIDBI and NABARD, should promote data-driven lending models using alternative credit scoring to extend formal credit to previously unbanked or underbanked sectors.

6. Encouraging Fintech–Bank Collaboration

Fintech firms have emerged as key enablers of innovation. The government and regulators should encourage strategic partnerships between banks and fintech startups to develop new financial products, improve efficiency, and expand customer outreach. Regulatory sandboxes and innovation hubs should continue to support experimentation under controlled conditions.

7. Ensuring Continuous Policy Evaluation and Coordination

Banking reforms are an ongoing process. Hence, there should be a mechanism for continuous monitoring and policy evaluation through an independent review committee under NITI Aayog. Regular assessments of digital adoption, inclusion indices, and governance outcomes will help ensure that policy objectives are being met effectively.

In conclusion, while NITI Aayog has laid a strong foundation for banking sector modernization, sustained policy coordination, institutional accountability, and technological preparedness are essential for realizing the vision of a digitally empowered, inclusive, and globally competitive banking system in India.

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